

OFFICE OF THE  
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**MEMORANDUM FOR EXECUTIVE APPROPRIATIONS COMMITTEE**

**FROM:** Ivan Djambov and Thomas Young, Analysts  
**DATE:** June 16, 2009  
**SUBJECT:** Severance Tax Holding Account and Estimated Permanent State Trust Fund Deposits

Summary

On June 30, 2009, the Division of Finance will transfer \$7.2 million from the Severance Tax Holding Account to the permanent state trust fund. In addition to the \$7.2 million, we anticipate severance taxes will generate approximately \$20 million for the permanent state trust fund in FY 2009. From July 1, 2009 forward, the Division of Finance will credit severance tax collections directly to the permanent state trust fund. As such, we recommend elimination of the Severance Tax Holding Account in the 2010 General Session.

Background

During the 2007 General Session the Legislature intended to preserve a portion of the funding generated from limited natural resources for future generations. Senate Bill 18 created the Severance Tax Restricted Account and allowed it to receive:

- Appropriations from the Legislature
- Grants from private foundations, and
- Interest earnings

The same bill appropriated \$20 million in one-time FY 2008 General Funds to the account. Contrary to what the name may suggest, this account never directly received any severance tax funds. The only revenues to this account were the initial General Fund appropriation and \$693,200 in interest.

Senate Bill 18 also stated, "If authorized by law the Division of Finance shall deposit all of the monies in the Severance Tax Holding Account as of June 30, 2009, into the permanent state trust fund." Utah residents later approved Constitutional Amendment B, permitting the permanent state trust fund to hold money or assets given to the fund under any provisions of law.

As allowed and required by law, then, on June 30, 2009 the balance of the Severance Tax Holding Account will be deposited in the permanent state trust fund. The 2009 Legislature used \$13.5 million from the holding account to balance the state budget, leaving a current balance of \$7.2 million for transfer to the permanent state trust fund.

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During the 2008 General Session the Legislature passed House Bill 58. This bill directs the Division of Finance to credit the following revenues directly into the permanent state trust fund:

- All revenue from oil and gas severance taxes that exceed \$71,000,000
- All revenue from mining severance taxes that exceed \$27,600,000

House Bill 58 was effective July 1, 2008 (the start of FY 2009). At the end of FY 2009 the Division of Finance will credit any severance tax revenues that exceed the above-mentioned caps to the permanent state trust fund. Based on recent revenue estimates, the amount to be credited at the end of FY 2009 will be approximately \$20 million. Estimates for FY 2010 will be available by the Executive Appropriations Committee meeting on June 16, 2009.

Prior to House Bill 58, all severance tax revenues were deposited into the General Fund. The table below provides a ten-year history of severance tax revenues.

Severance Tax Revenues 10 Year History		
Fiscal Year	Oil and Gas	Mining
1999	\$7,942,551	\$5,112,449
2000	\$17,312,540	\$5,698,460
2001	\$39,357,798	\$6,204,202
2002	\$18,893,082	\$4,952,500
2003	\$26,745,279	\$5,833,921
2004	\$36,659,808	\$6,026,484
2005	\$53,484,320	\$11,447,380
2006	\$71,513,869	\$17,043,131
2007	\$65,429,873	\$23,605,127
2008	\$65,510,506	\$26,547,270
2009 To Date	\$93,288,911	\$14,573,697

According to Utah Constitution Article XXII, Section 4, interest and dividends earned annually on revenue from severance taxes that are deposited into the permanent state trust fund must be credited to the Infrastructure and Economic Diversification Investment Account (UCA 63-97a-301). Principal in the permanent state trust fund can be withdrawn only with three-fourths vote of each house of the Legislature and concurrence of the governor.

#### Recommendation

The Analyst recommends that the Legislature eliminate the Severance Tax Holding Account during the 2010 General Session. The purpose of the account was temporary—to hold funds until June 30, 2009. Since voters approved a constitutional amendment allowing the permanent state trust fund to receive the revenues, and House Bill 58 directs future revenues straight to the permanent state trust fund, the Severance Tax Holding Account is no longer needed.