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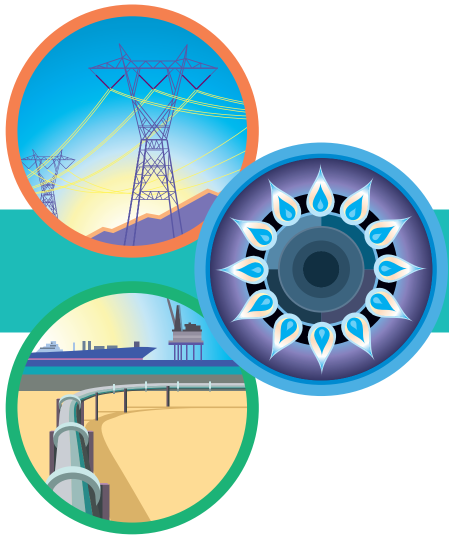
Energy Fact Sheet



Mineral Extraction Taxes and State of Colorado Budget Impacts

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Key Messages:

- There are three primary types of taxes related to mineral extraction:
  - State severance tax — oil and gas tax rate ranges from 2 – 5 percent of gross income. The coal tax rate is 54 cents/ton.
  - Local property tax — Depends on local mill levies and assessed valuation. In fiscal year 2005-2006, and estimated $227 million was collected.
  - Federal mineral leasing — For leases issued after 1987, royalties of 12.5 percent of the value are paid to the federal government. Revenue is shared 50/50 with state government. The state share is split between cities, counties, school districts, state school finance, Colorado Water Conservation Board and the Department of Local Affairs. In calendar year 2005, $115 million was sent to Colorado.

Severance Taxes in Colorado are Expected to Remain Strong —

- The forecast for severance taxes assumes a slight reduction in gas prices in 2006, followed by a rebound next year. The forecast is highly sensitive to natural gas prices.
- Severance taxes are deposited into various program-specific cash funds, not into the State General Fund.

How Federal Mineral Taxes Impact the State Budget —

- Mineral leasing review is partially used to support K-12 education funding. For Fiscal Year 2006-2007, $52 million of federal mineral leasing revenue is estimated to be allocated to the State School Finance Act.

How Local Property Taxes Impact the State Budget —

- Local property taxes support the local share of school district funding per the State School Finance Act.
- High gas prices and rising property tax collections can increase the local share and reduce the state share of school funding.
- If assessed value grows faster than the TABOR limit (inflation and enrollment growth), local mill levies will fall. The lowest school district mill levies are in oil/gas counties (La Plata, Garfield, Las Animas, Rio Blanco) or wealthy mountain communities (Aspen, Telluride)

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Mineral Taxes and Referendum C —

- Until Fiscal Year 2009-10, Colorado is allowed to keep all the revenue it collects (a five year time-out period for TABOR). After that, the state spending limit grows from the highest amount of revenue received during the time out period.
- High severance taxes in the five year time-out period will increase the spending base upon which future state revenue limits will be calculated.
- If severance taxes accelerate after Fiscal Year 2009-10, it could cause the state to issue TABOR refunds. However, the forecast anticipates declining severance tax revenue because of modest reductions in natural gas prices.

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