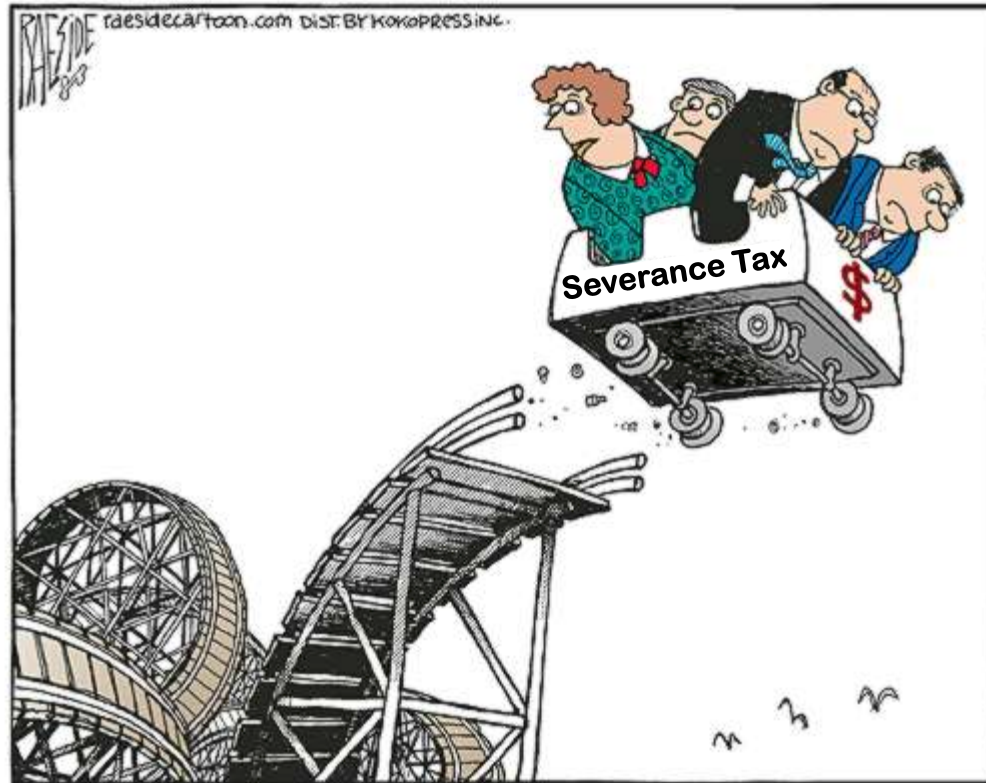


IBCC Severance Tax Update



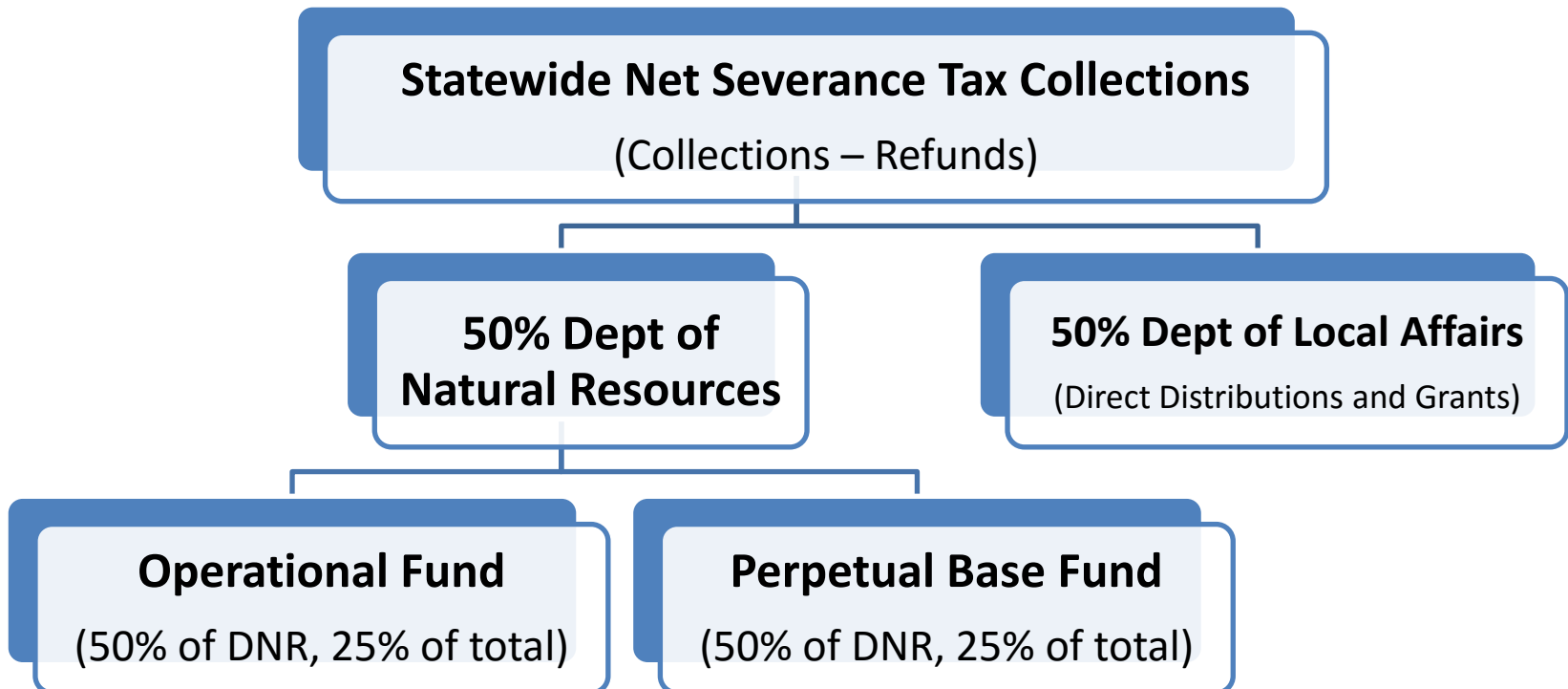
Carly Jacobs, Budget & Policy Analyst

Colorado Dept of Natural Resources, Executive Director's Office

February 20, 2018

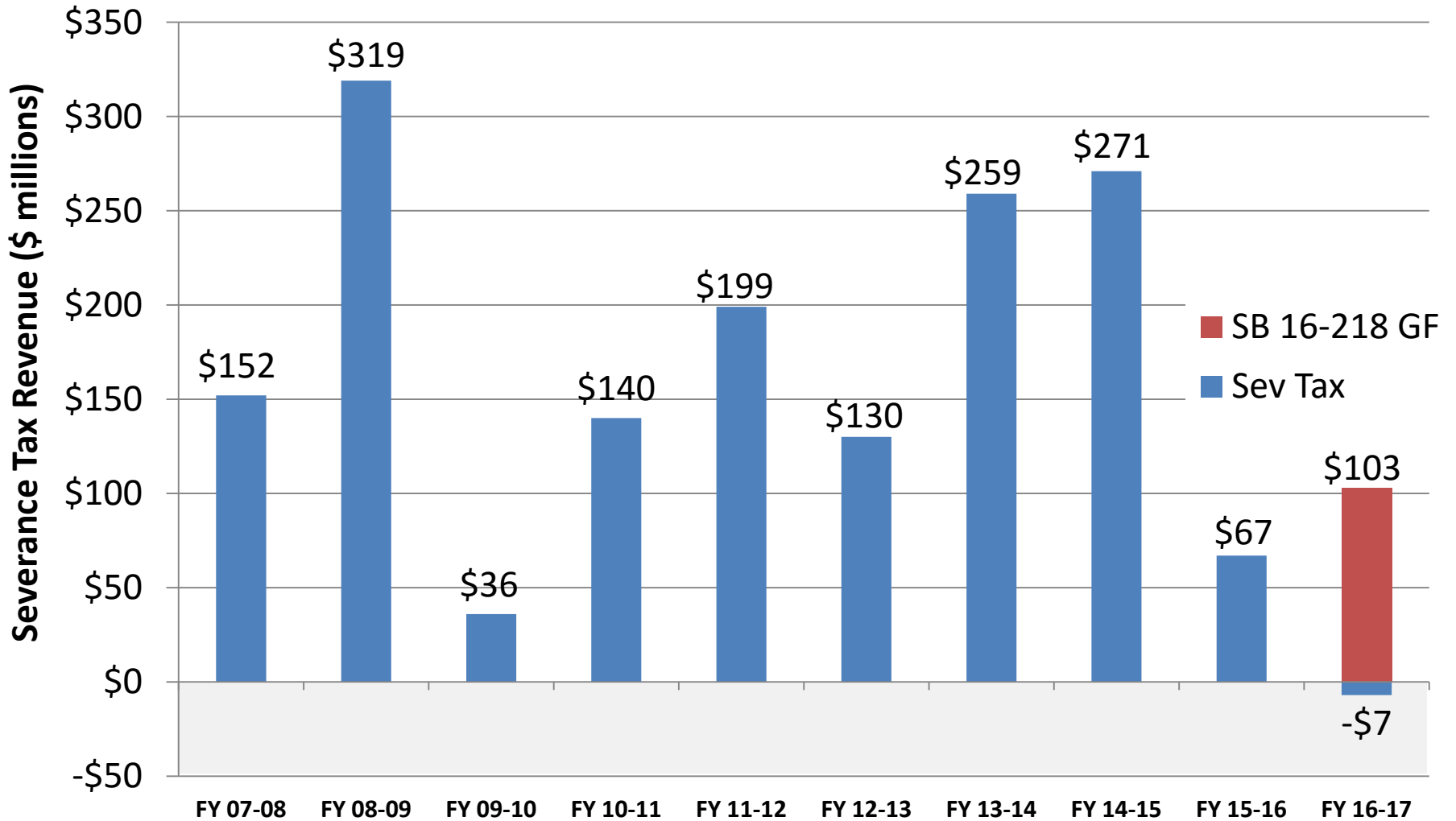
Severance Tax 101

- Colorado collects severance tax on nonrenewable minerals as they are “severed” from the earth.
 - 95% of severance tax revenue = oil and gas



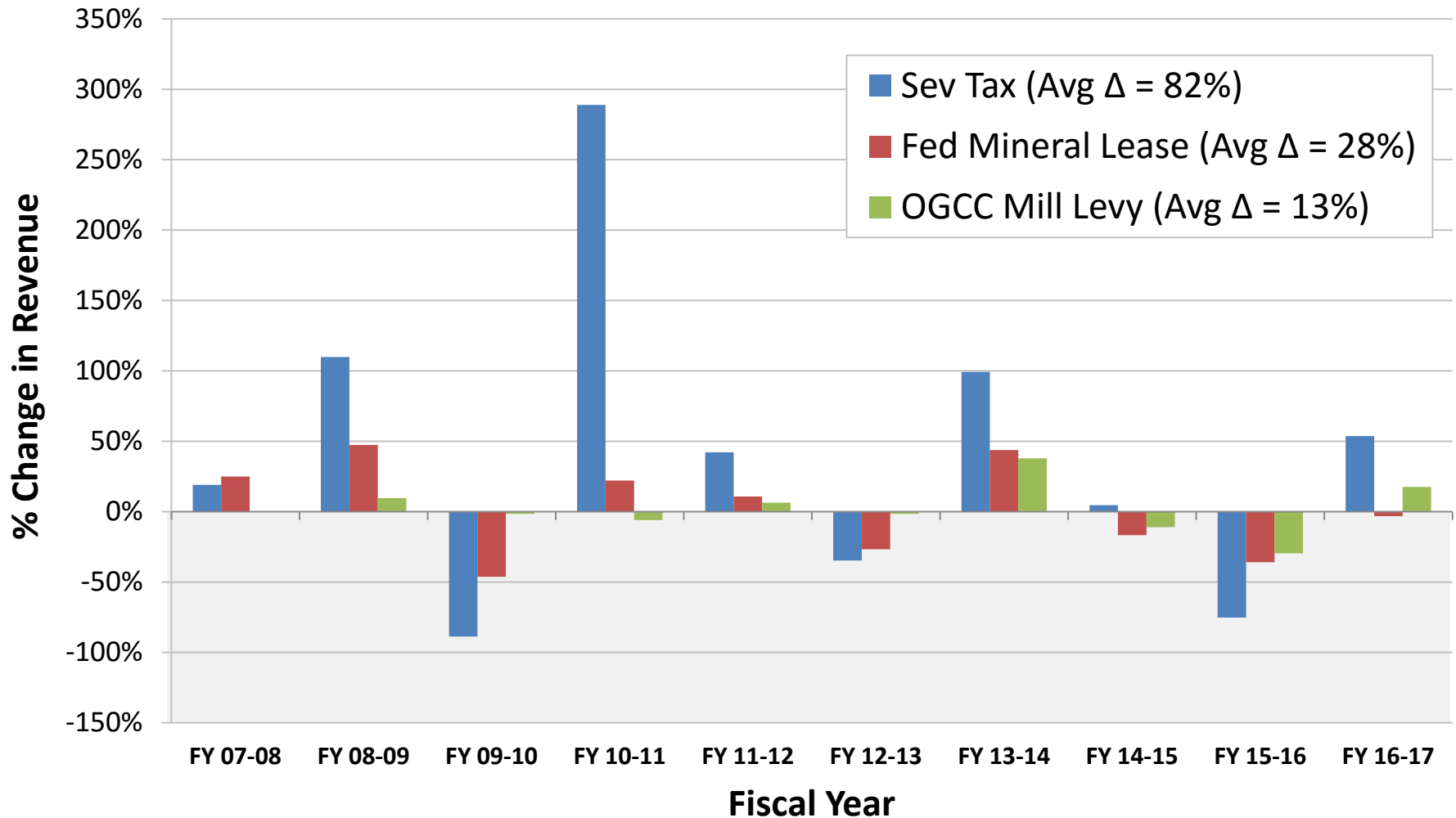
Severance Tax Revenue Volatility

Net Severance Tax Revenue



Oil & Gas-Related Revenue Volatility

Percent Change in O&G-Related Revenue from Prior Fiscal Year



Sources of Revenue Volatility

1. Fluctuations in O&G market conditions
2. Property Tax (Ad Valorem) Credit/Offset
 - Operators can take a credit equal to 87.5% of property taxes against state sev tax liability
3. *BP America v. CO Dept of Revenue*

BP America v. CO Dept of Revenue

- April 2016 CO Supreme Court Ruling:
 - Allowed O&G to take a previously prohibited “cost of capital” (ROI) deductions against sev tax liability
- Affects severance tax revenue two ways:
 1. \$120 million in refunds required for past years within the statute of limitations of the case.
 2. Permanent reduction to revenue in future years, magnitude of impact is uncertain.

Severance Tax Revenue Forecasts

- Legislative Council Staff Sept vs. Dec 2017

Fiscal Year	Sept 2017 LCS Forecast	Dec 2017 LCS Forecast	Change
FY 2017-18	\$150.4 Million	\$54.9 Million	(\$95.5 Million)
FY 2018-19	\$165.4 Million	\$70.3 Million	(\$95.1 Million)
FY 2019-20	\$191.8 Million	\$74.9 Million	(\$116.9 Million)

- Revenue is trending **below** the LCS forecast
 - YTD Net Revenue in FY 2017-18 = \$22 million

Senate Bill 17-260 Transfers

- Transfers severance tax to the General Fund on June 30, 2018:
 - \$11.4 million from the Operational Fund
 - \$11.4 million from the Perpetual Base Fund
 - \$22.8 million from the Dept. of Local Affairs

Severance Tax Operational Fund

- Tier 1 FY18 Appropriations = \$17.1 million
 - CWCB = \$1.3 million
- Tier 2 Authorizations = *up to* \$36.4 million
 - Water Supply Reserve Fund = \$10.0 million
 - Species Conservation Trust Fund = \$5.0 million
 - Aquatic Nuisance Species Program = \$4.0 million
 - Interbasin Compacts = \$745,067
 - Water Efficiency Grants = \$550,000

Operational Fund Outlook

- Funding for Tier 1 agencies is at risk.
 - Projected Revenue Shortfalls:
 - FY18 = (\$5.6 million)
 - FY19 = (\$5.0 million)
 - FY20 = (\$3.6 million)
- Tier 2 Programs are unlikely to receive any severance tax funding for the foreseeable future, maybe permanently.

Perpetual Base Fund Outlook

- Forecasted FY18 PBF Revenue = \$9M - \$14.4M
- YTD Revenue to PBF = \$5.5 million
- S.B. 17-260 Transfer = (\$11.4 million)
- Net Revenue = -\$6.0 million to +\$3.0 million?

Things to Remember

- Severance tax revenue is much harder to forecast than usual.
- Be prepared for the unexpected.

Questions?

Thank you!