

# 2019 Biennial Report Direct Distribution

Local Government Energy and Mineral Impact Assistance Program  
January 1, 2020



**COLORADO**  
**Department of Local Affairs**

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## **Executive Summary**

This biennial report evaluates the effectiveness of the allocation and distribution of moneys from the Local Government Severance Tax Fund to counties and municipalities impacted by mineral and mineral fuel development. The report is submitted to the General Assembly pursuant to C.R.S. 39-29-110(1)(c)(VI). The report also evaluates the direct distribution of federal mineral lease (FML) moneys from the Local Government Mineral Impact Fund.

The statutory Severance Tax and Federal Mineral Lease direct distribution formulas help provide an equitable system for allocating money to communities socially or economically impacted by energy and mineral development, processing or energy conversion of minerals and mineral fuels. The combination of various measures of impact and their respective weightings help distribute Severance Tax and Federal Mineral Lease revenue to the communities experiencing various types of industry impacts. As illustrated by the maps of the factors and the distributions detailed in this report, communities in significantly impacted areas are receiving the greatest proportion of the distribution. The Department does not recommend legislative changes to the Direct Distributions at this time.

## **Background**

### **Severance Tax Direct Distribution**

The formulaic distribution of State Severance Tax considers several impact measure factors, including employee residence, mining and well permits, mineral production, population, and road miles. The moneys are first allocated by factor into “county pools” and these pools are then distributed to the municipalities and the county government within each county. For an illustration of the severance tax direct distribution formula, see [Exhibit A](#).

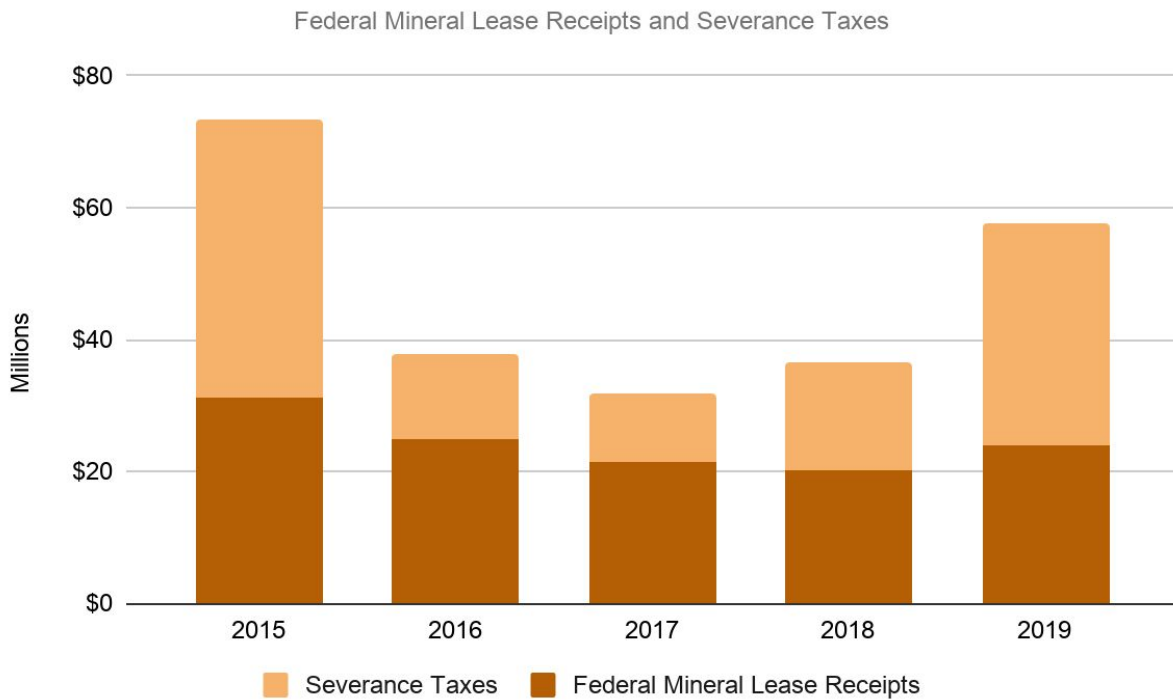
### **Federal Mineral Lease Receipts Direct Distribution**

The Department administers two direct distributions of Federal Mineral Lease (FML) revenue: one distribution to counties (or Federal Mineral Lease districts where created by a county) and municipalities, and one distribution to school districts. Revenue generated under the Federal Mineral Leasing Act within each county, employee residence, population, road miles and pupil count determine the distribution to counties, municipalities, school districts and Federal Mineral Lease districts. Like the Severance Tax Distribution, the moneys are first allocated into county pools and then distributed to the entities therein. For an illustration of the federal mineral lease direct distribution formula, see [Exhibit A](#).

### **Distribution Trends**

Increased oil production and reduced ad valorem credits contributed to increased State Severance Tax distribution amounts for the two distribution years.

The distribution amounts of Federal Mineral Lease revenue are from rents and royalties paid on leased federal lands. While generally less volatile than State Severance Tax revenue, the FML distribution amounts are also influenced by changes in energy prices and production activity.



### Severance Tax Direct Distribution

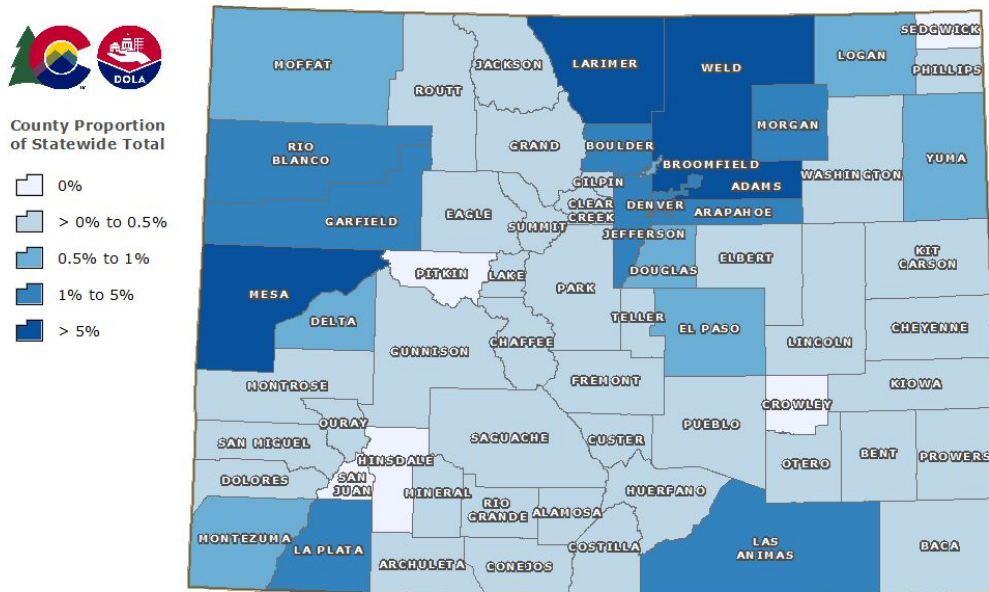
Thirty percent of the Severance Tax revenue credited to the Local Government Severance Tax Fund from July 1, 2017 to June 30, 2018 resulted in the total distribution of \$16,224,834.62 to 333 counties and municipalities. For the 2019 state fiscal year, the Department distributed \$33,711,412.76 to 328 counties and municipalities. See [Exhibit B](#) for county pools and distribution amounts to counties and municipalities for 2018 and 2019.

Moneys were first allocated into county pools based on each county’s proportion of industry employee residence, mining and well permits, and mineral production compared to the totals statewide. CRS 39-29-110(1)(c)(II)(B) directs each factor to be weighed at 30% and the Executive Director, in consultation with the Energy Impact Assistance Advisory Committee, determines the assignment of the remaining 10%. The county pool factors were weighed in 2018 and 2019 as follows:

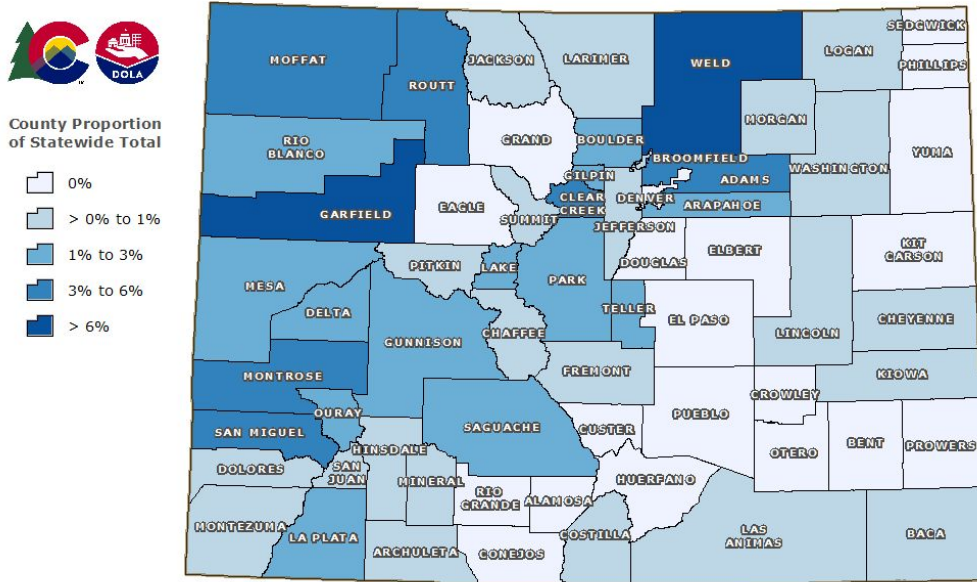
County Pool Factor	2018	2019
Colorado Employee Residence Reports	40%	40%
Mining and Well Permits	30%	30%
Mineral Production	30%	30%

The following three maps illustrate county proportion of each factor for the 2019 direct distribution of Severance Tax.

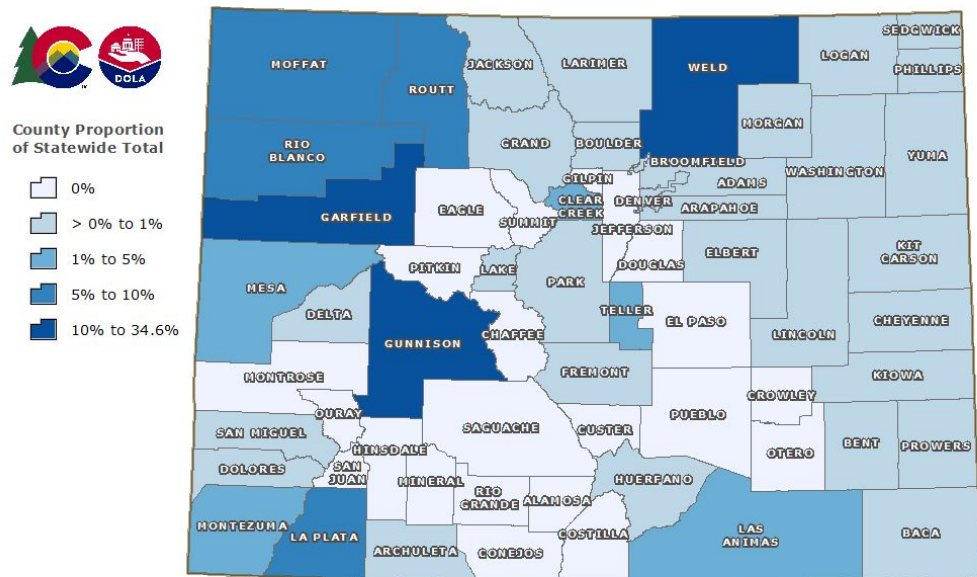
### 2019 Severance Tax Direct Distribution Colorado Employee Residence Report Index



## 2019 Severance Tax Direct Distribution Mining and Well Permits Index



## 2019 Severance Tax Direct Distribution Production Index



The Department distributed each county pool amount to the county government and each municipality therein based on the unincorporated and municipal proportions of employee residence, population, and road miles compared to the total in the county. Statute directs the Executive Director, in consultation with the Energy and Mineral Impact Advisory Committee, to set the weights of these factors statewide. The Executive Director set the factor weights as follows:

<b>Subcounty Pool Factor</b>	<b>2018</b>	<b>2019</b>
Colorado Employee Residence Reports	33%	33%
Population	34%	34%
Road Miles	33%	33%

The Executive Director may accept a memorandum of understanding (MOU) from the county and all municipalities therein requesting an alternative distribution and/or factor weights for distribution of a county pool. The Department did not receive any MOUs for the 2018 and 2019 distributions and the above weights determined all county pool allocations.

Additional information about the Severance Tax Distribution process and the Direct Distribution Guidelines is available on the Department’s website.

## **Federal Mineral Lease Receipts Direct Distribution**

### **County and Municipal Direct Distribution**

Fifty percent of the Federal Mineral Lease (FML) revenue credited to the Local Government Mineral Impact Fund during FY2018 resulted in the total distribution of \$18,709,884.29 to 329 counties (or federal mineral lease districts) and municipalities. For FY2019 the Department distributed \$22,183,435.70 to 323 entities. See [Exhibit C](#) for the 2018 and 2019 county pools and distribution amounts.

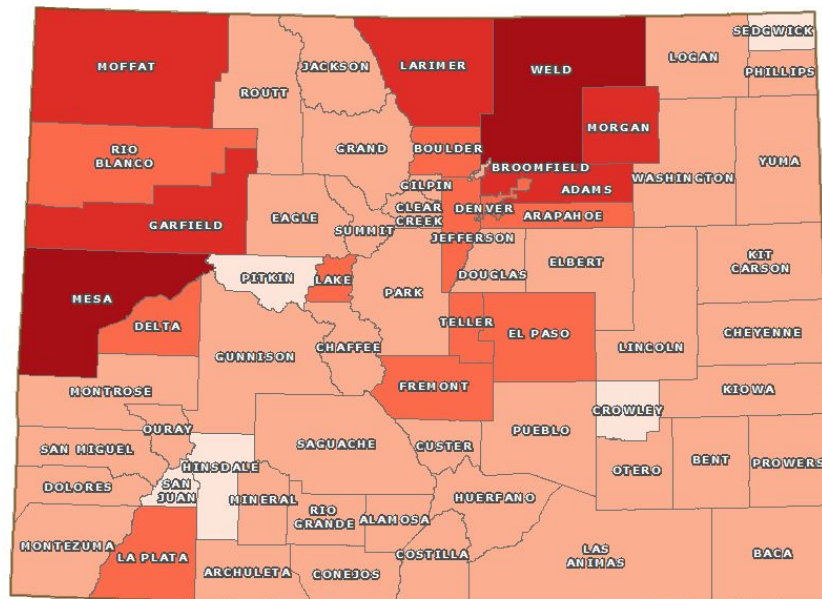
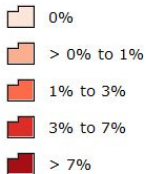
Moneys were first allocated into county pools based on each county’s proportion of employee residence and federal mineral lease revenue generated compared to the total generated statewide. CRS 34-63-102(5.4)(c)(III) specifies the Employee Residence Report factor cannot be weighted more than 35%. The county pool factors were established by the Executive Director, in consultation with the Energy and Mineral Impact Advisory Committee as follows:

<b>County Pool Factor</b>	<b>2018</b>	<b>2019</b>
Colorado Employee Residence Reports	35%	35%
FML Revenue Generated	65%	65%

## 2019 Federal Mineral Lease Direct Distribution Colorado Employee Residence Report Index



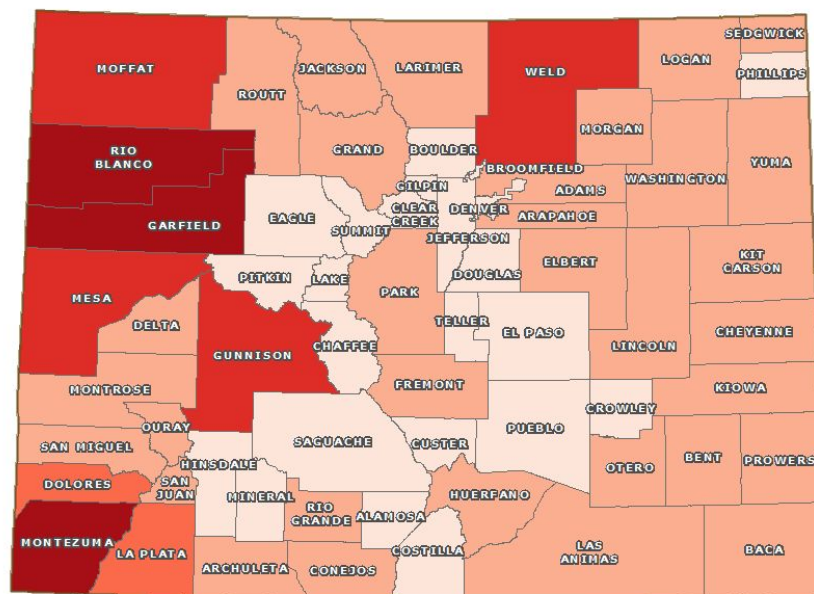
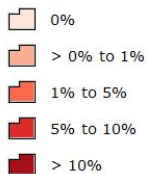
County Proportion of Statewide Total



## 2019 Federal Mineral Lease Revenue Generated by County



County Proportion of Statewide Total





The Department distributes each county pool to the county government and each municipality therein based on the unincorporated and municipal proportion of employee residence, population, and road miles compared to the total in the county. Statute directs the Executive Director, in consultation with the Energy and Mineral Impact Advisory Committee, to establish weights of these factors statewide. The Executive Director set the factor weights as follows:

<b>Subcounty Pool Factor</b>	<b>2018</b>	<b>2019</b>
Colorado Employee Residence Reports	33%	33%
Population	34%	34%
Road Miles	33%	33%

Like the Severance Tax distribution, the Executive Director may accept an MOU from the county and all municipalities therein requesting an alternative FML distribution and/or factor weights for the subcounty pool. The Department did not receive any MOUs for the 2018 or 2019 Federal Mineral Lease distributions.

Additional information about the FML distribution process and the Direct Distribution Guidelines is available on the Department’s website.

**Roan Plateau Lease Refund**

A November 2014 settlement of a federal lawsuit regarding leases on the Roan Plateau resulted in the cancellation of several Federal mineral extraction leases. The recoupment of the leaseholders’ “bonus” payments caused withholding of FML revenue to Colorado during FY15-16, FY16-17, FY17-18. The General Assembly enacted SB15-244 to backfill these withheld funds and held the FY18 Direct Distributions harmless.

**Federal Mineral Lease Districts**

Counties may choose to create a Federal Mineral Lease District for the purpose of re-directing FML payments in an effort to maximize the amount of PILT funding counties receive from the U.S. Department of Interior. The payment otherwise calculated for the county government is directed to its Federal Mineral Lease District. Five counties had a Federal Mineral Lease District for the FY18 and FY19 Direct Distributions.

<b>2018 and 2019 FML Districts</b>
Garfield County Federal Mineral Lease Act District
Huerfano County Federal Mineral Lease District

Mesa County Federal Mineral Lease District
Park County Federal Mineral Lease District
Weld County Federal Mineral Lease Act District

Payment details contained in [Exhibit C](#) include the amounts distributed to these districts.

### **School District Direct Distributions**

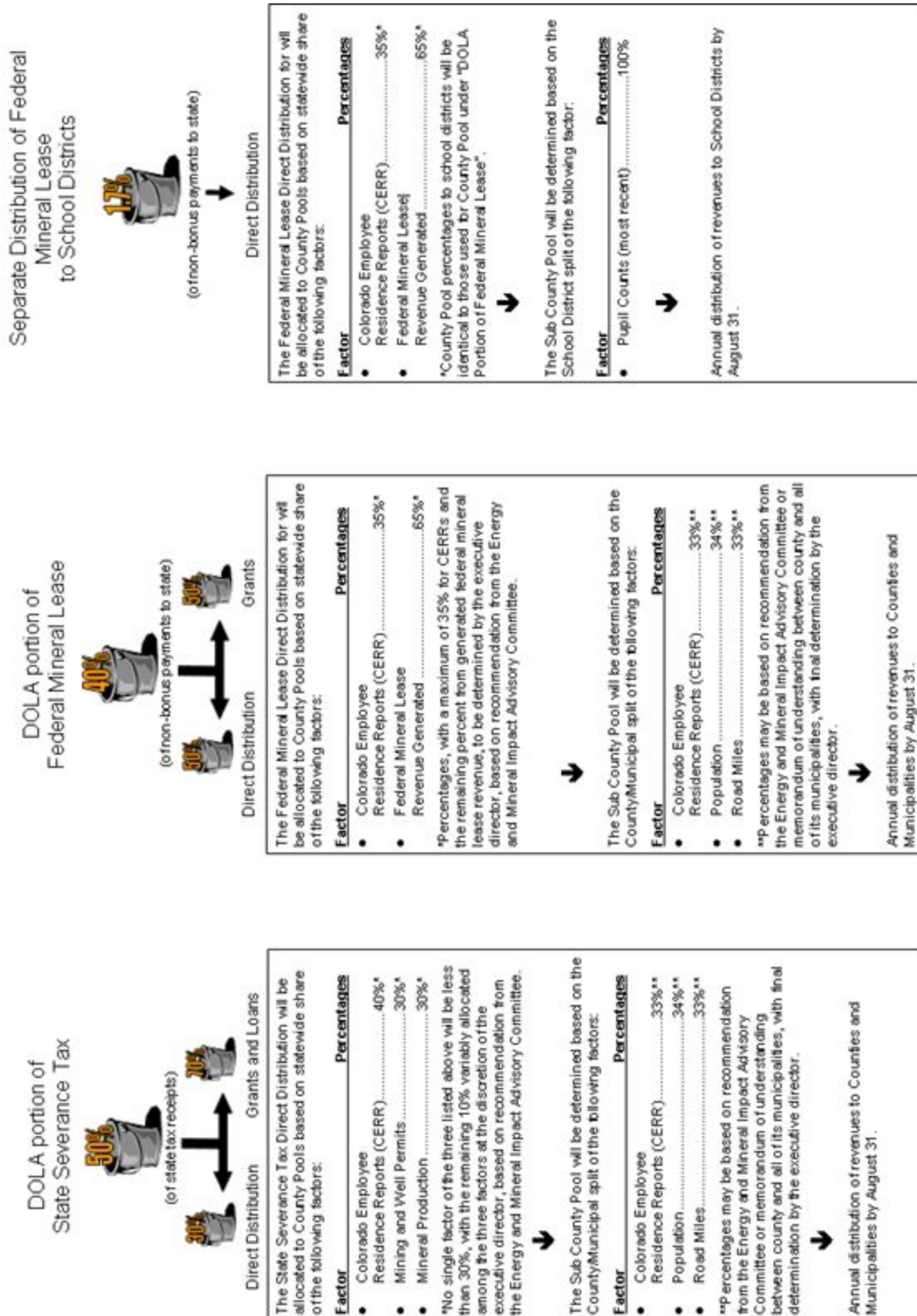
The school district FML distribution occurs in a similar fashion to the county/municipal distribution. Statute directs the Department to calculate county pools based on the same weights set by the Executive Director for the FML county/municipal distribution. Each county pool is then distributed based on the proportion of each school district’s pupil count to the total county pupil count. See [Exhibit A](#) for an illustration of the school district direct distribution.

The total distribution to school districts for 2018 was \$1,590,340.46 to 176 school districts. The Department distributed \$1,887,260.74 to 176 school districts in 2019. See [Exhibit D](#) for details on the 2014 and 2015 payments to school districts.

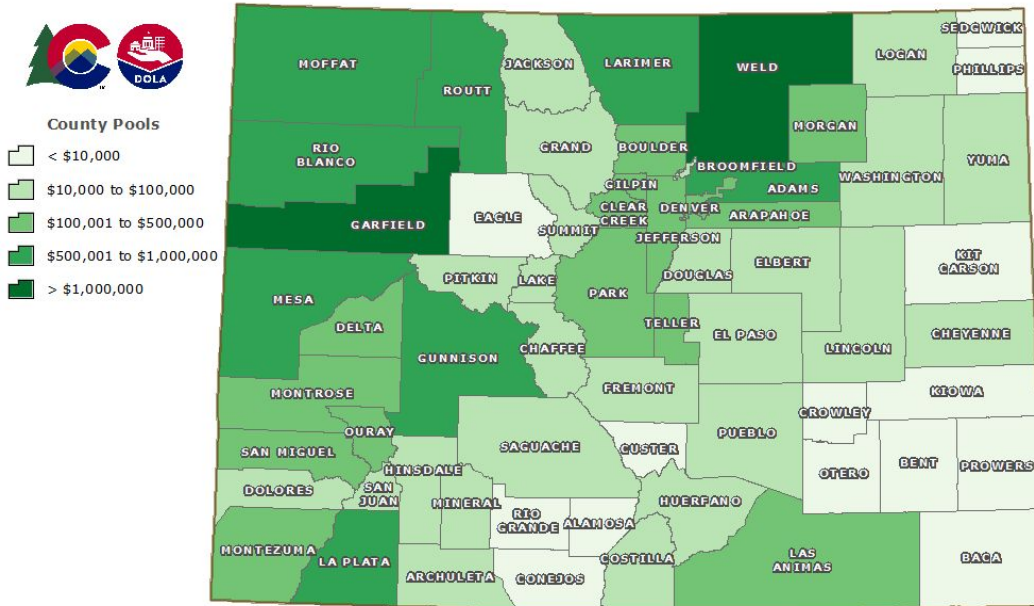
### **Evaluation of Effectiveness**

The Department does not propose legislative changes to the Direct Distributions at this time. Both the Severance Tax and Federal Mineral Lease statutory formulas allow for flexibility on a year-by-year basis for the continued pursuit of effective distribution. The Executive Director, in consultation with the Energy and Mineral Impact Advisory Committee, has authority to adjust the weights of the factors in the formula each year. The Department continually evaluates these factors and solicits feedback from the Advisory Committee, and local government recipients.

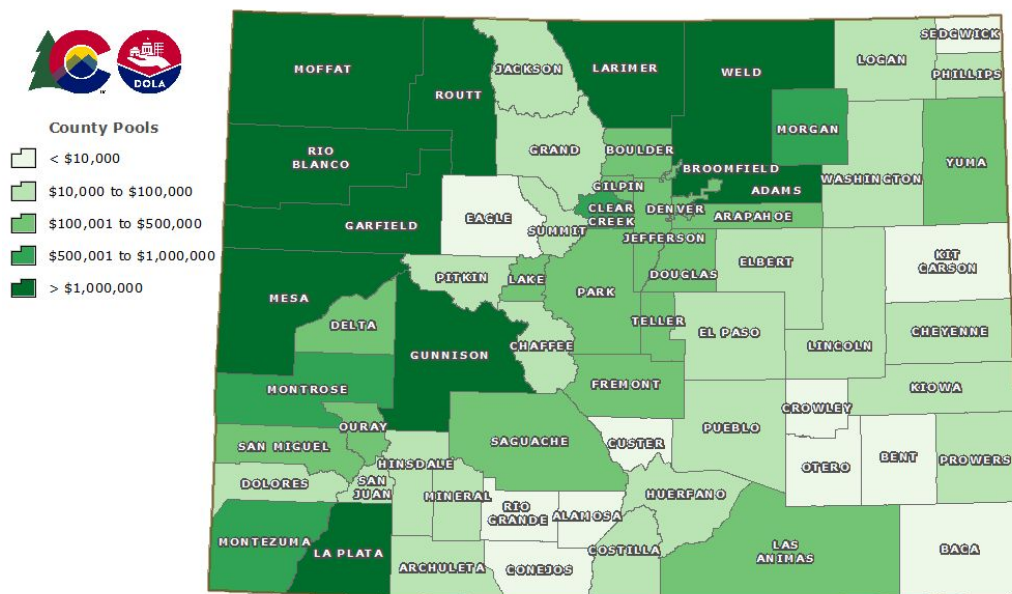
Exhibit A: Illustration of 2018 and 2019 Direct Distribution Formulas



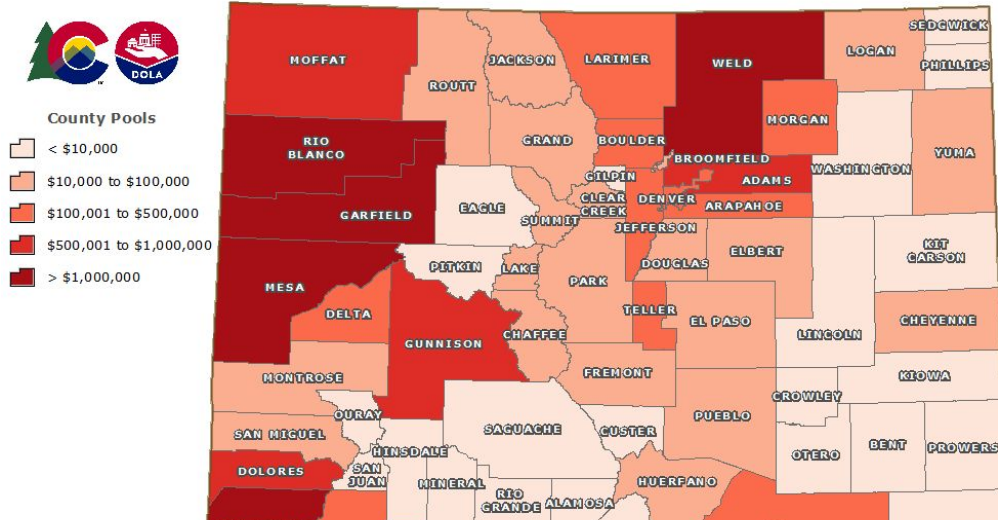
## 2018 Severance Tax Direct Distribution County Pool Allocations



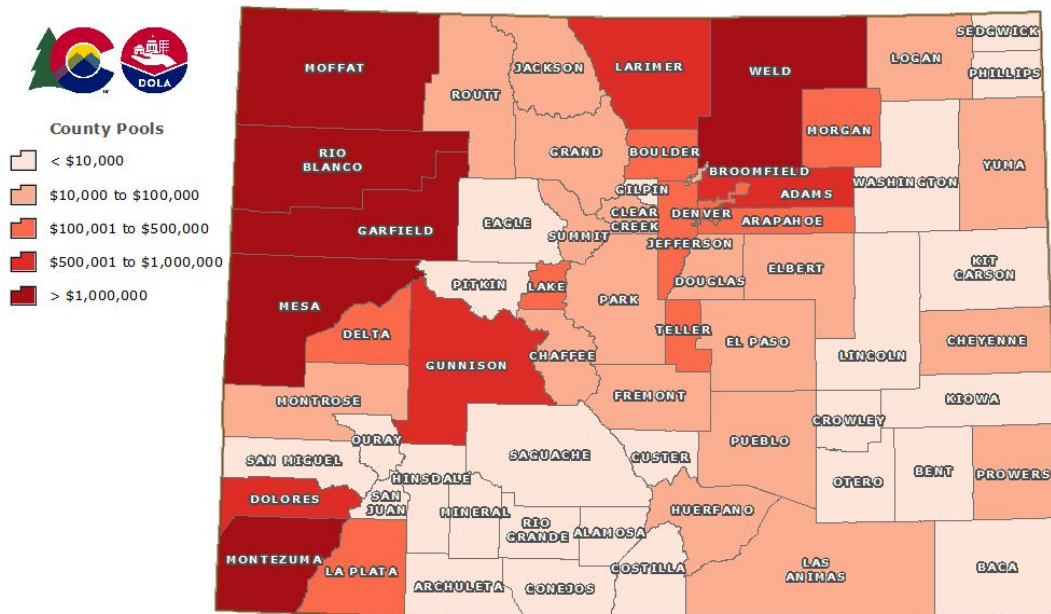
## 2019 Severance Tax Direct Distribution County Pool Allocations



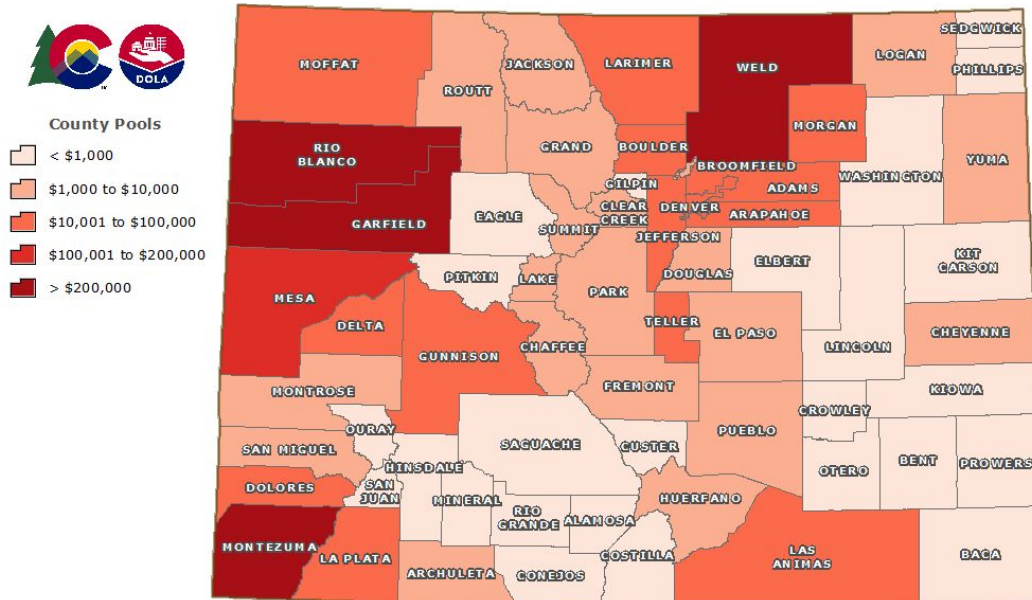
## 2018 Federal Mineral Lease Direct Distribution County Pool Allocations



## 2019 Federal Mineral Lease Direct Distribution County Pool Allocations



## 2018 Federal Mineral Lease Direct Distribution School District County Pool Allocations



## 2019 Federal Mineral Lease Direct Distribution School District County Pool Allocations

