Colorado Water Congress
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HB18-1201

SHORT TITLE: Severance Tax Voter-Approved Revenue Change

LONG TITLE: Concerning a voter-approved revenue change to allow the state to retain and spend an amount equal to state severance tax revenues.

SPONSORS: Rep. Thurlow/Sen. Coram

COMMITTEES: House Committees – Finance and Appropriations

PURPOSE OF THE BILL: To place on the ballot a proposed statutory change that would allow severance taxes to be exempted from TABOR during years when state revenues would exceed the TABOR limit, allowing those revenues to be retained and spent by the state.

PROPONENTS OF THE BILL: This has been a topic of discussion in previous years by Rep. Rankin and others who are concerned about the use of severance taxes

POTENTIAL STAKEHOLDERS: Recipients of severance tax revenues under statutory formulae and those entities that pay severance tax (oil/gas, coal, metallic minerals)

BACKGROUND: Severance taxes are paid by mineral extraction companies in recognition that once severed, the mineral will no longer be a source of future revenue. The tax was enacted in 1977 to be shared between state programs for future needs and local governments to pay for the impacts of the extraction activity (roads, public facilities, etc.). Beginning in the mid 1980's the state has also diverted severance tax to compensate for shortfalls in the General Fund as well as to support a myriad of programs. With the enactment of TABOR, when severance tax revenues are high they contribute to a need to refund money to the taxpayers. This bill would allow those moneys to be retained and spent by the state in years that otherwise would require a TABOR refund. However, if the current severance tax credits and exemptions are repealed or reduced, or if the percentage allocated to local governments is reduced, the state could no longer retain and spend the excess revenue during that year or future years.

Is this bill necessary this year? No.

How does the bill change current law? Currently severance tax revenues count against the TABOR cap. In previous years, this cash fund has been swept into the General Fund when the General Fund was required to make TABOR refunds. This bill would prevent sweeping the local government share (50%) and so long as that percentage was not reduced the remainder of the entire "excess" in amount equal to the severance tax revenue could be retained and spent by the state.

Does the bill affect the prior appropriations system? No.

How is the bill implemented? If passed, the Secretary of State will place the question before the voters in November. If the voters approve the measure, the state would be able to retain and spend severance tax money that would otherwise be required to be refunded in a year when TABOR refunds are otherwise required.

Practical considerations: Although the bill protects against reduction of severance tax funds to local governments, it does not protect allocation of money to the DNR side (water project funding in particular). While taking severance tax out from TABOR limits may help stabilize funding of local government programs in high revenue years, it does not assure that the other half of the revenue would support DNR programs and not be diverted for other purposes. This bill does not solve the problem of wild fluctuations in gross revenues nor address the problem of over-commitment of severance tax funds

Fiscal Impact: Not yet identified.