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# Separating the severance tax issues

BY JIM SPEHAR,

Colorado voters will have a record number of ballot questions to decide come November. None have generated more comment than competing issues concerning the state's severance tax.

Our current severance taxes are among the lowest in the Rocky Mountain region, as is the total tax burden on the industry as calculated by the nonpartisan legislative staff.

Initiative 113 advanced by Gov. Bill Ritter would end a decades-old subsidy for the oil and gas industry. Ritter and Co. estimate it would add \$260 million annually to severance tax collections if successful.

Organized as "A Smarter Colorado," Ritter's plan would end the practice that allows oil and gas operators to deduct 87.5 percent of their local property taxes from the severance taxes paid to the state. That effort, an incentive first offered when oil was at \$10/barrel, results in some companies avoiding any state severance tax at all in most years.

New revenue resulting from revoking that credit would primarily fund college scholarships for Colorado students. Sixty percent of the new funds would go toward "Colorado Promise" scholarships. Other allocations would include 15 percent to preserve wildlife habitat, 10 percent for renewable energy and conservation, 10 percent for transportation needs in communities impacted by energy development, and 5 percent for water and wastewater projects in impacted areas.

The bulk of the funding for "A Smarter Colorado" has come from conservation groups, primarily The Nature Conservancy. TNC has put about \$615,000 into the campaign so far, according to reports filed with the Colorado Secretary of State. Funds from other conservation groups include the Conservation Campaign out of Boston at \$25,000 and the Colorado Conservation Voters Education Fund at \$5,000. Funding from those groups makes up about 75 percent of the \$885,000 collected by A Smarter Colorado as of July 30.

Other notable contributions to include \$10,000 from Lockheed Martin, the Front Range-based aerospace company, \$100,000 from Denver-based Gary Williams, the energy company that formerly operated the Fruita refinery, and \$5,000 from former Denver University chancellor Dan Ritchie.

The group backing local state Senator Josh Penry's competing severance tax effort, Initiative 52, lags Ritter's group in fundraising but the list is simpler to compile. There are only three contributors to this effort, dubbed "Better Roads Now." Each kicked \$100,000 and all are from out of state.

Plains Production and Exploration of Houston was first in, followed by Berry Petroleum Company of Bakersfield, Calif., and Occidental Oil and Gas Corporation of Los Angeles. There were no additional contributions during the latest reporting period, which ended July 30.

Now an optimist would be appreciative of the concern of those major energy producers about Colorado's roads. A cynic might be forgiven for thinking Plains, Berry and Occidental might be kicking in \$300,000 to confuse the issue and make certain there were enough paid solicitors to gather adequate signatures to get Penry's measure, which would not raise severance taxes, on the ballot to compete with Ritter's initiative.

Both sides agree that their primary beneficiaries, higher education and transportation, are underfunded by about \$500 million annually. Increased severance tax collections under Ritter's plan would generate about \$156 million for higher education with the rest going to the other areas listed earlier. Penry estimates his plan would add about \$200 million to transportation funding once in force.

Since his initiative would not increase severance taxes, where would the money come from?

Quite simply, out of the hides of energy-impacted communities and the Department of Natural Resources, including the Colorado Water Conservation Board, which is an arm of the DNR.

The “Better Roads” proposal specifies 50 percent of severance taxes would go to the local government severance tax fund and 50 percent to a state severance tax fund. A portion of the state fund now flows to DNR and some comes back to impacted communities in the form of grants. Growth in those funds would be capped at the percentage increase in the Denver/Boulder Consumer Price Index and the anticipated spillover would pay for projects under a new Colorado Transportation Trust Fund with “first priority” given to I-70 corridor improvements.

There are two flaws in Initiative 52.

One is the assumption that needs in impacted areas such as cash-strapped Rio Blanco County and in heavily drilled western Garfield County are growing only at the pace of the Denver/Boulder CPI. The other is the illusion that a sometimes volatile revenue stream, especially when tied primarily to I-70 needs, is the proper vehicle to provide the illusion of meeting statewide transportation needs.

Add to all this the \$6.6 million energy companies have stockpiled to fund opposition to any increase in their operating costs and you can see why we’re only hearing the beginning salvos in what will be a long and vocal battle between now and November.

Jim Spehar is a cynical but interested observer of the battle over Colorado’s severance taxes. He welcomes your views at [jimspehar@bresnan.net](mailto:jimspehar@bresnan.net).

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