



## **Vote YES on SB18 and SJR2 (Hillyard) Severance Tax Trust Fund**

### **What the bills do**

SB18 creates the Severance Tax Holding Account and the Infrastructure and Economic Diversification Investment Account. Oil and gas severance taxes above \$20 million and mining severance taxes above \$5 million will be deposited in the holding account. In FY2006, the oil and gas severance tax generated \$71.5 million, and the mining severance tax generated \$17 million.

The \$20 million and \$5 million thresholds will be indexed for inflation.

SJR2 is a proposed constitutional amendment. If approved, severance tax revenues in excess of the above cited thresholds will be deposited into the permanent state trust fund created in conjunction with the November 1998 settlement with tobacco companies. Interest from the trust fund can be spent annually by the Legislature. To spend the principal, three-fourths approval of each house and concurrence from the governor are needed.

If SB18 becomes law but SJR2 does not, the holding account will still be created, but the principal will not have the same level of protection. Future legislatures and governors could access the principal and/or eliminate the account with a simple majority in each house and support of the governor.

### **Why are SB18 and SJR2 good ideas?**

Currently, severance tax revenues are deposited into the general fund. Depositing at least a portion of these revenues into a restricted account or a constitutional trust fund makes sense for at least two reasons:

- Considering the rational basis for the severance tax, which is to offset the permanent depletion of an economic resource, placing these revenues into a trust fund creates a permanent asset that offsets a permanent depletion. Wyoming and other states have created permanent trust fund for their severance tax revenues and now have a permanent asset that yields annual interest.

- Severance tax revenues are very volatile, and using volatile revenue sources to fund ongoing general fund expenditures is not good tax policy. In FY2002, oil and gas severance taxes were \$18.9 million but increased to \$71.5 million in FY2006. By diverting revenues from the general fund to the trust fund, volatility of general fund tax revenues is reduced.

**Please vote YES on SB18 and SJR2**