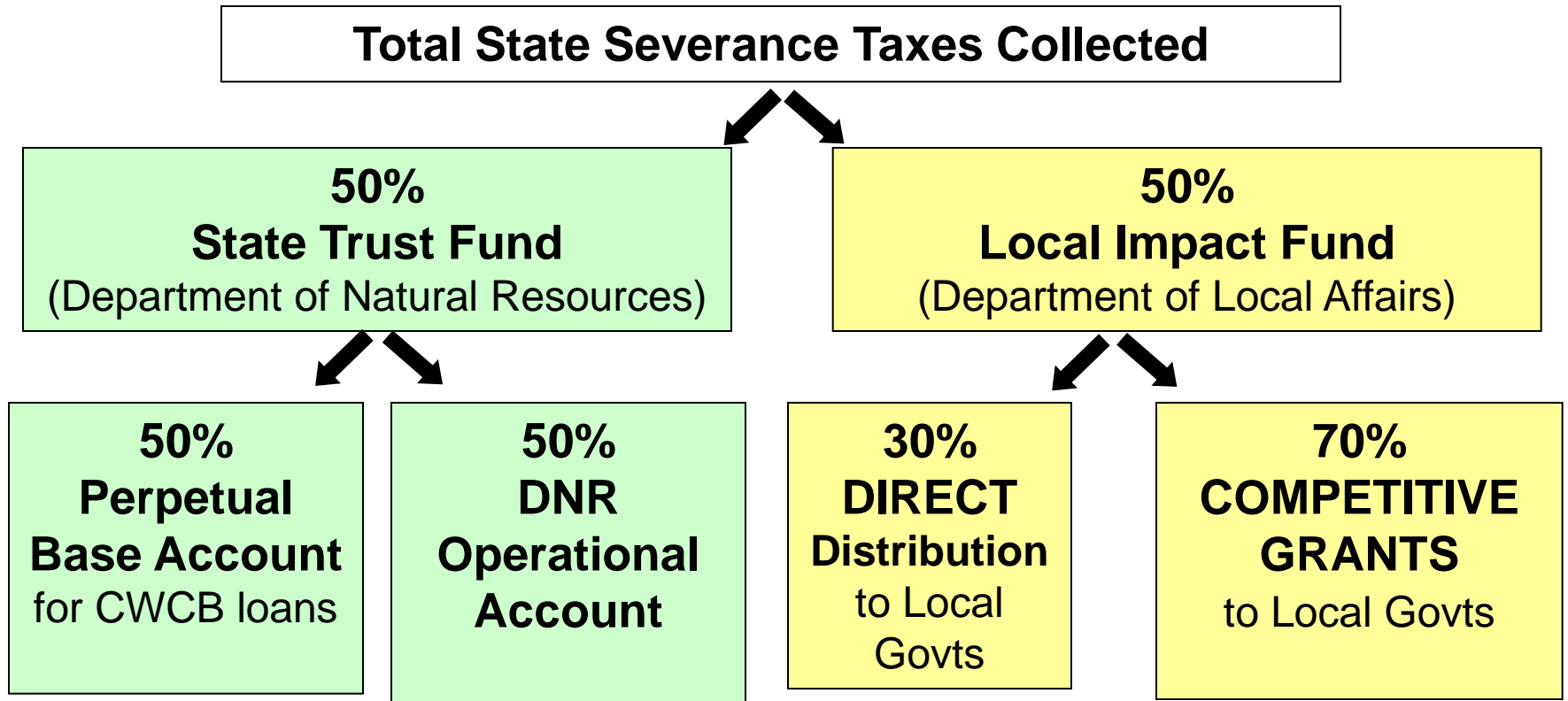


# What is Severance Tax?

- Severance Tax is a tax on nonrenewable minerals as they are “severed” from the earth.
- There are separate severance taxes on oil and gas, coal, metals, and oil shale
- By statute, the General Assembly intends that a portion of severance tax be used for public purposes, a portion be held in perpetual trust, and a portion be made available to local governments to offset the impacts of resource development

# How is Severance Tax Distributed?



(Capped at \$50m; remainder flows to CDPHE's Small Communities Water and Wastewater Grant Fund.)

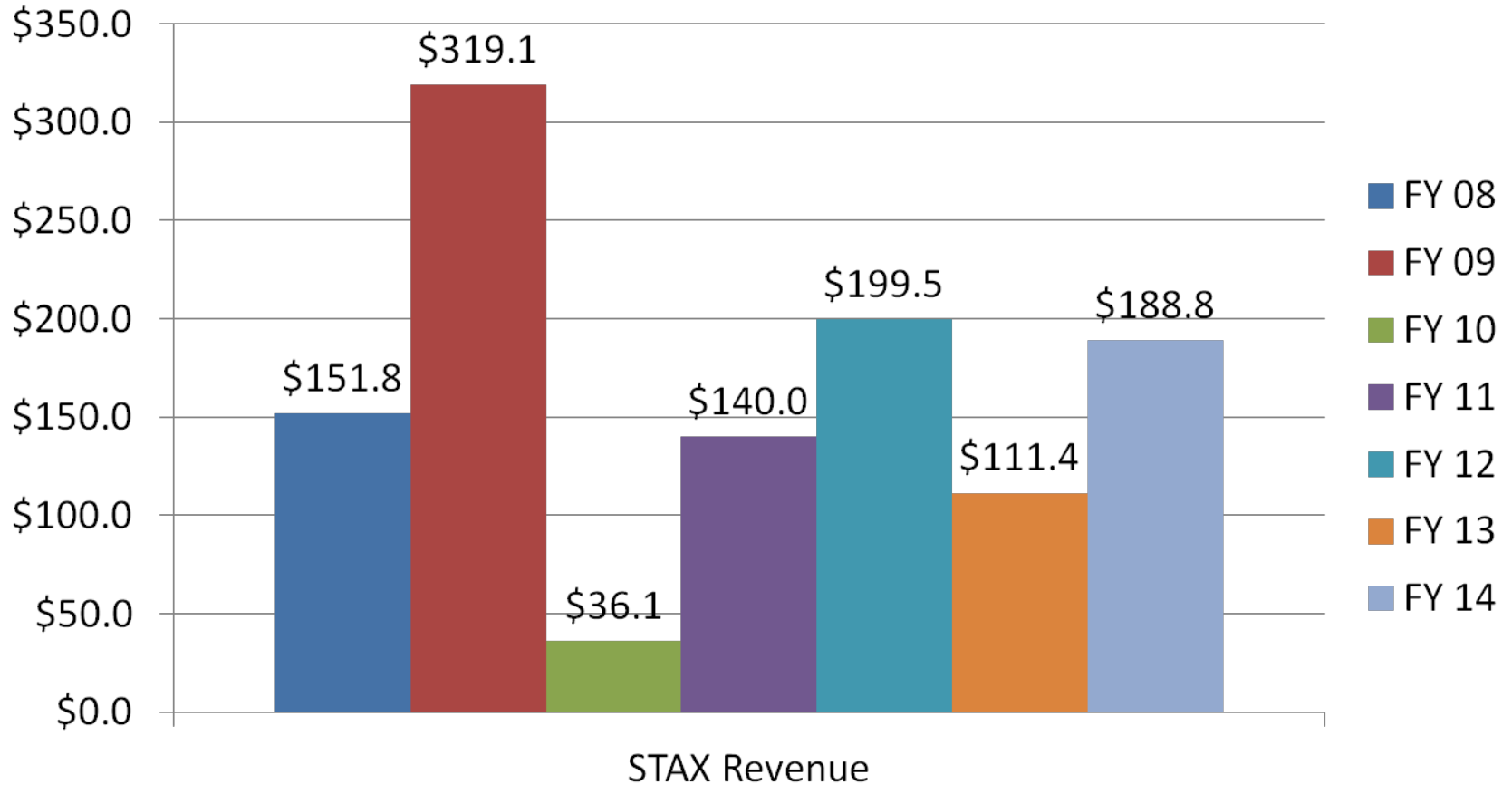
# What is the Perpetual Base Account?

- By statute, the Perpetual Base Account may only be used for loans for water projects. In this regard, it is different than the CWCB's Construction Fund (which is used for loans, for grants, and to fund the CWCB's basic operating costs)
- Through principal and interest repayments, Perpetual Base Account moneys are available for water projects in perpetuity

# How is Operational Account Money Used?

- “Tier 1” moneys support of five divisions within the Department of Natural Resources
- “Tier 2” moneys support a diverse set of programs, across multiple departments. Tier 2 programs include: (1) Water Supply Reserve Account; (2) Water Efficiency Grants; (3) Species Conservation; (4) Interbasin Compact Committee operations; (5) Forestry Grants, and; (6) Aquatic Nuisance Species programs.

# History of State's Severance Tax Revenue



# Other Random Facts

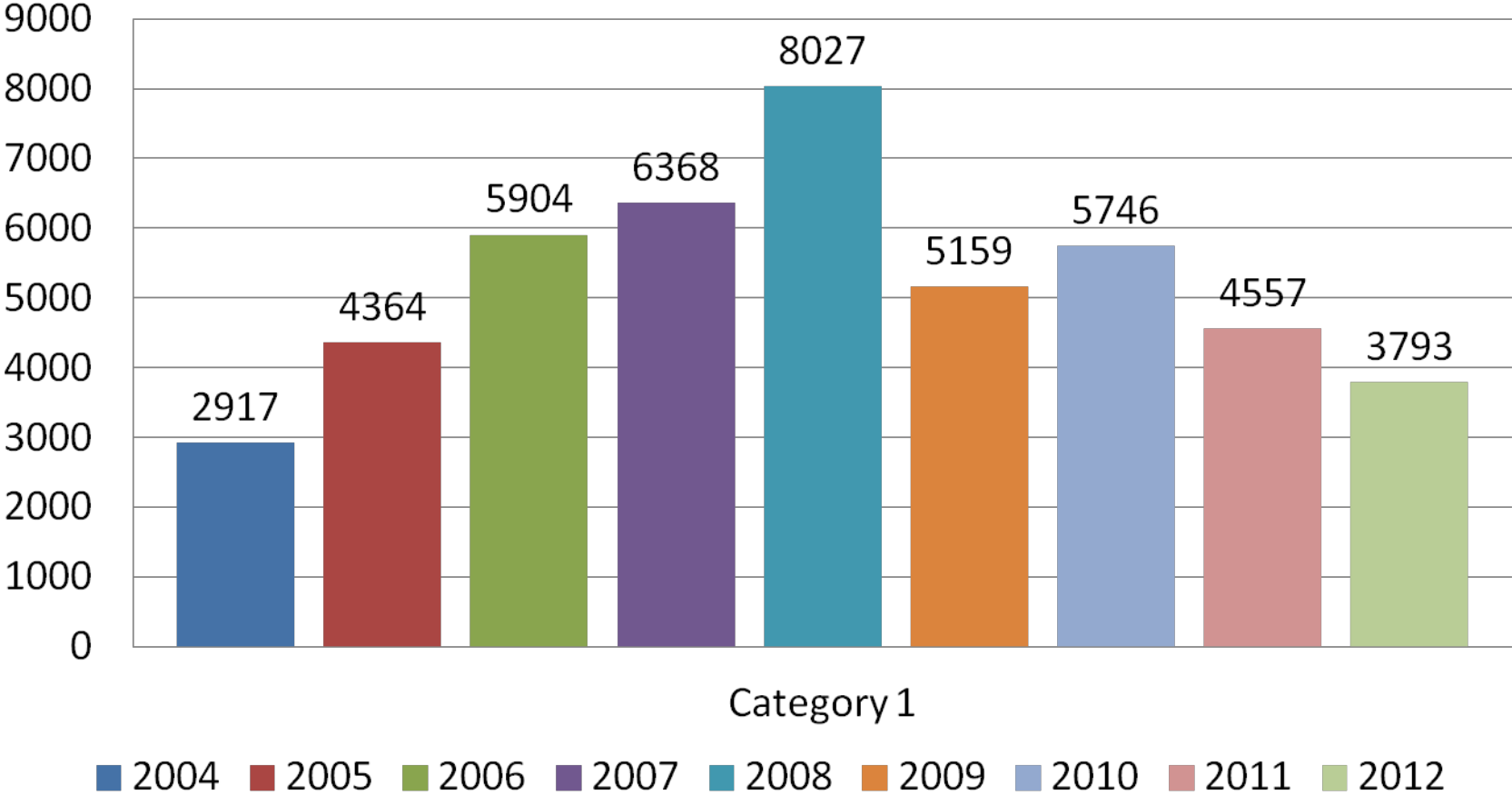
- Oil & Gas related severance tax has accounted for roughly 90-95% of recent severance tax collections
- Coal is the only other mineral that generates significant severance tax revenues. Coal has generated between \$6.3 and \$10.7 million in each of the last 5 years

# Severance Tax Volatility

WTF?

(Why the Fickleness?)

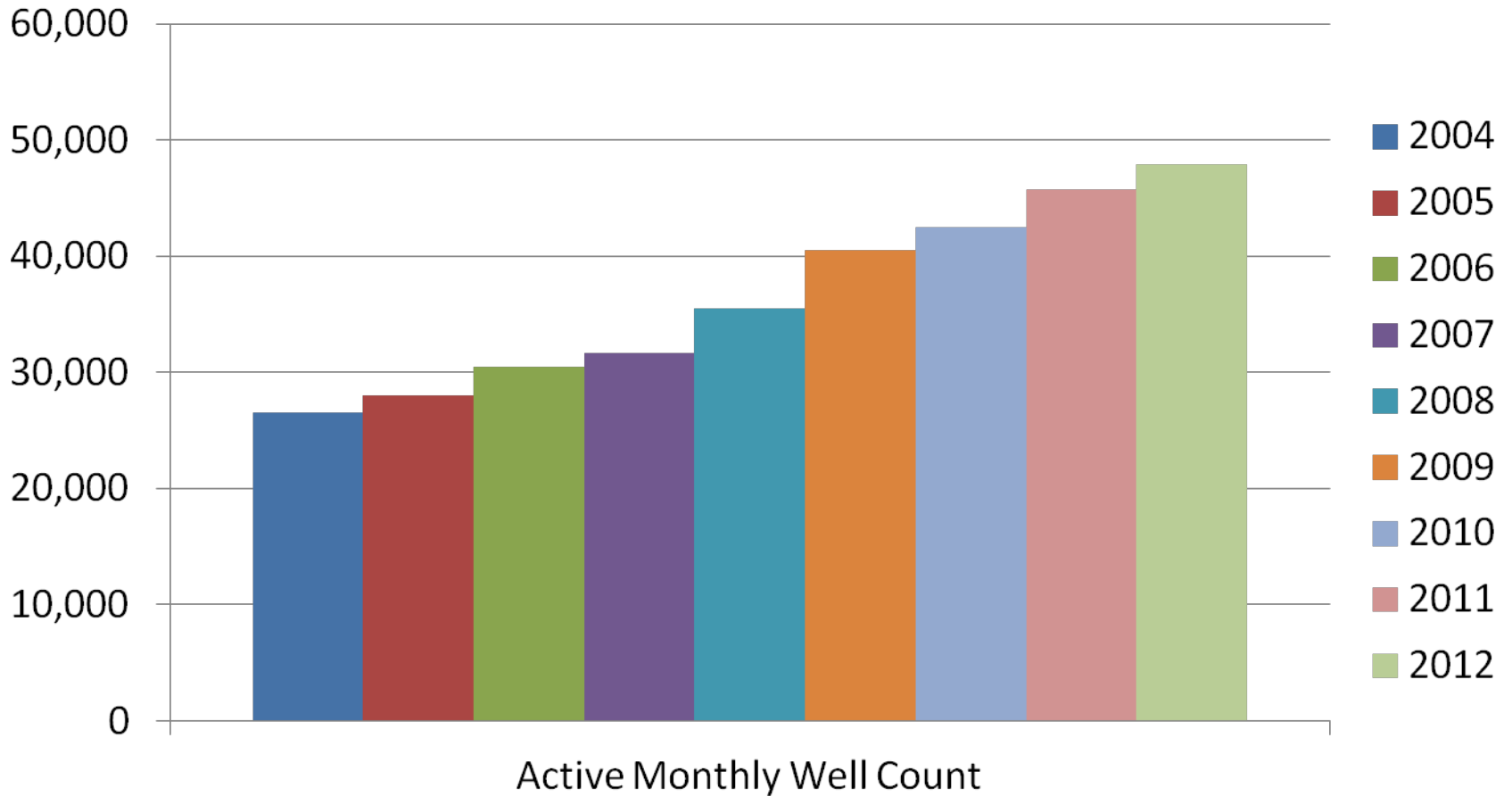
# Annual Drilling Permits





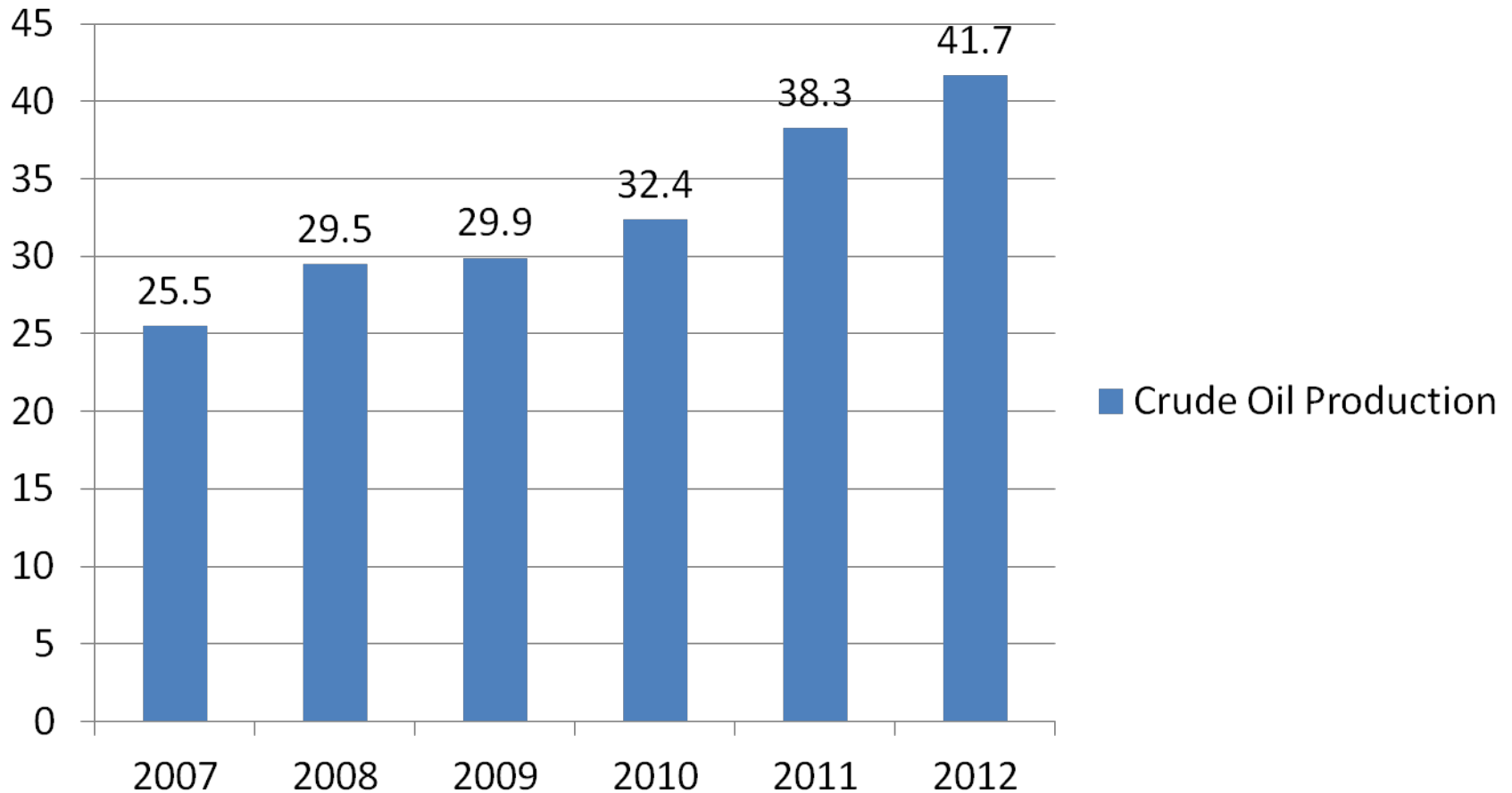
# Total Number of Active Wells

## (Average Monthly Well Count)

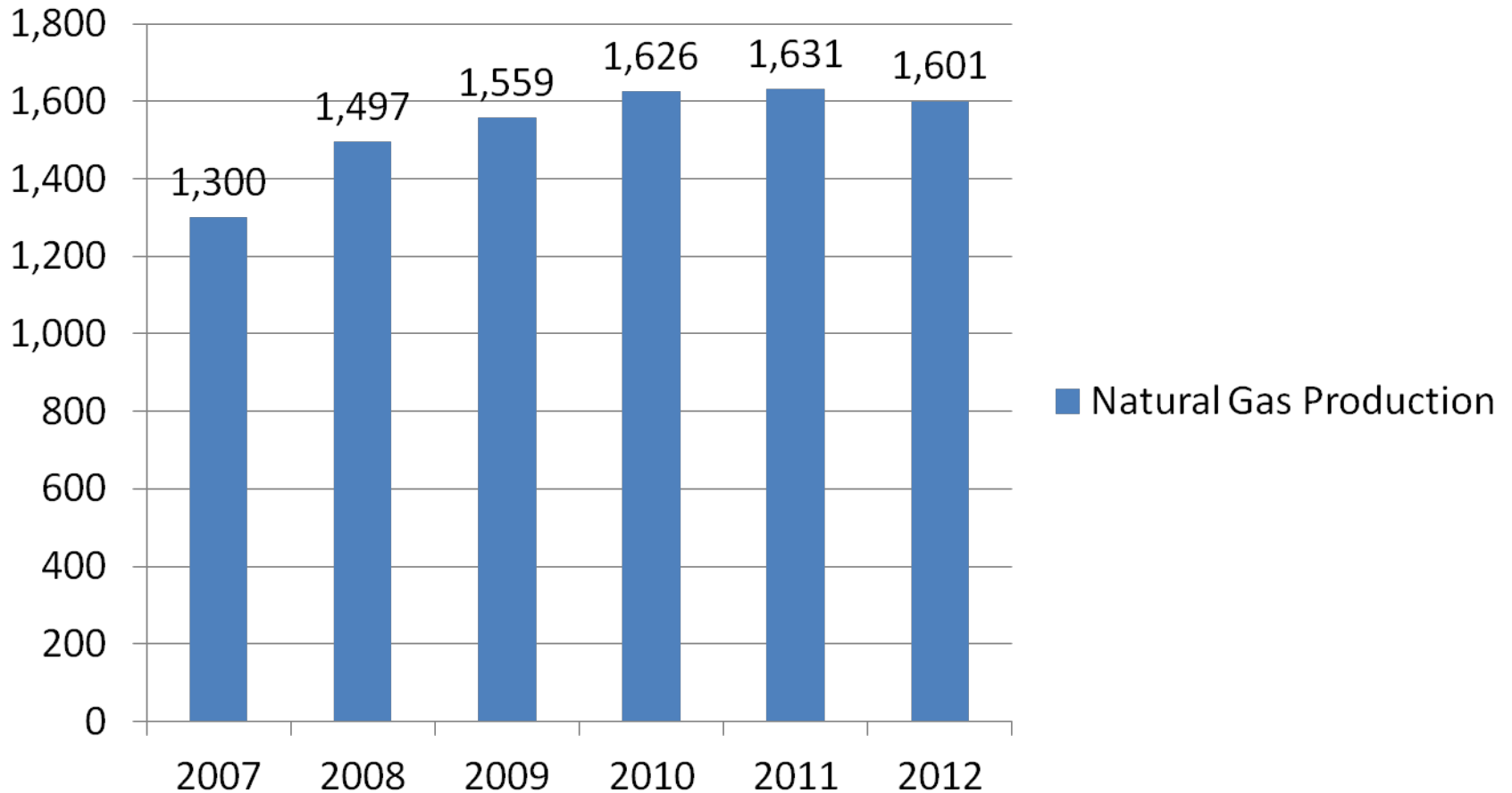


# Colorado Production of Oil

(in Millions of Barrels)



# Colorado Production of Natural Gas (in Billions of Cubic Feet)

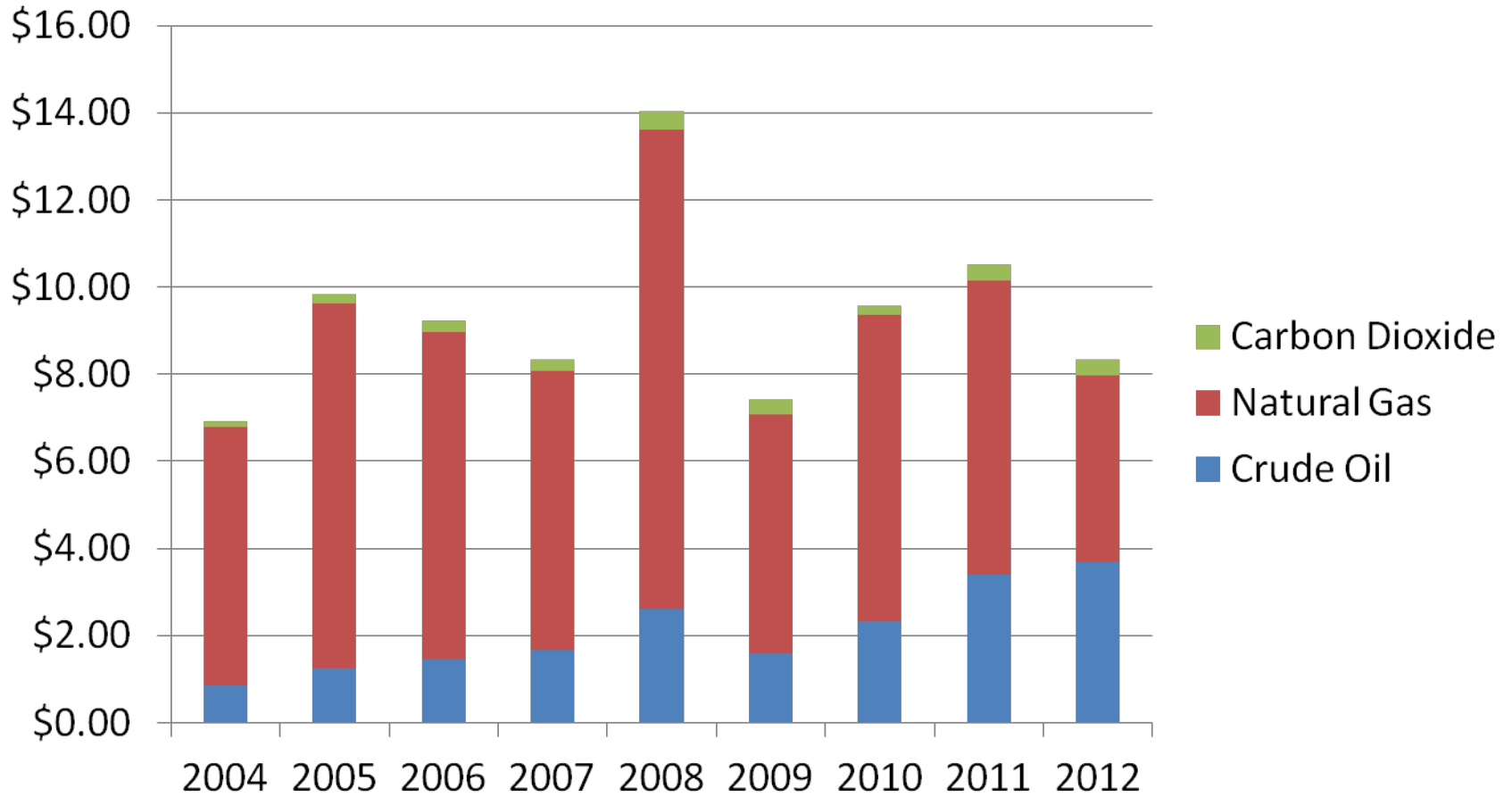


# Price of Natural Gas at the Wellhead

(dollars per Thousand Cubic Feet of Natural Gas)

Year	High Price	Low Price	Monthly AVG
2007	\$6.87 mcf	\$5.30 mcf	\$6.26 mcf
2008	\$10.79 mcf	\$5.23 mcf	\$7.98 mcf
2009	\$4.66 mcf	\$2.98 mcf	\$3.66 mcf
2010	\$5.69 mcf	\$3.83 mcf	\$4.48 mcf
2011	\$4.37 mcf	\$3.63 mcf	\$3.95 mcf
2012	\$3.35 mcf	\$1.89 mcf	\$2.66 mcf

# Value of Colorado Oil & Gas Production (in Billions of Dollars)

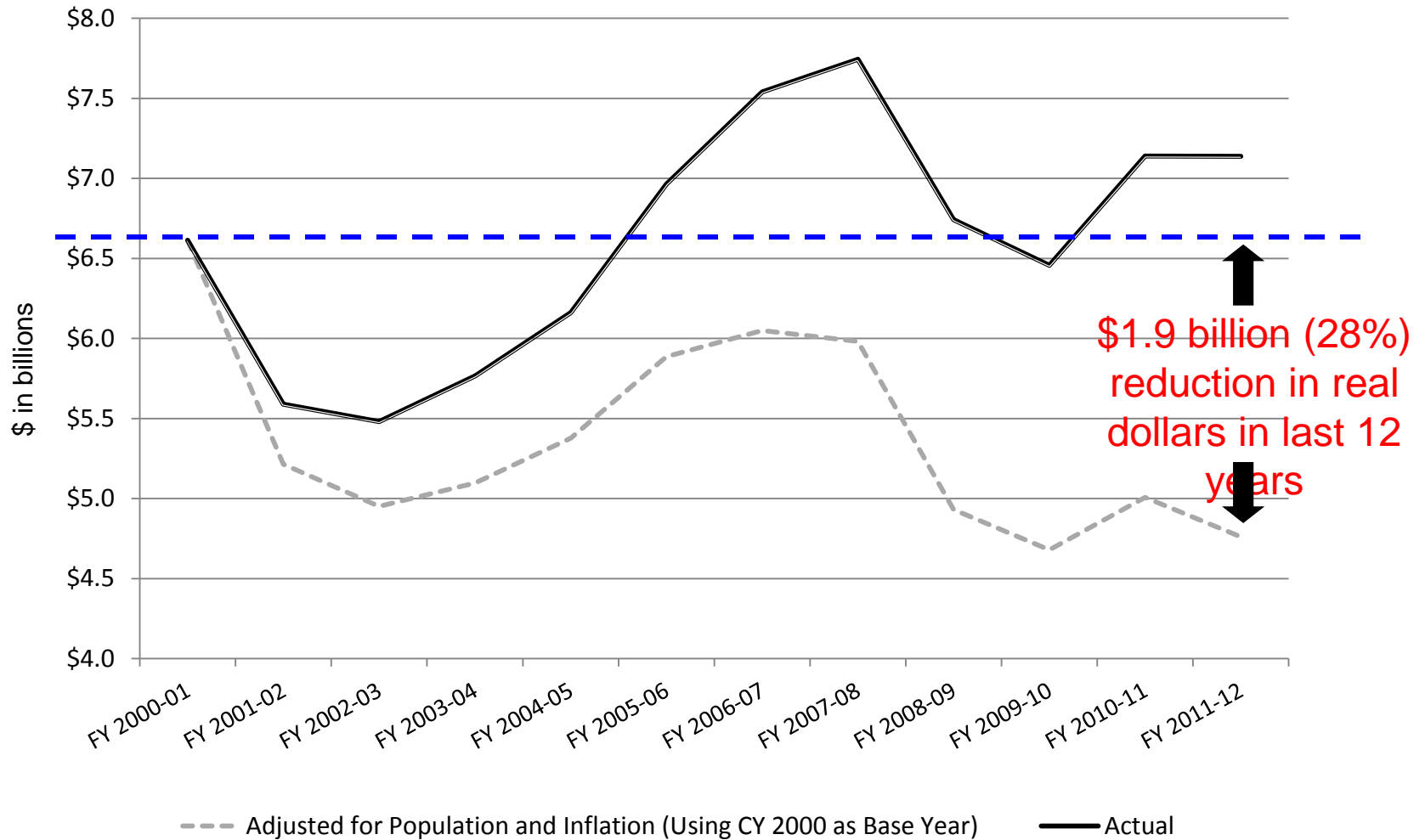


# The Ad Valorem Offset

- Oil and Gas producers may take 87.5% of the property tax they pay and apply it as a credit against their severance tax liability.
- Counties with higher property tax rates pay less severance tax than lower property tax counties.
- The property tax offset generally reflects conditions two years ago.

# General Fund Revenue, FY 2000-01 to FY 2011-12

## Actual and Adjusted for Population and Inflation



# General Fund Programmatic Needs

Since FY 2007-08, the following has happened:

- Medicaid Enrollment is up 220,000 people (56.4%)
- Colorado Health Plan caseload is up 18,000 patients (31%)
- K-12 enrollment is up 45,000 pupils (5%)
- Higher Education enrollment is up 30,000 students (18.8%)



# Severance Tax Transfers

- Since FY 2008-09, the General Assembly has transferred a total of \$163.1 million from the Perpetual Base Account and \$10.25 million from the CWCB Construction Fund and deposited these amounts in the General Fund.
- Since FY 2008-09, the General Assembly has also transferred \$14.95 million out of the Operational Account of the Severance Tax Trust Fund
- For FY 2012-13, no CWCB moneys are currently designated for transfer to the General Fund. However, \$66.0 million of CWCB Funds have been designated as part of the State's TABOR Emergency Reserve.

# Summary of SWSI Findings

- Colorado's population is expected to double to 10 million people by 2050. With this growth, Municipal and Industrial water needs are projected to exceed supply by 600,000 to 1,000,000 acre feet.
- Some of this "gap" will be covered by projects planned by local water providers. However, a gap of 200,000 to 600,000 acre feet still exists after accounting for these identified projects

# Summary of SWST (Part 2)

- It will take an estimated \$10.0 to \$15.0 billion to build the water infrastructure necessary to meet the projected water supply gap.

# Impacts of STAX Transfers

- Since FY 2008-09, the General Assembly has transferred a total of \$163.1 million from the Perpetual Base Account to the General Fund. Over this same time period, \$85.33 million in project loans have been made from the Perpetual Base Account. In other words, almost two-thirds of the funding that should have gone to water projects loans has gone to General Fund relief instead.

# Things Have Gotten Better

- No Severance Tax Transfers to the General Fund were made in FY 2012-13 and none were proposed or adopted for the upcoming FY 2013-14 budget either.

# Impacts of STAX Transfers (Continued)

- CWCB Staff have a list of potential borrowers seeking over \$100 million in loans for a variety of projects statewide. Some projects will be delayed or not funded due to limits on available funding.
- More generally, the State's ability to implement comprehensive, cost-effective water supply solutions is limited.

# Things Have Gotten Better

- With pressure on the State's General Fund budget easing, no Severance Tax Transfers to the General Fund were made in FY 2012-13 and none are proposed for the upcoming FY 2013-14 budget either.

# Trouble Ahead?

- There is some concern that provisions of the Affordable Care Act (“Obamacare” or “ACA”) could add significant cost to state budgets in the near future. The ACA has certain provisions which will expand Medicaid enrollment. For example, the ACA requires Medicaid to expand coverage to include adults under the Age of 65 with income at or below 133% of federal poverty levels. While the federal government will pay 100 percent of all health care costs for newly eligible adults during 2014 through 2016, states will begin paying some of these additional costs in 2017. However, the net impact of the ACA is not clear as there are several potential cost saving provisions in the law.