COLORADO MINE WALK

Schedule of Town Meetings and Walk Routes

Initially, there will be two forks of the Walk, one beginning in Canon City and proceeding northwest and the other starting in Durango and heading north. The two forks will meet in Paonia and then proceed on to Craig together. In various towns along both forks of the Walk, public meetings will be held to address issues associated with mining in Colorado. The following is a schedule for the Colorado Mine Walk, including both the Walk route and the town meetings.

EAST - WEST WALK
CANON CITY - PAONIA:

Fri. June 13th Canon City - Evening Meeting on Appropriate Technology
Sat. 6/14 Canon City - All Day Fremont County Energy Fair-Depot Park Noon- COLORADO MINE WALK BEGINS to Parkdale(Hansen) 20 km
Sun. 6/15 to Texas Creek 25 km
Mon. 6/16 to Coaldale 20 km
Tues 6/17 to Spring Creek 20 km
Wed. 6/18 to Salida 10 km
Meeting on uranium development and a briefing on how to research potential county-wide mineral development.
Thur 6/19 to O'Havre Lake 20km
Fri. 6/20 to Marshall Pass 15 km
Sat. 6/21 to Marshall Creek (Pitch)15km
Sun. 6/22 to Waunita Hot Springs 20 km
Mon. 6/23 to Gold Creek Campground20km
*Tues 6/24 to Beaver Creek 15 km
*Wed. 6/25 to Gunnison 20 km
Meeting on Severance Taxes--a panel discussion. Gunnison County Courthouse 7:30 pm (tentative)
Thur 6/26 to Jack's Cabin 25 km
Fri. 6/27 to Crested Butte 15km
Meeting: The 1872 Mining Law--How Does It Apply Today?
Sat. 6/28 to Ohio Creek 15km
*Sun. 6/29 to Moseley Ridge 15 km
*Mon. 6/30 to Coal Creek 10km
*Tues 7/1 to S. Fork Minn. Crk. 15 km
*Wed. 7/2 to Paonia 10 km

TWO FORKS OF WALK MEET - SEE REVERSE

SOUTH - NORTH WALK
DURANGO - PAONIA:

Fri. June 13th Durango - Evening Meeting: Update on the Durango Tailings Pile; representatives from the EPA, NRC, DOE and CDH invited to speak.
*Sat. 6/14 Durango - Morning Pre-walk rally; Mayors from historic mining areas discuss mining today--Mayor Mason (Gold Hill) and Mayor Mitchell (Crested Butte)
Noon- COLORADO MINE WALK BEGINS to Hermosa Creek - South Fork 15 km
*Sun. 6/15 to Hermosa Creek - E. Fork 15km
*Mon. 6/16 to base of Hermosa Peak 15 km
*Tues 6/17 to Barlow Creek 15 km
Wed. 6/18 to Lizard Head Pass 15 km
Thur 6/19 to Ophir 10 km
*Fri. 6/20 to Alta 10 km
*Sat. 6/21 to Telluride 10 km
Meeting in evening on proposed Pioneer Uravan Uranium Mill
Sun. 6/22 to Ouray 20 km (NF)
Mon. 6/23 to Uncompahgre River 20 km
Tues 6/24 to Uncompahgre River 20 km
Wed. 6/25 to Montrose 15 km
Meeting in evening, presentations on Uravan Mill and Solar Energy and Conservation
Thur 6/26 to Crystal Dam 15 km (NF)
Fri. 6/27 to Black Canyon Monument (NF)
Sat. 6/28 to N. Dyer Creek 25 km (NF)
*Sun. 6/29 to Curecanti Creek 15 km (NF)
*Mon. 6/30 to Little Elk Basin 15km (NF)
*Tues 7/1 to Little Coal Ck 15 km (NF)
*Wed. 7/2 to Paonia 15 km

* Backcountry segments
(NF) Not Final Due to snow, etc, route may change. Contact local organizations or the Mining Workshop; this is a must if you plan to join us midway between towns!!

join the mine walk

SCHEDULE CONTINUED

Wed. 7/2 Paonia(eve)The Socio-economic Impacts of Mining, Michael Parfit, author from Colstrip, Montana
Thur 7/3 Paonia Coal Mine Tour followed by meeting to discuss citizen action on mining issues in Colorado
Fri. 7/4 to High Park 20 km
Sat. 7/5 to Leon Lake 15 km
Sun. 7/6 to Plateau Creek 15 km
Mon. 7/7 to Brush Creek 15 km
Tues 7/8 to Beaver Creek 15 km
Wed. 7/9 to Rifle (Noon) Oil Shale Discussion
Rifle Gap Reservoir 15 km
Thur 7/10 to Three Fks. Cmpgrd 15km
Fri. 7/11 to E. Miller Crk. 15 km
Sat. 7/12 to White River Valley 15 km
Sun. 7/13 to Meeker (Noon) Solar Cooked Picnic
to Yellow Jacket Pass 20 km
Mon. 7/14 to Deer Creek 20 km
Tues 7/15 to Craig Evening Town Meeting--Wrap-up of Walk

COORDINATOR: Colorado Open Space Council Mining Workshop 321-6588
Media Coordinator during Walk: Rocky Mtn. Greenpeace 355-7397

CONTACTS: From Walk Route

Canon City Kay Stricklan 275-6271
Salida Greg Truitt 539-2186
Gunnison Wendy Githens 641-3890
Crested Butte Dick Wingerson 349-5625
Paonia Carolyn Landes 872-3902
Durango Debbie McCaffery 247-8987
Telluride George Greenbank 728-4248
Montrose Teresa Erickson 249-1978
Craig Pat Thompson 824-3792

Off-Route Contacts:

Montelores Citizens Resource Forum Dolores
Citizens for Safe Energy Pueblo
Pikes Peak Justice and Peace Comm. Colorado Springs
Two Rivers Citizens Association Grand Junction
San Luis Valley Audubon Society Alamosa
Huerfano River Basin Resource Council La Veta
Foothills Alliance Fort Collins
CoPIRG/Greeley Anti-Nuclear Alliance Greeley
Gold Hill Comm. on Mining & Environment

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June 14 Colorado MINE WALK BEGINS See reverse for schedule.
June 16 Extended public comment period on BLM's proposed regulations and Draft EIS on hardrock mining on the public lands ends.
June 21-22 Energy Development Impacts in the Northern Great Plains, a conference in Dickinson, North Dakota. Sponsored by the Western Organization of Resource Councils and Rural America. Reg. fee $10.00 ($25 for energy industry representatives) Write W.O.R.C. Box 254 Dickinson, ND 58601
June 23 Public hearings on Draft Green River-Hams Fork Regional Coal EIS at the Denver Public Library, 1:00pm & 7:30pm. Written comments to EIS Team Leader, BLM, Craig District Office, P.O. Box 248, 455 Emerson St., Craig, CO 81625. Draft EIS avail. at COSC Mining for review.
June 24 Public hearings in Craig, Moffat County Courthouse 7:30pm See above.

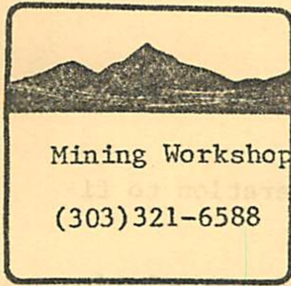
The Mining Workshop of the Colorado Open Space Council is a statewide organization working for responsible resource management and protection of the state's natural resources and quality of life. Membership includes a year's subscription to Mine Watch, a monthly newsletter devoted to Colorado's mining issues.

NAME______________________________ PHONE______________

ADDRESS_____________________________________ ZIP________

___Individual $10 ___Business or Agency $25 ___Contributing $50
___Non-profit organization $15 ___I want to volunteer! Please call me.

Please make checks payable to COSC Mining Workshop, 2239 E. Colfax Denver 80206
Thank you!



Mining Workshop
(303)321-6588
colorado open space council
2239 E. Colfax Ave., Denver CO 80206

Severence Taxation in the West:
Montana and North Dakota provide an example for all states to work by
W. Dean Kaiser

In the mid-1970's, the U.S. government geared itself towards a new energy policy which gave a go-ahead to increased domestic coal production. The term "national sacrifice area" was coined, and almost simultaneously the concept of severence taxation gained a new importance. With visible remainders of the ravages the Plains States copper bust had left behind, the state legislatures began to bargain for more than tailings piles and ghost towns in their future. Searching for a viable method of offsetting the industry-produced expenses of a boom-bust cycle, legislators turned to the severance tax as a means of supplying an economic "insurance" for the future.

With the example of the economic and environmental debacle that poor planning had caused in Appalachia, Montana and North Dakota passed two similar progressive severance tax systems into law in 1975. This time lawmakers were determined that careful planning would assure the state of a controlled-growth future despite pressures applied by profit-minded mining corporations.

A severance tax is an excise tax placed upon minerals mined from the ground. It may be based upon a percentage of gross proceeds, or it may rely on a per unit calculation. The tax is payable by the miner or producer in most instances.

The severance tax issue has recently become a hotbed of political debate in Congress as well as in the mineral-rich western states. While state legislators square off for a battle with powerful mining lobbies, senators in Washington are challenging the right of these states to determine their own, higher severance taxes. A recent Rand Corporation study characterizes these state legislatures as "OPEC-like in their taxation of coal; another article in the Detroit Free Press refers to citizens of Montana and North Dakota as "blue-eyed Arabs."[1]

The idea of severance taxes is not a new one. In 1846 Michigan became the first state to levy such a tax upon specified minerals. Over one-half of the states have mineral excise taxes at present. Montana and North Dakota, however, have implemented a new type of severance tax which covers extraordinary costs previously ignored by the more traditional property taxes. These social, environmental, and economic costs are unique to the immediate regions of mineral development, as they are caused by the large population influx to a previously undeveloped area and the temporary nature of the development projects

The problems posed by massive mineral development in sparsely populated areas cannot be dealt with by traditional tax systems. These problems create four basic areas of need:[2]

(1) The need to replace or complement traditional tax revenue generation to finance support of facilities demanded by a population increase.

(2) The need to respond to adverse social impacts caused by a sudden population influx. This is a unique cost rarely addressed by traditional tax structures.

(3) The need for some sort of "industry-specific" tax to internalize the costs of adverse environmental impacts caused by a sudden increase in population and the production facility itself.

(4) The need to establish some form of compensation to future generations for the irretrievable loss of a non-renewable resource. An alternative economic base for the depleted region should be developed.

Severance taxes, as administered in Montana and North Dakota, meet all four of these areas of need.

To understand more completely how a specific severance tax system works, we will consider that of North Dakota. North Dakota has a 66¢ per ton coal severance tax, or the equivalent of about twenty per cent of market value.*
Revenue distribution is as follows:

30% to state general fund
35% to State Coal Impact Office
20% to counties where mines are located
15% to the state trust fund.

(Montana has a more complicated method of revenue distribution, with an approximately equal distribution between impact needs, general government operation, and the general future needs of the state. See Appendix A).

Law enforcement, roads, schools, health care, recreation, and other forms of social services fall under the heading of ordinary costs. The financing of such projects is achieved by the distribution of tax revenues to the state general fund, the State Coal Impact Office, and the coal-producing counties. The 30% of revenues going to the state general fund actually represents a replacement of an old sales tax *which* North Dakota used to levy on retail coal prior to its sale; consequently about one-third of this severance tax is simply a sales tax with a name change. The 55% of the severance tax which ends up in the affected counties via the coal-producing counties' allocation (20%) and the Coal Impact Office's portion (35%) represents a replacement ad valorem property taxes which would normally be collected.

It is obvious from the above data that 85% of North Dakota's severance taxes simply replace older property taxes. Three main reasons justify the switch from an established method of tax collection to a new one.

Property taxes cannot respond to county needs for "front-end" impact money. Rapid population influx requires that the county provide a corresponding monetary output for social services, etc. This capital must be available long before any property has been evaluated and taxes assessed. A severance tax which generates a fund or "pool" of available capital will be able to respond to rapid population growth as it occurs.

In many instances the mineral production projects will either be large enough or

*Includes 1¢/ton increase for every one-point increase in the wholesale price index.

located so as to cause a significant population increase in not only the producing county, but in neighboring counties as well. A traditional property tax could only make funds available to the county in which the project was located, whereas a severance tax-generated state support fund makes the capital available to any affected area.

The most marked deficiency of property taxes rests in the ability, or inability, to assess the values of the land to be taxed. Presumably if a parcel of land is sitting on a fair-sized deposit of lignite, it will be worth more than depleted acreage and taxed accordingly. This straightforward logic rarely occurs on the coal fields.

Appraisal problems exist at any place where a large, profit-minded corporation has interest vested in a sizeable quantity of land. To wit, a Kentucky citizen's group has uncovered some very descriptive and outrageous cases of tax evasion in their own back yard.

The most objective and scrupulous of tax assessors would find it nearly impossible to determine a company's true economic value in terms of coal reserves within the county, or how much these reserves would be worth at present market values. One assessor in Knott County, Kentucky put the situation into perspective:

> ...the coal companies pretty much set their own assessments...we pretty much have to work with them. We have no system for finding out what they own. They might tell us they own 50 acres at a certain place, when they actually own 500 acres.[3]

The results of such guess work can be painfully obvious. In Harlan County, Kentuck one producer paid only $8,000 in property taxes, "not even enough to buy one school bus." This corporation owned 8% of all the land in the county. Another major producer, U.S. Steel, paid $57,000 in property taxes and complained of being overcharged. Their land and holdings were valued at slightly over $6,000,000 at the time (1976), but the true value of their coal reserves would have been $90,000,000.

Such appraisals result in impressive tax breaks for larger corporations and tend to shift the tax burden caused by the presence of these companies to the local residen This situation is clearly unacceptable. While the potential for the occurrence of problems of such magnitude remains unclear in the West, severance tax proponents would not like to see such outrages have a chance to occur. The Severance Tax has proven to be a valuable, workable replacement for the property tax which cannot cope with several critical demands.

Thus far we have noted that 85% of severance tax revenues are used to cover the "ordinary" cost of mineral development. This leaves 15% of the revenues to cover the "extraordinary" or "unique" costs associated with such development. These unique costs include socio-economic and environmental impact costs, upon which it is difficult (if not impossible) to place a dollar value. It is at this point that North Dakota's (and Montana's) severance tax becomes unique.

The institution of a large mineral industry in a previously sparsely populated area is almost always characterized by a set of social impacts described by boom town growth. High incidences of alcoholism and drug abuse are common. An increasingly busy rail network poses a new danger to local inhabitants as well as a major inconvenience: oftentimes a town will be cut in half by slow moving

freight trains. In the Plains States Indian reservations an aggressive form of bigotry arrives with the mine workers; complaints by Cheyenne tribes have yielded little in the way of results in the past. Younger local inhabitants may find it difficult to pursue a profession such as ranching in the future, as most valuable land has been bought up by industry and industry employees.

A description of such incidental social costs could go on indefinitely. Wally McRae of the Northern Plains Resource Council, speaking in support of severance taxation, makes the point clear:

> The local, long-term inhabitants are targeted as part of a solution for our nation's insatiable taste for energy. I maintain that (the industry) doesn't even know what the true costs of its poorly-planned operations are....environmental, cultural, social, and political outrages cannot be solved through the dispersal of tax dollars, but it would be a terrible mistake to ignore these costs.

For years the mining industry has enjoyed an ability to externalize almost all environmental costs associated with their operations. Water table displacement and aquifer pollution make an already scarce resource even more difficult to obtain in the arid Plains States. Health risks to humans, livestock, and vegetation are a certainty due to air pollution resulting from processing coal. Potential changes in rainfall patterns is still the subject of scientific debate. Despite industry claims to the contrary, complete land reclamation is an uncertainty in arid western climates. In spite of coal company claims that land could be strip mined and returned to its original productivity, a New York Times article quotes the reclamation chief for North American Coal Company as saying:

> We have the technology to turn the land back to productivity if its is grazing or pasture. But, if you're talking about crop land, agricultural soil-and that's maybe 50% of the area we're going to strip - we just don't know if we can do it. The deeper you go after lignite - 80, 90 or 100 feet - the more you bring up a lot of bad stuff; and the rainfall here, it's not anything like we're used to in the east. But, on the other hand, if you go to irrigation with the saline seep problem we've got here, you could be creating a monster.[5]

This quote should certainly put some doubt on industry claims concerning reclamation.

In North Dakota, environmental impacts are mediated by that portion of severance tax revenues which are set aside for unique costs. This money goes in part to local governments, which decide how best to mitigate environmental impacts in that area.

The need to compensate future generations for the "one-time harvest" or a non- renewable resource is the fourth and final area of need created by mineral development. Severance tax revenues are used in two ways to achieve this goal. The establishment of a General Trust Fund will set aside capital for use by future generations who may be trying to cope with the same energy problems that we have today, but without the

mined resource at their disposal. Severance tax revenues are also invested in such a way as to create a diverse economic base at present, with the hopes that economic diversity will help support the region through the declining ("bust") years of production. Appalachia provides a clear example of what happens to a coal-based economy when the mines are depleted and no one has planned for the future; North Dakota and Montana may successfully avoid such economic disaster by implementation of this legislation.

North Dakota's severance taxation has so far proven effective and extremely useful since its inception in 1975. Montana's severance tax system has met with much of the same type of success, as it is based on the same premises as that of North Dakota. An argument for the implementation of severance taxes may be drawn from the model of North Dakota taxation; Sandra Blackstone of the Colorado Energy Research Institute describes four basic rationales for the use of the severance taxes:[6]

(1) The "natural heritage" rationale is reflected in the states' allocation of some severance tax revenues to a permanent trust fund. According to this rationale the states are justified in levying a mineral tax which specifically compensates for the one-time removal of a non-renewable natural resource.
(2) The "cost internalization" rationale results in the description of "unique costs" given in North Dakota's legislation. This rationale justifies the use of a tax which attempts to put a dollar value on the social and environmental costs incurred by the mining industry; this shifts the growing tax burden to developers responsible for the increase.
(3) The "economic rent" rationale is drawn from a more in-depth study of the economics of a mining operation. According to this concept, the finite nature of the non-renewable mineral resource causes an artificial increase in mineral prices, which is necessary to induce production at desired levels. This results in a monetary surplus, or economic rent, for production companies; this surplus can be taxed without affecting allocations of resources or production levels, providing an attractive source for increased revenue taxation. Due to the abstract and indeterminate nature of this concept, many arguments have been raised by industry officials. The most often used is that this capital surplus is necessary to justify the high risks taken in mineral exploration and production. Economic rent will also vary according to current market conditions and characteristics of the particular mineral deposit.
(4) The severance tax may also be used as a means to shift the tax burden to out-of-state consumers, if mineral consumption does not occur primarily within the state (This is most often the case.) The result would be a cost increase to the final consumer.

The mining industry, along with major purchasers of minerals such as power companies have presented several arguments in an attempt to rescind severance tax legislation and to continue to externalize unique socio-economic and environmental costs.

The single most-used industry argument centers around a resultant consumer cost increase - particularly an increase in electric rates. While it is true that utility rates will rise, the percentage increase is nothing like that which the industry would like the public to believe. The actual effective rate increase to consumers would amount to only about 2% of their total electric bill...surprising news indeed to the consumer who had been hearing coal industry officials mention coal taxes and 40% rate hikes in the same breath.[7]

To understand such a small utility rate increase, one must first realize that the cost per ton of coal accounts for only about 10% of coal-generated power costs. One ton of North Dakota lignite sold for $3.65 in 1977. 1,100 kilowatt/hours of usable electricity is produced from one ton of coal at an average cost of 3.5¢

per kilowatt hour in North Dakota. This gives us a total cost of $38.50 for 1,100 KWH, or ten times the price of the coal used to generate electricity. (Thus, the cost of coal makes up about 10% of the total electric power cost.) Simple mathematical calculations tell us that a 30% increase in the price of coal which accounts for only 10% of the total electricity costs will raise electric bills only 3%.[8]

Nationwide, an average of more than one-third of all electric power is generated by non-coal means. This means an electric bill increase of 2% or lower. Assuming an average monthly utility bill of $32.00, a 2% increase in that bill would amount to 64¢ per month. The fact that at such a negligible cost to consumers such needed tax revenues are generated marks the severance tax structure as a truly successful program.

Another industry argument claims that severance taxes will cause coal production within that state to decline. Industry spokesmen had claimed that this would most certainly be the case for coal in Montana, which is taxed at 30% of gross value. Company and state production figures prove this argument to be totally inaccurate. The Montana State Legislature enacted their tax in 1975; coal production at this time had reached 21 million tons per year. By 1977, state production had reached over 27 million tons per year; by 1980 Montana had broken the 30 million mark.

The largest coal contract in the history of American mining was signed in June, 1978 between NERCO (a subsidiary of Pacific Power and Light) and Utility Fuels, Inc. (a Houston Power Company). This 1.7 billion dollar project is now under construction in Southern Montana. Utility Fuels had planned to take part in what became an unsuccessful legal challenge to Montana's severance tax. After abandoning the effort a company spokesman noted that:

> '...I don't think whatever decision is forthcoming will make any difference.' In other words, utilities will continue to buy Montana coal despite the severance tax, and the State of Montana expects to collect $20 million over the next 25 years on that alone.[9]

North Dakota has shown a similar production increase since initiating their severance tax in July, 1975. (See Appendix B.)

The fact remains that western coal is still a good buy, even after the addition of 20% and 30% severance taxes. Senator Tom Towe, chief sponsor of Montana's severance tax, claims that western coal is significantly underpriced. At $4 per ton, Montana coal is significantly cheaper than Appalachian coal at $20 to $32 per ton, even when considered on a price per BTU basis. Recent EPA standards have also increased the attractiveness of low sulfur western coal.

Western severance taxes have recently been threatened by intervention at the federal level. In late 1979 several proposals were introduced in the Senate which would limit the ability of the states to levy severance taxes. Although these proposals have been tabled for the time being, the threat still remains. North Dakota's Tax Commissioner Byron Dorgan states:

> It is...important to indicate that there are certain soverign powers that the states have by virtue of

> vestments given them in the United States Constitution. One of those powers is the power to tax...There seems to be an increasing and refreshing tendency these days around the country to require the Federal government, in court if necessary, to do a closer reading of the Constitution and begin reunderstanding that there are restrictions on its actions.[10]

Whether or not states may levy severance taxes at their own discretion is clearly a states' rights issue. Mr. Dorgan feels that the federal government will not attempt to meddle in the states' affairs at this level. In the rapidly changing field of energy politics, one can only speculate as to the outcome of the so-called "sage brush rebellion" at this point.

Progressive severance tax legislation as it exists in Montana and North Dakota describes a "pay as you go" philosophy. With a properly administered program, ordinary and environmental and socio-economic costs may be addressed in the form of much-needed local relief to areas impacted by large-scale mining operations. Considering the advantages this tax has over more conventional property and sales taxes and the minimal burden it places upon consumers, severance tax laws represent extremely sound legislation.

The only plausible explanations for a lack of similar legislation in all mineral-rich states are the powerful industry lobby and a general public unawareness of the real story behind severance taxes. Hopefully the latter situation will change with a bit of work and some time.

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4. Ibid. pp. 8-9

5. Dorgan, p. 26

6. Blackstone,

7. Dorgan, p. 13

8. Ibid., p. 13

9. Powder River Basin Resource Council, "Four Myths About Coal Severance Taxes." Sheridan, Wyoming, 1979.

10. Dorgan, p. 24

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Tap tightens on oil, gas tax revenues

Lawmakers may raise the rate that energy producers pay so pet projects can stay in the budget.

By Mark P. Couch
Denver Post Staff Writer

2 Feb 07 / 1B

For two years, Colorado lawmakers have tapped gushing tax flows from oil and gas production to pay for some of their pet projects.

Senate President Joan Fitz-Gerald, D-Jefferson County, obtained $16 million for an underground laboratory at the Henderson Mine near Empire.

In late 2005, Republican Gov. Bill Owens called for at least $20 million to help low-income families pay their heating bills. Statehouse Democrats raised the ante with a bill providing $60 million over several years.

In the 2006 session alone, lawmakers used those oil-and-gas dollars to approve 11 bills that called for spending $148 million through 2011.

Now that money is declining, so lawmakers who want to protect those programs are talking about raising taxes on producers, hoping to cash in on record corporate profits.

"In the last few years, it's been seen as the golden goose, but the reality is that it's turned into the ugly blackbird," said Rep. Al White, R-Winter Park.

That's because the money comes from a volatile source — the severance tax. That levy is charged when a nonre-

> See SEVERANCE on 4B

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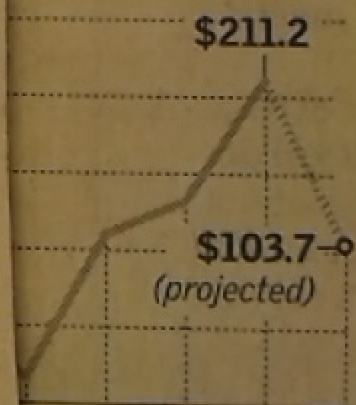

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The Denver Post

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Buescher,

SEVERANCE: Oil, gas tax is highly volatile

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newable natural resource like oil or coal is removed, or "severed," from the earth.

In recent years, the state experienced an unexpected boom in severance-tax revenues. But current projections show those revenues plummeting this year.

In fiscal 2003-04, the state collected $17.5 million in severance-tax revenues on oil and gas production. By 2005-06, that amount surged to $211.2 million. The current forecast calls for $103.7 million.

"There's a risk involved when you have a tax tied to a commodity," said Greg Schnacke, executive director of the Colorado Oil & Gas Association. "What goes up must come down."

During the boom, lawmakers lined up with projects, and the state began bending its rules for spending severance-tax dollars.

The money — intended to pay for regulation of oil and gas producers and other natural-resources projects — was steered into other programs.

In 2006, lawmakers approved $36.5 million in spending with severance taxes, but more than half of the money went to programs that weren't part of the original plan for spending severance-tax dollars.

That same year, the Oil and

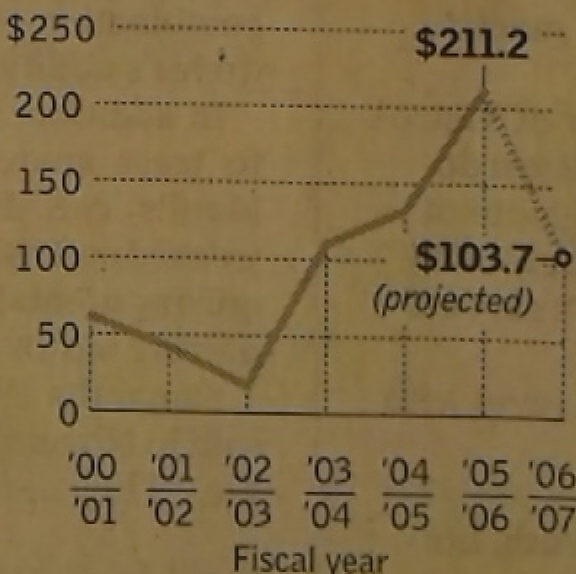
Taxing extraction

Low tax rates and plunging revenues are causing state lawmakers to review the state's system for taxing oil and gas production.

States' tax rates

State	Rate
Utah	4.5%
Colorado	5.7%
Oklahoma	7.0%
New Mexico	9.4%
Wyoming	11.2%

Colorado's oil and gas severance-tax revenue
(in millions)



Source: State of Colorado, Legislative Council Staff

The Denver Post

Possible changes to severance tax

The money — intended to pay for regulation of oil and gas producers and other natural-resources projects — was steered into other programs.

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That same year, the Oil and Gas Conservation Commission, which oversees the permitting of wells, received only $2.2 million of the $41.5 million it was allowed to receive.

Despite the decline in revenues this year, the projects keep coming.

Freshman Rep. Dan Gibbs, D-Silverthorne, wants to put $4 million over the next four years toward combating noxious weeds. His bill was approved by the House Agriculture Committee on Wednesday.

Rep. Kathleen Curry, D-Gunnison, has a bill that would spend $19 million to protect endangered species, fulfilling a legal agreement with the states of Wyoming and Nebraska.

As a result of the relentless demands for money, proposals for increasing the severance-tax revenues are bubbling around the Capitol.

Rep. Bernie Buescher, D-Grand Junction, has asked state economists for two studies — one that compares Colorado's "effective tax rate" on oil and gas production with other states' and a second that looks at the impact of any changes in the tax system.

"My focus is whether the state is getting fair compensation and can deal adequately with the impacts of oil and gas development," he said.

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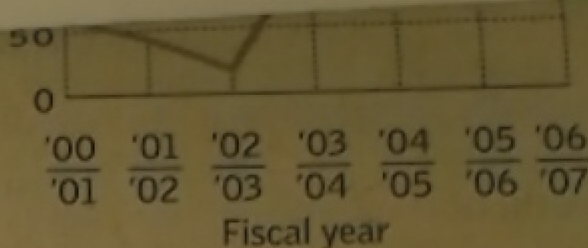

Source: State of Colorado, Legislative Council Staff

The Denver Post

Possible changes to severance tax

Rep. Bernie Buescher, D-Grand Junction, asked state economists to consider how changes to the severance-tax system would affect revenues.

The possible changes are:

- Repealing the 87.5 percent property-tax credit that oil and gas producers are allowed to claim against their severance-tax bill. If this had been in place in 2005-06, the revenue gain would have been $194.2 million.
- Imposing a severance-tax-rate floor of 2 percent or 3 percent. Revenue gain in 2005-06: $32.7 million to $83.4 million.
- Raising the severance tax by 1 percentage point. Revenue gain in 2005-06: $95.9 million.

Source: Legislative Council

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for the satisfied man."
Post founder Frederick G. Bonfils, 1861-1933

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THE POST EDITORIALS

Colorado levies low severance tax rate

The state lags in drawing revenues from oil and gas production. Colorado could use funds for higher education and state building maintenance.

The legislature should carefully study raising severance taxes on oil and gas production, bringing Colorado into line with nearby states and producing an enhanced revenue stream for such needs as higher education and state building maintenance.

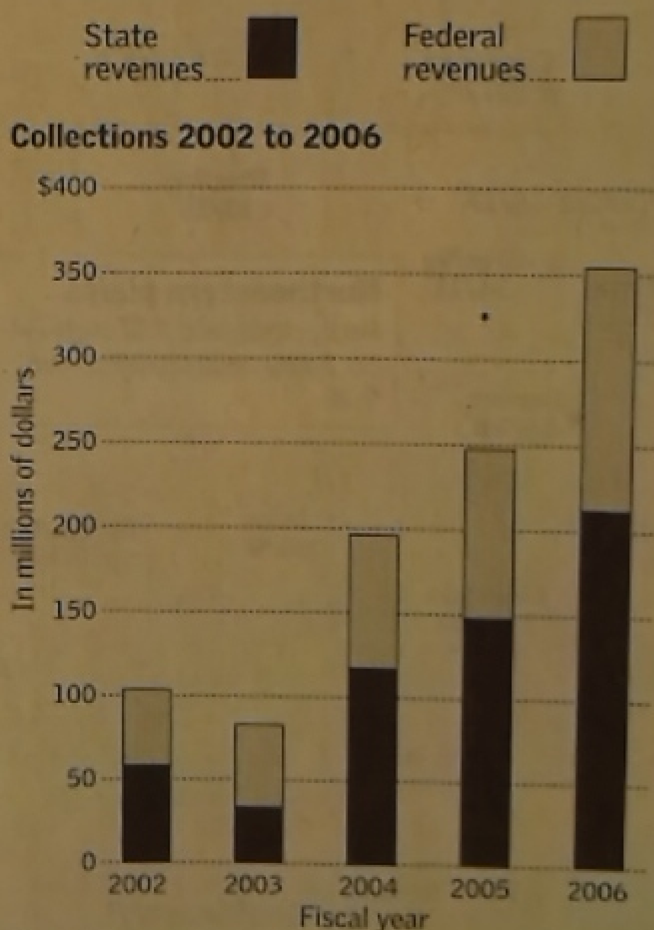
There is certainly room for an increase that would not undercut Colorado's competitive position with its oil- and gas-producing neighbors. Because of a property tax offset, Colorado's nominal 5.7 percent tax is actually lower than Utah's 4.5 percent. Oklahoma levies 7 percent, New Mexico 9.4 and Wyoming 11.25. Wyoming collected $683.2 million in severance taxes in 2004, almost six times Colorado's tax. Most of the difference comes from Wyoming's higher tax rate.

Even *without* an increase, a group of legislators led by Sen. Chris Romer, D-Denver, is considering blending the state's existing severance tax with a separate fund of federal leasing payments to convert what has been a wildly fluctuating revenue source into a reliable stream of cash.

In recent years, severance tax revenues have been highly volatile. The state received $57.1 million in 2002, but just $32.3 million in 2003. The total jumped to $115.9 in 2004, hit $146.4 million in 2005 and a record $211.8 million in 2006. But collections are expected to drop to $100.4 this year million, then climb back to $151.3 million in 2008 before leaping to $275.7 million in 2009.

The wild ride has two causes — widely fluctuating energy prices and Colorado's Byzantine tax structure. Since Colorado nominally collects a 5.7 percent tax on gross revenues, rising energy prices in the wake of Hurricane Katrina account for most of the jump in severance collections in 2006.

Now, wholesale energy prices are falling and projected severance tax collections are also headed south. But the earlier increases ...



they have been much more predictable than the state share alone. That fact prompted Romer to propose blending the two revenue streams. After ensuring that existing revenues for such such needs as aid to local governments impacted by energy developments are continued, Romer wants to earmark future surpluses in the combined fund to pay off a $950 million bond issue.

Byzantine tax structure. Since Colorado nominally collects a 5.7 percent tax on gross revenues, rising energy prices in the wake of Hurricane Katrina account for most of the jump in severance collections in 2006.

Now, wholesale energy prices are falling and projected severance tax collections are also headed south. But the earlier rise in energy prices also triggered an increase in the property taxes energy companies now pay to schools and county governments — and the state allows energy producers to deduct 87.5 percent of their local property taxes from their state severance taxes. Thus, in many cases, the nominal 5.7 percent state yields only a net 2 percent or less.

State severance taxes are collected only from operations on privately owned lands. — which means they are only about half the story of what Colorado collects from its mineral wealth. The federal government owns about 30 percent of the land in Colorado and collects a 15 percent royalty from oil and gas produced on that land. The feds split that royalty with the state 50/50.

Those federal leasing payments have climbed sharply since 2002, when Colorado received $44.6 million. The state share was $50 million in 2003, $79.4 million in 2004, $101 million in 2005 and $144 million in 2006. The state expects its share of federal leases to dip to $131.1 million this year, before climbing to $182.8 million in 2008 and $203.4 million in 2009.

The state currently administers its severance tax payments and federal leasing payments through two separate funds — each with its own complicated formula allocating money to various state and local needs. But as the graph accompanying this editorial shows, when federal lease payments and state severance taxes are added together, the state share alone. That fact prompted Romer to propose blending the two revenue streams. After ensuring that existing revenues for such such needs as aid to local governments impacted by energy developments are continued, Romer wants to earmark future surpluses in the combined fund to pay off a $950 million bond issue.

Voters would be asked to approve the bond issue, and if they do, Romer wants to earmark $500 million for non-highway needs in capital construction — especially on college campuses whose funds were slashed during the 2001-05 state fiscal crisis. While Referendum C has now eased state budgets on the operating side, almost all the new revenue it provides for capital construction is earmarked by existing law to highways.

In addition to the money for new buildings, Romer wants to allocate funds to repair and wupgrade buildings whose routine maintenance was deferred during the budget crisis. He also wants to earmark $100 million for local communities, mostly on the Western Slope, which may need more roads, schools or other facilities as a result of expanding energy development. Finally, Romer would use part of the bond issue to pay for some K-12 school construction the state promised in order to settle a lawsuit.

Romer's plan only averages out existing revenues — it is not a tax increase. It could, however, be blended with a number of plans to increase the effective state severance tax by one means or another.

Either long-term bonds or a tax hike would have to be approved by voters. Given Colorado's faltering higher education funding, crumbling state buildings and the need to protect the Western Slope in the face of surging energy development, we hope a severance tax issue will be framed in time for the November ballot.