

1 **USE OF OIL AND GAS REVENUES**

2 2007 GENERAL SESSION

3 STATE OF UTAH

4 **Chief Sponsor: Lyle W. Hillyard**

5 House Sponsor: Wayne A. Harper

6

7 **LONG TITLE**

8 **General Description:**

9 This bill provides for the disposition of certain revenues from severance taxes imposed
10 on oil and gas.

11 **Highlighted Provisions:**

12 This bill:

- 13 ▶ creates the Capital and Infrastructure Investment Account;
- 14 ▶ creates the Oil and Gas Severance Tax Holding Account;
- 15 ▶ provides that oil and gas severance tax revenues that exceed a base amount are
16 deposited in the permanent state trust fund or the Oil and Gas Severance Tax
17 Holding Account;
- 18 ▶ provides that certain earnings are credited to the Capital and Infrastructure
19 Investment Account; and
- 20 ▶ makes technical changes.

21 **Monies Appropriated in this Bill:**

22 None

23 **Other Special Clauses:**

24 This bill takes effect on July 1, 2007.

25 **Utah Code Sections Affected:**

26 AMENDS:

27 **59-5-115**, as last amended by Chapter 135, Laws of Utah 1996



28 **63-97-301**, as last amended by Chapter 275, Laws of Utah 2005

29 ENACTS:

30 **63-97a-101**, Utah Code Annotated 1953

31 **63-97a-102**, Utah Code Annotated 1953

32 **63-97a-103**, Utah Code Annotated 1953

33 **63-97a-201**, Utah Code Annotated 1953

34 **63-97a-202**, Utah Code Annotated 1953

35 **63-97a-301**, Utah Code Annotated 1953



36
37 *Be it enacted by the Legislature of the state of Utah:*

38 Section 1. Section **59-5-115** is amended to read:

39 **59-5-115. Disposition of taxes collected -- Credit to General Fund.**

40 [AH] (1) Except as provided in Subsection (2), all taxes imposed and collected under
41 Section 59-5-102 shall be paid to the commission, and promptly remitted to the state
42 treasurer[;] and [~~except those taxes otherwise allocated under Section 59-5-116 or 59-5-119;~~]
43 credited to the General Fund.

44 (2) Subsection (1) does not apply to:

45 (a) those taxes otherwise allocated under Section 59-5-116 or 59-5-119;

46 (b) those taxes credited to the Oil and Gas Severance Tax Holding Account under
47 Section 63-97a-301; or

48 (c) those taxes credited to the permanent state trust fund under Section 63-97a-301.

49 Section 2. Section **63-97-301** is amended to read:

50 **63-97-301. Permanent state trust fund.**

51 (1) Until July 1, 2003, 50% of all funds of every kind that are received by the state that
52 are related to the settlement agreement that the state entered into with leading tobacco
53 manufacturers on November 23, 1998, shall be deposited into the permanent state trust fund
54 created by and operated under Utah Constitution Article XXII, Section 4.

55 (2) On and after July 1, 2003 and until July 1, 2004 20% of the funds of any kind
56 received by the state that are related to the settlement agreement that the state entered into with
57 leading tobacco manufacturers shall be deposited into the permanent state trust fund created by
58 and operated under Utah Constitution Article XXII, Section 4.

59 (3) On and after July 1, 2004 and until July 1, 2005, 30% of all funds of any kind
60 received by the state that are related to the settlement agreement that the state entered into with
61 leading tobacco manufacturers shall be deposited into the General Fund Budget Reserve
62 Account created in Section 63-38-2.5.

63 (4) On and after July 1, 2005 and until July 1, 2007, 25% of all funds of any kind
64 received by the state that are related to the settlement agreement that the state entered into with
65 leading tobacco manufacturers shall be deposited into the permanent state trust fund created by
66 and operated under Utah Constitution Article XXII, Section 4.

67 (5) On and after July 1, 2007, 40% of all funds of every kind that are received by the
68 state that are related to the settlement agreement that the state entered into with leading tobacco
69 manufacturers on November 23, 1998, shall be deposited into the permanent state trust fund
70 created by and operated under Utah Constitution Article XXII, Section 4.

71 (6) Funds in the permanent state trust fund shall be deposited or invested pursuant to
72 Section 51-7-12.1.

73 (7) (a) In accordance with Utah Constitution Article XXII, Section 4, the interest and
74 dividends earned annually from the permanent state trust fund shall be deposited in the General
75 Fund. There shall be transferred on an ongoing basis from the General Fund to the permanent
76 state trust fund created under Utah Constitution Article XXII, Section 4, an amount equal to
77 50% of the interest and dividends earned annually from the permanent state trust fund. The
78 amount transferred into the fund under this Subsection (7)(a) shall be treated as principal.

79 (b) Any annual interest or dividends earned from the permanent state trust fund that
80 remain in the General Fund after Subsection (7)(a) may be appropriated by the Legislature.

81 (c) Any realized or unrealized gains or losses on investments in the permanent state
82 trust fund shall remain in the permanent state trust fund.

83 (8) This section does not apply to funds deposited under Chapter 97a, Capital and
84 Infrastructure Investment Account and Oil and Gas Severance Tax Holding Account into:

85 (a) the permanent state trust fund; or

86 (b) the Oil and Gas Severance Tax Holding Account created under Chapter 97a,
87 Capital and Infrastructure Investment Account and Oil and Gas Severance Tax Holding
88 Account.

89 Section 3. Section **63-97a-101** is enacted to read:

CHAPTER 97a. CAPITAL AND INFRASTRUCTURE INVESTMENT ACCOUNT
AND OIL AND GAS SEVERANCE TAX HOLDING ACCOUNT

Part 1. General Provisions

63-97a-101. Title.

This chapter is known as the "Capital and Infrastructure Investment Account and Oil and Gas Severance Tax Holding Account."

Section 4. Section 63-97a-102 is enacted to read:

63-97a-102. Definitions.

As used in this chapter:

(1) "Base amount" means:

(a) \$41,000,000 for:

(i) fiscal year 2007-08; or

(ii) fiscal year 2008-09; and

(b) for each fiscal year beginning on or after July 1, 2009, the amount determined by the Division of Finance as described in Section 63-97a-103.

(2) "Capital and Infrastructure Investment Account" means the Capital and Infrastructure Investment Account created in Section 63-97a-201.

(3) "Oil and Gas Severance Tax Holding Account" means the Oil and Gas Severance Tax Holding Account created in Section 63-97a-202.

(4) "Permanent state trust fund" means the permanent state trust fund created under Utah Constitution Article XXII, Section 4.

Section 5. Section 63-97a-103 is enacted to read:

63-97a-103. Base amount calculation using the consumer price index.

(1) For each fiscal year beginning on or after July 1, 2009, the Division of Finance shall increase or decrease the base amount described in Subsection 63-97a-102(1) by a percentage equal to the percentage difference between the consumer price index for the preceding fiscal year and the consumer price index for fiscal year 2007-08.

(2) For purposes of Subsection (1), the Division of Finance shall calculate the consumer price index as provided in Sections 1(f)(4) and 1(f)(5), Internal Revenue Code.

Section 6. Section 63-97a-201 is enacted to read:

Part 2. Creation of Restricted Accounts

121 **63-97a-201. Creation of Capital and Infrastructure Investment Account.**122 (1) (a) There is created a restricted account within the General Fund known as the
123 "Capital and Infrastructure Investment Account."124 (b) The Capital and Infrastructure Investment Account shall consist of:125 (i) all monies credited to the account under Section 63-97a-301;126 (ii) appropriations from the Legislature;127 (iii) grants from private foundations; and128 (iv) interest and investment earnings on account monies.129 (2) (a) The Capital and Infrastructure Investment Account shall earn interest.130 (b) All interest earned on monies in the Capital and Infrastructure Investment Account
131 shall be deposited into the Capital and Infrastructure Investment Account.132 (3) The Legislature may appropriate monies from the Capital and Infrastructure
133 Investment Account for capital and infrastructure investment projects.134 Section 7. Section **63-97a-202** is enacted to read:135 **63-97a-202. Creation of Oil and Gas Severance Tax Holding Account.**136 (1) (a) There is created a restricted account within the General Fund known as the "Oil
137 and Gas Severance Tax Holding Account."138 (b) The Oil and Gas Severance Tax Holding Account shall consist of:139 (i) all monies credited to the Oil and Gas Severance Tax Holding Account under
140 Section 63-97a-301;141 (ii) appropriations from the Legislature;142 (iii) grants from private foundations; and143 (iv) interest and investment earnings on Oil and Gas Severance Tax Holding Account
144 monies.145 (2) (a) The Oil and Gas Severance Tax Holding Account shall earn interest.146 (b) All interest earned on monies in the Oil and Gas Severance Tax Holding Account
147 shall be deposited into the Oil and Gas Severance Tax Holding Account.148 (3) If authorized by law the Division of Finance shall deposit all of the monies in the
149 Oil and Gas Severance Tax Holding Account as of July 1, 2009, into the permanent state trust
150 fund.151 Section 8. Section **63-97a-301** is enacted to read:

152 **Part 3. Distribution of certain oil and gas severance tax revenues**

153 **63-97a-301. Crediting of certain oil and gas severance tax revenues to the**
154 **permanent state trust fund and the Oil and Gas Severance Tax Holding Account.**

155 (1) After making the distributions of oil and gas severance tax revenues as required
156 under Sections 59-5-116 and 59-5-119, the Division of Finance shall make the distributions
157 required under Subsections (2) through (5).

158 (2) (a) Beginning on July 1, 2007 and ending on June 30, 2008, the Division of Finance
159 shall credit to the Oil and Gas Severance Tax Holding Account all revenue from severance
160 taxes on oil and gas imposed under Title 59, Chapter 5, Severance Tax on Oil, Gas, and
161 Mining, collected in that fiscal year that exceed the base amount.

162 (b) (i) Beginning on July 1, 2008 and ending on December 31, 2008, the Division of
163 Finance shall credit to the Oil and Gas Severance Tax Holding Account all revenue from
164 severance taxes on oil and gas imposed under Title 59, Chapter 5, Severance Tax on Oil, Gas,
165 and Mining, collected during that time period that exceed the base amount.

166 (ii) Beginning on January 1, 2009 and ending on June 30, 2009, the Division of
167 Finance shall credit to the permanent state trust fund an amount equal to the difference
168 between:

169 (A) all revenue from severance taxes on oil and gas imposed under Title 59, Chapter 5,
170 Severance Tax on Oil, Gas, and Mining, collected in fiscal year 2008-09 that exceed the base
171 amount; and

172 (B) the amount of revenue credited to the Oil and Gas Severance Tax Holding Account
173 under Subsection (2)(b)(i).

174 (3) Beginning on July 1, 2009, the Division of Finance shall credit to the permanent
175 state trust fund all revenue collected in a fiscal year from severance taxes on oil and gas
176 imposed under Title 59, Chapter 5, Severance Tax on Oil, Gas, and Mining, that exceed the
177 base amount.

178 (4) The state treasurer shall invest and separately account for the earnings on funds that
179 are deposited into the permanent state trust fund under this section.

180 (5) (a) In accordance with Utah Constitution Article XXII, Section 4, the interest and
181 dividends earned annually on revenue from severance taxes on oil and gas that are deposited
182 into the permanent state trust fund shall be deposited in the General Fund.

183 (b) Interest and dividends earned on revenue from severance taxes on oil and gas that
184 are deposited in the General Fund shall be credited to the Capital and Infrastructure Investment
185 Account created in Section 63-97a-201.

186 Section 9. **Effective date.**

187 This bill takes effect on July 1, 2007.

Legislative Review Note
as of 11-15-06 3:18 PM

Office of Legislative Research and General Counsel

Interim Committee Note
as of 12-18-06 1:03 PM

The Revenue and Taxation Interim Committee recommended this bill.

S.B. 18 - Use of Oil and Gas Revenues

Fiscal Note

2007 General Session
State of Utah

State Impact

It is estimated that enactment of this bill would reduce the General Fund by \$31,550,000 annually. There will be a corresponding increase in the Oil and Gas Severance Holding Account.

	<u>FY 2007</u> <u>Approp.</u>	<u>FY 2008</u> <u>Approp.</u>	<u>FY 2009</u> <u>Approp.</u>	<u>FY 2007</u> <u>Revenue</u>	<u>FY 2008</u> <u>Revenue</u>	<u>FY 2009</u> <u>Revenue</u>
General Fund	\$0	\$0	\$0	\$0	(\$31,550,000)	(\$31,550,000)
Total	\$0	\$0	\$0	\$0	(\$31,550,000)	(\$31,550,000)

Individual, Business and/or Local Impact

Enactment of this bill likely will not result in direct, measurable costs and/or benefits for individuals, businesses, or local governments.
