

Economic Analysis of HB18-1201
“Severance Tax Voter-approve Revenue Change”

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capital stock. Instead, the current structure leaves severance taxes susceptible to spending which does not preserve the stock

This bill has the potential to be an economically responsible act on the part of the Colorado General Assembly. As revenues are incorporated into fiscal limits, revenue volatility is better accounted for. For example, in a year of very high revenues, the fiscal limit is also increased to alleviate refund pressure on the general fund. In turn, there is less of a need for redistributing funds within the government. Operations aimed at restoring or compensating our loss of natural capital are then at less risk of losing funding. This is a more efficient process and creates more certainty in the revenue system.

The severance tax is a sound principle in environmental economics, and the bill helps to protect its revenues from reappropriation in refund years. It is important to protect these revenues as the projects they support satisfy legitimate actions of government. Currently, spending is intended for conservation efforts, water infrastructure improvements, and transfers to affected communities. Conservation efforts create public goods while infrastructure improvements and transfers to local governments likely provide positive returns on investment. A funds wilihAMM funde`frasee oc

to the next generation. Existence values are where people assess value on environments and ecologies which they do not intend to use but still value.

The government creates a public good through representation of environmental non-use values. There would be high transaction costs to assessing and compiling the various non-use values of citizens within and outside of the state. The state government can act as a single, unified actor in the interest of these individuals, reducing transaction costs, and appropriately alleviating some social costs to production through conservation.

If a government's investment does not provide a public good, it should at least provide a positive return on investment to the state's economic output. Fiscal multipliers are estimates of the value of return on each dollar spent by the government and are used by institutions such as the Congressional Budget Office ("CBO") to assess policy outcomes. They are not the only tool, but serve as an easy numeric comparison between returns on policies. The CBO estimates suggest the government actions that might yield the highest returns are present in current severance fund operations for infrastructure spending and transfers to local -MMId-

and can spend money more effectively than the state could. Direct transfers to local governments also have high multiplier estimates, residing somewhere between 0.4 and 1.8 (Whalen Reichling 2015). Market economies are made up of individuals who are the most informed actors to their preferences and well-being. However, proper assessment and coordination of action on extractive operations may be difficult to accomplish for individual citizens. Local governments

Works Cited

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