Severance Taxes and Federal Mineral Leases – a brief synopsis of Colorado's activities

- In 2007 the *CCHE Taskforce on Alternative Funding Mechanisms* for capital assets considered the possibility that an additional source of funding for capital construction could come from a rate increase in Colorado's severance tax, a restructuring of how severance taxes and federal mineral leases are allocated, or a combination of both.
    - Severance tax – a state tax on the extraction of nonrenewable natural resources
    - Federal mineral leases – revenue collected by the Federal Minerals Management Service in the U.S. Department of Interior. These revenues come from the leases of federal lands for mineral production. Due to SB08-218, a portion of these revenues are now dedicated to higher education capital construction.

- Colorado has one of the lowest severance tax rates and also allows a tax credit for oil and gas producers to deduct 87.5 percent of their previous year's property taxes from their severance tax payments. Because of this Colorado's current severance tax rate (5.7 percent) is much lower than surrounding states such as Utah (4.5 percent), Oklahoma (7 percent), New Mexico (9.4 percent) and Wyoming (11.25 percent). Resource rich western states such as New Mexico and Montana have been able to fund capital construction through bonding efforts secured by severance tax dollars.

- Senate Bill 08-218 made Federal Mineral Leasing (FML) monies available for capital construction at institutions of higher education. SB08-218 created two funds with specific purposes relating to the FML monies: the Higher Education Federal Mineral Lease Revenues Fund (Revenues Fund); and the Higher Education Maintenance and Reserve Fund (M&R Fund). Because FML revenue is mostly determined by the value of energy production it is highly volatile.

  FML money is derived from two sources: 1) ongoing leasing and production activities on federal lands (approximately one-half of these funds go to the state); and 2) one-time payments for consideration for granting a FML, regardless of the company's usage of the mineral interest (referred to as a Bonus payment).

- House Joint Resolution 08-1042 designated 17 projects to be funded using Federal Mineral Lease purchases. Of these 17, 12 were funded and five have remained on annual priority lists for potential funding.

  Current revenue forecasting suggests that the revenues may not be sufficient in coming years to meet the required bond payments for the 12 projects underway.

- Leading up to the 2008 general election, Governor Ritter backed Amendment 58 (formerly Initiative 113) which aimed to end an approximately $321 million severance tax credit granted to the energy industry by changing the severance tax rate. The Governor instructed DHE staff to develop a model for the establishment, allocation, and operation of these funds as the *Colorado Promise Scholarship*. This proposal was soundly rejected by voters (58% opposed, 42% supported) during the election.

In short, Colorado has considered severance taxes to fund capital construction and scholarships. Each has been attempted with limited success.