

**Senator Lyle W. Hillyard** proposes the following substitute bill:

**USE OF SEVERANCE TAX REVENUES**

2007 GENERAL SESSION

STATE OF UTAH

**Chief Sponsor: Lyle W. Hillyard**

House Sponsor: \_\_\_\_\_

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**LONG TITLE**

**General Description:**

This bill provides for the disposition of certain revenues from severance taxes.

**Highlighted Provisions:**

This bill:

- ▶ creates the Infrastructure and Economic Diversification Investment Account;
- ▶ creates the Severance Tax Holding Account;
- ▶ provides that severance tax revenues that exceed a base amount are deposited in the permanent state trust fund or the Severance Tax Holding Account;
- ▶ provides that certain earnings are credited to the Infrastructure and Economic Diversification Investment Account; and
- ▶ makes technical changes.

**Monies Appropriated in this Bill:**

None

**Other Special Clauses:**

This bill takes effect on July 1, 2007.

**Utah Code Sections Affected:**

AMENDS:

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



26 59-5-215, as enacted by Chapter 4, Laws of Utah 1988

27 63-97-301, as last amended by Chapter 275, Laws of Utah 2005

28 ENACTS:

29 63-97a-101, Utah Code Annotated 1953

30 63-97a-102, Utah Code Annotated 1953

31 63-97a-103, Utah Code Annotated 1953

32 63-97a-201, Utah Code Annotated 1953

33 63-97a-202, Utah Code Annotated 1953

34 63-97a-301, Utah Code Annotated 1953



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

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

38 **59-5-115. Disposition of taxes collected -- Credit to General Fund.**

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

43 (2) Taxes imposed and collected under Section 59-5-102 shall not be credited to the  
44 General Fund if those taxes are:

- 45 (a) otherwise allocated under Section 59-5-116 or 59-5-119;
- 46 (b) credited to the Severance Tax Holding Account under Section 63-97a-301; or
- 47 (c) credited to the permanent state trust fund under Section 63-97a-301.

48 Section 2. Section 59-5-215 is amended to read:

49 **59-5-215. Disposition of taxes collected -- Credit to General Fund.**

50 [AH] (1) Except as provided in Subsection (2), all taxes imposed and collected under  
51 Section 59-5-202 shall be paid to the commission, and promptly remitted to the state treasurer,  
52 to be credited to the General Fund.

53 (2) Taxes imposed and collected under Section 59-5-202 shall not be credited to the  
54 General Fund if those taxes are credited to:

- 55 (a) the Severance Tax Holding Account under Section 63-97a-301; or
- 56 (b) the permanent state trust fund under Section 63-97a-301.

57 Section 3. Section **63-97-301** is amended to read:

58 **63-97-301. Permanent state trust fund.**

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

63 (2) On and after July 1, 2003 and until July 1, 2004 20% of the 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 (3) On and after July 1, 2004 and until July 1, 2005, 30% of all funds of any kind  
68 received by the state that are related to the settlement agreement that the state entered into with  
69 leading tobacco manufacturers shall be deposited into the General Fund Budget Reserve  
70 Account created in Section 63-38-2.5.

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

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

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

81 (7) (a) In accordance with Utah Constitution Article XXII, Section 4, the interest and  
82 dividends earned annually from the permanent state trust fund shall be deposited in the General  
83 Fund. There shall be transferred on an ongoing basis from the General Fund to the permanent  
84 state trust fund created under Utah Constitution Article XXII, Section 4, an amount equal to  
85 50% of the interest and dividends earned annually from the permanent state trust fund. The  
86 amount transferred into the fund under this Subsection (7)(a) shall be treated as principal.

87 (b) Any annual interest or dividends earned from the permanent state trust fund that

88 remain in the General Fund after Subsection (7)(a) may be appropriated by the Legislature.

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

91 (8) This section does not apply to funds deposited under Chapter 97a, Infrastructure  
92 and Economic Diversification Investment Account and Severance Tax Holding Account into:

93 (a) the permanent state trust fund; or

94 (b) the Severance Tax Holding Account created under Chapter 97a, Infrastructure and  
95 Economic Diversification Investment Account and Severance Tax Holding Account.

96 Section 4. Section **63-97a-101** is enacted to read:

97 **CHAPTER 97a. INFRASTRUCTURE AND ECONOMIC DIVERSIFICATION**  
98 **INVESTMENT ACCOUNT AND SEVERANCE TAX HOLDING ACCOUNT**

99 **Part 1. General Provisions**

100 **63-97a-101. Title.**

101 This chapter is known as the "Infrastructure and Economic Diversification Investment  
102 Account and Severance Tax Holding Account."

103 Section 5. Section **63-97a-102** is enacted to read:

104 **63-97a-102. Definitions.**

105 As used in this chapter:

106 (1) "Infrastructure and Economic Diversification Investment Account" means the  
107 Infrastructure and Economic Diversification Investment Account created in Section  
108 63-97a-201.

109 (2) "Mining base amount" means:

110 (a) \$9,000,000 for:

111 (i) fiscal year 2007-08; or

112 (ii) fiscal year 2008-09; and

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

115 (3) "Oil and gas base amount" means:

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

117 (i) fiscal year 2007-08; or

118 (ii) fiscal year 2008-09; and

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

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

123 (5) "Severance Tax Holding Account" means the Severance Tax Holding Account  
124 created in Section 63-97a-202.

125 Section 6. Section **63-97a-103** is enacted to read:

126 **63-97a-103. Base amount calculation using the consumer price index.**

127 (1) For each fiscal year beginning on or after July 1, 2009, the Division of Finance  
128 shall increase or decrease the base amounts described in Subsections 63-97a-102(2) and (3) by  
129 a percentage equal to the percentage difference between the consumer price index for the  
130 preceding fiscal year and the consumer price index for fiscal year 2007-08.

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

133 Section 7. Section **63-97a-201** is enacted to read:

134 **Part 2. Creation of Restricted Accounts**

135 **63-97a-201. Creation of Infrastructure and Economic Diversification Investment**  
136 **Account.**

137 (1) (a) There is created a restricted account within the General Fund known as the  
138 "Infrastructure and Economic Diversification Investment Account."

139 (b) The Infrastructure and Economic Diversification Investment Account shall consist  
140 of:

- 141 (i) all monies credited to the account under Section 63-97a-301;
- 142 (ii) appropriations from the Legislature;
- 143 (iii) grants from private foundations; and
- 144 (iv) interest and investment earnings on account monies.

145 (2) (a) The Infrastructure and Economic Diversification Investment Account shall earn  
146 interest.

147 (b) All interest earned on monies in the Infrastructure and Economic Diversification  
148 Investment Account shall be deposited into the Infrastructure and Economic Diversification  
149 Investment Account.

150 (3) The Legislature may appropriate monies from the Infrastructure and Economic  
151 Diversification Investment Account for infrastructure and economic diversification investment  
152 projects.

153 Section 8. Section **63-97a-202** is enacted to read:

154 **63-97a-202. Creation of Severance Tax Holding Account.**

155 (1) (a) There is created a restricted account within the General Fund known as the  
156 "Severance Tax Holding Account."

157 (b) The Severance Tax Holding Account shall consist of:

158 (i) all monies credited to the Severance Tax Holding Account under Section  
159 63-97a-301;

160 (ii) appropriations from the Legislature;

161 (iii) grants from private foundations; and

162 (iv) interest and investment earnings on Severance Tax Holding Account monies.

163 (2) (a) The Severance Tax Holding Account shall earn interest.

164 (b) All interest earned on monies in the Severance Tax Holding Account shall be  
165 deposited into the Severance Tax Holding Account.

166 (3) If authorized by law the Division of Finance shall deposit all of the monies in the  
167 Severance Tax Holding Account as of July 1, 2009, into the permanent state trust fund.

168 Section 9. Section **63-97a-301** is enacted to read:

169 **Part 3. Distribution of Certain Severance Tax Revenues**

170 **63-97a-301. Crediting of certain severance tax revenues to the permanent state**  
171 **trust fund and the Severance Tax Holding Account.**

172 (1) After making the distributions of oil and gas severance tax revenues as required  
173 under Sections 59-5-116 and 59-5-119, the Division of Finance shall make the distributions  
174 required under Subsections (2) through (7).

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

179 (b) (i) Beginning on July 1, 2008 and ending on December 31, 2008, the Division of  
180 Finance shall credit to the Severance Tax Holding Account all revenue from severance taxes on

181 oil and gas imposed under Title 59, Chapter 5, Severance Tax on Oil, Gas, and Mining,  
182 collected during that time period that exceed the oil and gas base amount.

183 (ii) Beginning on January 1, 2009 and ending on June 30, 2009, if authorized by law,  
184 the Division of Finance shall credit to the permanent state trust fund an amount equal to the  
185 difference between:

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

189 (B) the amount of revenue credited to the Severance Tax Holding Account under  
190 Subsection (2)(b)(i).

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

195 (4) (a) Beginning on July 1, 2007 and ending on June 30, 2008, the Division of Finance  
196 shall credit to the Severance Tax Holding Account all revenue from severance taxes on mining  
197 imposed under Title 59, Chapter 5, Severance Tax on Oil, Gas, and Mining, collected in that  
198 fiscal year that exceed the mining base amount.

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

203 (ii) Beginning on January 1, 2009 and ending on June 30, 2009, if authorized by law,  
204 the Division of Finance shall credit to the permanent state trust fund an amount equal to the  
205 difference between:

206 (A) all revenue from severance taxes on mining imposed under Title 59, Chapter 5,  
207 Severance Tax on Oil, Gas, and Mining, collected in fiscal year 2008-09 that exceed the  
208 mining base amount; and

209 (B) the amount of revenue credited to the Severance Tax Holding Account under  
210 Subsection (4)(b)(i).

211 (5) Beginning on July 1, 2009, if authorized by law, the Division of Finance shall

212 credit to the permanent state trust fund all revenue collected in a fiscal year from severance  
213 taxes on mining imposed under Title 59, Chapter 5, Severance Tax on Oil, Gas, and Mining,  
214 that exceed the mining base amount.

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

217 (7) (a) In accordance with Utah Constitution Article XXII, Section 4, the interest and  
218 dividends earned annually on revenue from severance taxes that are deposited into the  
219 permanent state trust fund shall be deposited in the General Fund.

220 (b) Interest and dividends earned on revenue from severance taxes that are deposited in  
221 the General Fund pursuant to Subsection (7)(a) shall be credited to the Infrastructure and  
222 Economic Diversification Investment Account created in Section 63-97a-201.

223 Section 10. **Effective date.**

224 This bill takes effect on July 1, 2007.



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**S.B. 18 2nd Sub. (Salmon) - Use of Severance Tax Revenues**

**Fiscal Note**

2007 General Session

State of Utah

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**State Impact**

It is estimated that enactment of this bill would reduce the General Fund by \$39,600,000 annually. There will be a corresponding increase in the restricted revenues.

	<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	(\$39,600,000)	(\$39,600,000)
Restricted Funds	\$0	\$0	\$0	\$0	\$39,600,000	\$39,600,000
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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**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.

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