

**FEDERAL MINERAL LEASE AND
STATE SEVERANCE TAX
DIRECT DISTRIBUTION
PROGRAM GUIDELINES**

April 2009



**STATE OF COLORADO
DEPARTMENT OF LOCAL AFFAIRS**

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Program guidelines and direct distribution information are available on the Department of Local Affairs web page at <http://www.dola.colorado.gov/dlg/fa/eiaf/distributions.html>

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STATE SEVERANCE TAX DIRECT DISTRIBUTION

Overview. Prior to August 2008, severance tax funds were distributed to counties and municipalities based on the count of residents employed in mineral extraction. House Bill 08-1083 established the additional factors of mining and well permits, mineral production, population and road miles to determine how direct distribution funds are allocated to municipalities and counties. The changes as a result of House Bill 08-1083 will first become effective for the August 2009 direct distribution. The statutory deadline for the Department of Local Affairs to distribute severance tax funds to local governments is August 31st of each year.

Local Government Severance Tax Fund. Fifty percent of the State's receipts from the severance tax on minerals and mineral fuels are credited to the Local Government Severance Tax Fund (C.R.S. 39-29-108(2)). Under C.R.S. 39-29-110(1)(b), the Department of Local Affairs is directed to allocate 70% of these funds to local governments through discretionary grants and loans under the Energy and Mineral Impact Assistance Program. The remaining 30% is distributed directly to municipalities and counties economically and socially impacted by mineral production based on certain measurable factors determined by the General Assembly. Local governments shall use direct distribution funds from the local government severance tax fund for capital expenses and provision of services (C.R.S. 39-29-110(1)(c)(V)).

County Allocation. Three factors determine the allocation of severance tax revenue to each county pool for further distribution (C.R.S. 39-29-110(1)(c)(I)).

- 1) The proportion of residents in the county employed in mines, crude oil, natural gas, or oil and gas operations as reported in Colorado Employee Residence Reports to the total employed statewide.
- 2) The proportion of mine and well permits issued in a county to the total issued in the state.
- 3) The proportion of mineral production within a county to the total production in the state.

Factor Weightings for County Allocation. Statute requires that for fiscal year 2008-9, or the direct distribution occurring August 2009, county data from the Colorado Employee Residence Reports are weighted 50%, mining and well permits are weighted 25% and mineral production is weighted 25%. For fiscal years 2010 and thereafter, statute directs each of the above three factors be weighted 30%. The Executive Director of the Department of Local Affairs, in consultation with the Energy Impact Assistance Advisory Committee, "shall establish guidelines that set forth the factor or factors under which the remaining ten percent shall be weighted" (C.R.S. 39-29-110(1)(c)(II)(B)). By June 1st, the Energy Impact Assistance Advisory Committee in 2010 and each year thereafter, the committee will consider the factor or factors for this discretionary weighting and make a recommendation to the Executive Director.

Subcounty Distribution. Once the Severance Tax direct distribution funds are divided into county pools, they are then distributed to the county government and the municipalities contained therein. Statute directs the Department of Local Affairs to distribute each county pool based on three factors (C.R.S. 39-29-110(1)(c)(III)).

- 1) The proportion of residents in unincorporated areas or municipalities employed in

- mines, crude oil, natural gas, or oil and gas operations as reported in Colorado Employee Residence Reports to the total employee residents in the county.
- 2) The proportion of the population of unincorporated areas or municipalities to the total county population.
 - 3) The proportion of road miles in unincorporated areas or municipalities to the total road miles in the county.

Factor Weightings for Subcounty Distribution. For the allocation of each county pool to municipalities and counties, statute requires the Executive Director of the Department of Local Affairs to consult with the Energy and Mineral Impact Assistance Advisory Committee to determine how the employee residence report, population and road mile factors are weighted. The Executive Director, in consultation with the Energy and Mineral Impact Assistance Advisory Committee, will determine factor weightings by June 1st of each year. After consultation with the Energy and Mineral Impact Advisory Committee, the Executive Director has set a weight of 34% for population, 33% for Colorado Employee Residence Reports and 33% for road miles for the August 2009 direct distribution.

Alternative Subcounty Distributions. The subcounty factor weightings determined by the Executive Director shall be uniform across the state, except that C.R.S. 39-29-110(1)(c)(IV) allows for two instances for an alternative subcounty distribution.

- 1) Memorandum of Understanding. The Executive Director may accept a memorandum of understanding (MOU) between a county and all of the municipalities contained therein directing an alternative distribution of the county pool. Any MOU from a county government and all municipalities therein must be presented to the Executive Director for review by June 30th preceding each August direct distribution. Therefore, an MOU in effect for multiple years must be annually signed and submitted to the Executive Director. Each MOU shall be signed by the chief elected official of each local government. The Energy and Mineral Impact Assistance Advisory Committee at the regularly scheduled July meeting will review any MOUs submitted and make a recommendation to the Executive Director. Any MOU shall prescribe one of the following:
 - a. An alternate weighting of the three factors: Colorado Employee Residence Reports, population and road miles, or;
 - b. Specific percentages of the county pool to be allocated among each municipality and the county, as established by a locally defined method.
- 2) Executive Director Alternative Distribution. After consultation with the Energy and Mineral Impact Assistance Advisory Committee, the Executive Director of the Department of Local Affairs may establish an alternative weighting of the employee, population and road miles factors for a specific county pool, “in order to more fairly distribute the gross receipts among the county and all municipalities contained therein” (C.R.S. 39-29-110(1)(c)(IV)(B)). The Executive Director will set any alternative distribution weightings prior to the August 31st distribution.

FEDERAL MINERAL LEASE DIRECT DISTRIBUTION – MUNICIPALITIES AND COUNTIES

Overview. Under the Federal Mineral Leasing Act, approximately 49% of those rentals and

royalties from mineral production on federal lands are returned back to the state of origin for planning, construction and maintenance of public facilities in areas socially and economically impacted by the mineral leasing development that occurs on federal lands. The General Assembly has determined that a portion the state's share of these federal royalty payments are to be directly distributed back to those counties, municipalities and school districts impacted by mineral production on federal lands. Under Senate Bill 08-218, the General Assembly established that certain measurable criteria quantify the impacts of mineral leasing development, and directs the Department of Local Affairs to use these factors to annually allocate federal mineral lease revenues to local governments. Changes as a result of Senate Bill 08-218 will first become effective for the August 2009 direct distribution. The annual distribution of federal mineral lease revenue shall occur by August 31st.

County Allocation. Two factors determine the allocation of federal mineral lease revenue to each county pool for further distribution (C.R.S. 34-63-102(5.4)(c)(I)).

- 1) The proportion of residents in the county employed in mineral extraction as reported in Colorado Employee Residence Reports to the total employed statewide.
- 2) The proportion of the moneys credited to the mineral leasing fund generated in the county to the total generated statewide.

Factor Weightings for County Allocation. For the county pool allocation, statute requires the Executive Director to establish guidelines to determine the weighting of the employee residence report and federal mineral lease revenue generated factors, but gives discretion provided that the employee residence report factor is not weighted more than 35%. Statute also requires that these guidelines weigh the employee residence report and federal mineral lease revenue generated factors "in a manner that most accurately estimates the absolute and relative impacts of production of energy resources on federal lands". The Executive Director, in consultation with the Energy and Mineral Impact Assistance Advisory Committee, will determine factor weightings by June 1st of each year. After consultation with the Energy and Mineral Impact Advisory Committee, the Executive Director has set a weight of 35% for Colorado Employee Residence Reports and 65% for the county proportion of federal mineral lease revenue generated for the August 2009 direct distribution.

Subcounty Distribution. Once the county pool allocation of federal mineral lease revenue is determined by the Department of Local Affairs using statutory criteria, the General Assembly has established a process to determine how the county pools are distributed to counties and municipalities. Three factors determine the sub-county allocation to each municipality and the county government (C.R.S. 34-63-102(5.4)(c)(II)).

- 1) The proportion of residents in the unincorporated areas or municipalities employed in mineral extraction to the total employed in the county.
- 2) The proportion of the population of unincorporated areas or municipalities to the total county population.
- 3) The proportion of road miles in unincorporated areas or municipalities to the total road miles in the county.

Factor Weightings for Subcounty Distribution. For the subcounty pool distribution, statute requires the Executive Director of the Department of Local Affairs to consult with the Energy

and Mineral Impact Assistance Advisory Committee to determine how the employee residence report, population and road mile factors are weighted “in a manner that most accurately estimates the absolute and relative impacts of production of energy resources on federal lands”. The Executive Director, in consultation with the Energy and Mineral Impact Assistance Advisory Committee, will determine factor weightings by June 1st of each year. After consultation with the Energy and Mineral Impact Advisory Committee, the Executive Director has set a weight of 34% for population, 33% for Colorado Employee Residence Reports and 33% for road miles for the August 2009 direct distribution.

Alternative Subcounty Distributions. The sub county factor weightings determined by the Executive Director shall be uniform across the state, except that C.R.S. 34-63-102(5.4)(c)(IV) allows for two instances for an alternative subcounty distribution.

- 1) Memorandum of Understanding. The Executive Director may accept a memorandum of understanding between a county and all of the municipalities contained therein agreeing to an alternative distribution of the county pool. Any MOU from a county government and all municipalities therein must be presented to the Executive Director for review by June 30th preceding each August direct distribution. Therefore, an MOU in effect for multiple years must be presented to the Executive Director annually. Each MOU shall be signed by the chief elected official of each local government. The Energy and Mineral Impact Assistance Advisory Committee at the regularly scheduled July meeting will review any MOUs submitted and make a recommendation to the Executive Director. Any MOU shall prescribe one of the following:
 - a. An alternate weighting of the three factors: Colorado Employee Residence Reports, population and road miles, or;
 - b. Specific percentages of the county pool to be allocated among each municipality and the county, as established by a locally defined formula.
- 2) Executive Director Alternative Allocation. After consultation with the Energy and Mineral Impact Assistance Advisory Committee, the Executive Director of the Department of Local Affairs may establish an alternative weighting of the employee, population and road miles factors for a specific county pool, “in order to more fairly distribute the gross receipts among the county and all municipalities contained therein” (C.R.S. 34-63-102(5.4)(c)(IV)(B)). The Executive Director will set any alternative distribution weightings prior to the August 31st distribution.

FEDERAL MINERAL LEASE DIRECT DISTRIBUTION – SCHOOL DISTRICTS

Senate Bill 08-218 (C.R.S. 34-63-102(5.4)(e)) directs that beginning with the 2008-09 fiscal year, or for the August 2009 direct distribution, the Department of Local Affairs shall annually distribute 1.7% of the federal mineral lease revenue, up to a maximum of \$3,300,000, credited to the Mineral Leasing Fund to school districts. Beginning in the 2009-2010 fiscal year, the \$3,300,000 cap inflates at 4% per year. The statute directs the Executive Director of the Department of Local Affairs to distribute to school districts at the same time as the annual federal mineral lease distributions to counties, by August 31st.

County Allocation. Pursuant to C.R.S. 34-63-102 (5.4)(e)(III), the allocation of county pools for the school district allocation shall be determined in the same proportion as the county pools for the municipality and county federal mineral lease allocation. Therefore, the county pools for the school district distributions are determined based on the same two factors and weightings.

- 1) The proportion of residents in the county employed in mineral extraction as reported in Colorado Employee Residence Reports to the total employed statewide. (C.R.S. 34-63-102(5.4)(c)(I)(B))
- 2) The proportion of the total federal mineral lease revenue generated in the state determine the allocation of moneys for each county allocation. (C.R.S. 34-63-102(5.4)(c)(I)(A))

After consultation with the Energy and Mineral Impact Advisory Committee, the Executive Director has set a weight of 35% for Colorado Employee Residence Reports and 65% for the county proportion of federal mineral lease revenue generated for the August 2009 direct distribution.

Subcounty Distribution. In the event of more than one school district in a county, “the distribution to each school district shall be the percentage that the most recent funded pupil count. . .bears to the most recent total funded pupil count for all pupils attributable to the county”. (C.R.S. 34-63-102 (5.4)(e)(III))

DIRECT DISTRIBUTION FACTORS

Colorado Employee Residence Reports. Both federal mineral lease and severance tax direct distributions use a count of municipal and county residents employed in mineral extraction as one of the factors to determine the allocations to and within counties. For both distributions, the county pools are, in part, determined by the number of employees residing in the county as a proportion of the total number in the state. Similarly, both severance tax and federal mineral lease distributions use the proportion of employees reported in a municipality or unincorporated area as a proportion of the total number residing in the county to determine the subcounty distribution. For the Severance Tax distribution, statute directs the Department of Local Affairs to require certain reporting parties registering exemptions, reporting withholds of income or filing declarations under the Severance Tax statute to annually report the municipal or unincorporated county residences of employees. The Department of Revenue provides a list of these reporting parties to the Department of Local Affairs pursuant to a 2009 memorandum of understanding and House Bill 09-1148. The employee residence reporting by these parties is required pursuant to C.R.S. 39-29-110(1)(d)(I). For the federal mineral lease direct distribution in C.R.S. 34-63-102, statute directs the Department of Local Affairs to use the same employee residence count determined through the employee residence reporting process in the severance tax statute. The Colorado Employee Residence Report has a statutory due date of April 30th of each year.

Reporting Process. The Colorado Employee Residence Reports are delivered to reporting parties in December of each year. Reporting parties are statutorily required to file their form by April 30th. Electronic filing is available directly to DOLA via an on-

line process or by mail or fax.

Penalties. Pursuant to C.R.S. 39-29-110(1)(d)(II)(C), in the event of failure of reporting party filing, DOLA shall send each party written notice of failure to file a Colorado Employee Residence Report. If the party fails to file the report forty-five days after this notice, DOLA shall assess a penalty fee of \$50 per day to those reporting parties who fail to file. Collected penalty fees and interest will be added to the severance tax direct distribution funds the following year.

Mineral Production Employee Residence Report Oversight Committee. To help assure accuracy of the employee residence reporting process and transparency among local government recipients of direct distribution payments, the Department has established the Mineral Production Employee Residence Report Oversight Committee (Oversight Committee). The committee advises the Executive Director and staff on the employee residence reporting process and local government challenges to employee residences submitted by reporting parties. The committee holds its annual meeting during July of each year and shall meet at such other times as the committee or Executive Director of the Department of Local Affairs determine. Appeals of employee residences reported or report amendments must be submitted to the Department of Local Affairs by June 1 of each year for consideration by the committee. The committee membership consists of:

1. Three county members, with at least one from each side of the Continental Divide, appointed by Colorado Counties, Inc.;
2. Three municipal members, with at least one from each side of the Continental Divide, appointed by the Colorado Municipal League;
3. One member representing the mining industry, appointed by the Colorado Mining Association;
4. One member representing the oil and gas industry, appointed by the Colorado Oil and Gas Association;
5. One member representing the Department of Local Affairs, consisting of either the Executive Director or the Executive Director's designee, who shall serve as chairman and who shall call and conduct meetings of the committee.

Members other than the Executive Director of the Department of Local Affairs shall serve for three year terms. The terms for initial appointments to municipal and county positions may be staggered to provide committee continuity. Initial appointments and committee membership were in May 2006.

Local Government Review and Appeals. As the Department of Local Affairs receives Colorado Employee Residence Reports submitted by reporting parties, they are emailed to local governments on a weekly basis. Local governments are encouraged to review the forms based upon their knowledge of industry employees residing in their jurisdiction.

Challenges must be submitted to DOLA by June 1, in order for the Oversight Committee to review, and must include supporting documentation, such as appropriate maps, property tax records, or letters of agreement from both the county and the municipality. Once all potential changes are collected and reviewed, the Oversight Committee will convene and review the data and “cure” such inaccuracies as can be determined.

County of Origin Federal Mineral Lease Revenue. Statute directs the Department of Local Affairs to allocate federal mineral lease revenue to county pools in part based on “the proportion of the total amount of moneys credited to the mineral leasing fund that is derived from each of the respective counties”. Pursuant to a 2009 memorandum of understanding between the Department of Local Affairs and the State Treasurer, the State Treasurer provides the Department of Local Affairs with electronic data from the Mineral Management Service on a quarterly basis. The data include revenue deposited into the Colorado Mineral Leasing Fund and the county of origin of the revenue. The data are analyzed by the Department of Local Affairs staff on a quarterly basis and the fiscal year’s information is aggregated to determine this factor for each August distribution.

Mineral Production. Statute directs the Department of Local Affairs to allocate State severance tax revenue to county pools in part based on “the proportion of the overall quantity of mineral production within a county to the total overall quantity of production in the state”. Within the Department of Natural Resources, oil and gas production information by county is available from the Colorado Oil and Gas Conservation Commission, and coal production information by county is available from the Division of Reclamation Mining and Safety. Metals mining production assessment information is available from the Division of Property Taxation in the Department of Local Affairs. Because production data are only available in differing units of measure depending on the mineral type, the Department of Local Affairs staff, with consultation of the Executive Director and the Energy and Mineral Impact Assistance Advisory Committee, converts all types of production into a common index. For calculation of a production factor, the Department of Local Affairs uses the most recently available calendar year’s data available and provided by the Department of Natural Resources by the first week of July pursuant to a 2009 memorandum of understanding. Production assessment information for metals will be provided from the Division of Property Taxation for the most recently available tax collection year.

Mining and Well Permits. Statute directs the Department of Local Affairs to allocate severance tax revenue to county pools in part based on “the proportion of the mine and well permits issued in a county to the total number of such permits issued in the state”. The Colorado Department of Natural Resources has permit data available by county. Within the Department of Natural Resources, oil and gas permit figures from the Colorado Oil and Gas Conservation Commission and mine data are available from the Division of Reclamation Mining and Safety. Permit information for mines and wells is converted into a common index with consultation from the Executive Director and the Energy and Mineral Impact Assistance Advisory Committee. For calculation of a permit factor, the Department of Local Affairs uses the most recently available calendar year’s data available and provided by the Department of Natural Resources by the first week of July.

Population. Statute directs the Department of Local Affairs to allocate federal mineral lease and

severance tax revenue at the subcounty level in part based on population. For the direct distribution of both federal mineral lease (C.R.S. 34-63-102(5.4)(c)(II)(B)) and severance tax (C.R.S. 39-29-110(1)(c)(III)(B)) funds are in part allocated based on, “the proportion of the population in any such county’s unincorporated area or in any such municipality within the county to the total population in the county”. For this factor, the statute directs the Department of Local Affairs to use the population data “reported in the most recently published population estimate from the State Demographer appointed by the Executive Director of the Department of Local Affairs”. The State Demographer publishes the previous year’s population data by November annually. Therefore, the most recently published population estimates used for the August direct distribution will be the estimates published the previous November.

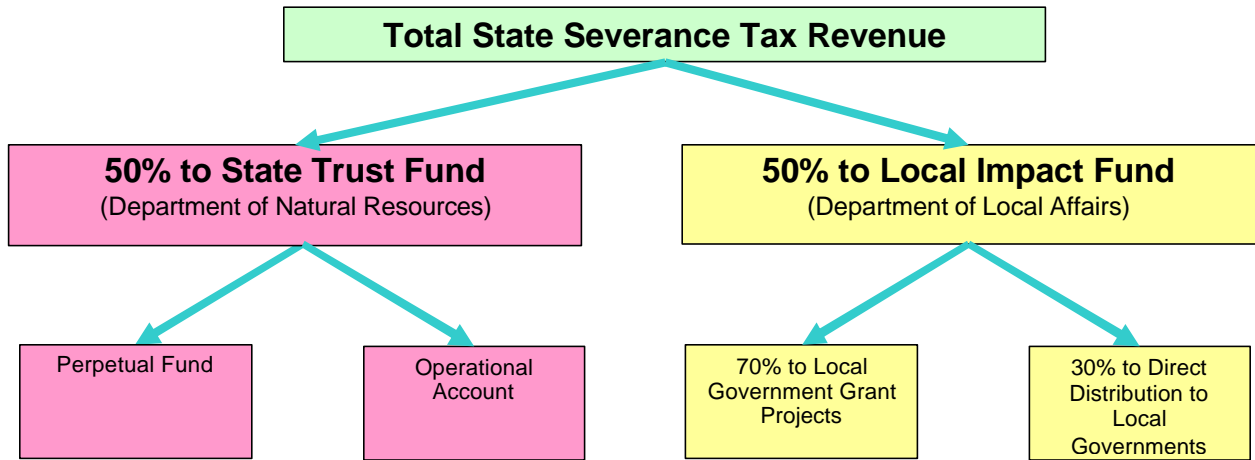
Road Miles. Statute directs the Department of Local Affairs to distribute Federal Mineral Lease and State Severance Tax revenue at the subcounty level in part based on road miles. For the direct distribution of both federal mineral lease (C.R.S. 34-63-102(5.4)(c)(II)(C)) and severance tax (C.R.S. 39-29-110(1)(c)(III)(C)), “the proportion of road miles in any such county’s unincorporated area or in any such municipality within the county to the total road miles in the county”. For this factor, statute directs the Department of Local Affairs to use the road mile data “certified by the Department of Transportation to the State Treasurer pursuant to Sections 43-4-207 (2) (d) and 43-4-208 (3), C.R.S.”. Pursuant to a memorandum of understanding between the Department of Local Affairs and the State Treasurer, the State Treasurer annually provides road miles to the Department of Local Affairs by August 10th.

Pupil Count. Statute directs the Department of Local Affairs to allocate federal mineral lease for school districts into county pools based on Colorado Employee Residence Report information and the county of origin of federal mineral lease revenue generate. The statute then directs the department to allocate funds to school districts within each county pool based on the most recent pupil count as determined by the Public School Finance Act of 1994, or C.R.S. 22-54-101, et seq. Pursuant to a 2009 memorandum of understanding between the Department of Local Affairs and the Department of Education, the Department of Education annually provides school district pupil counts by county to the Department of Local Affairs.

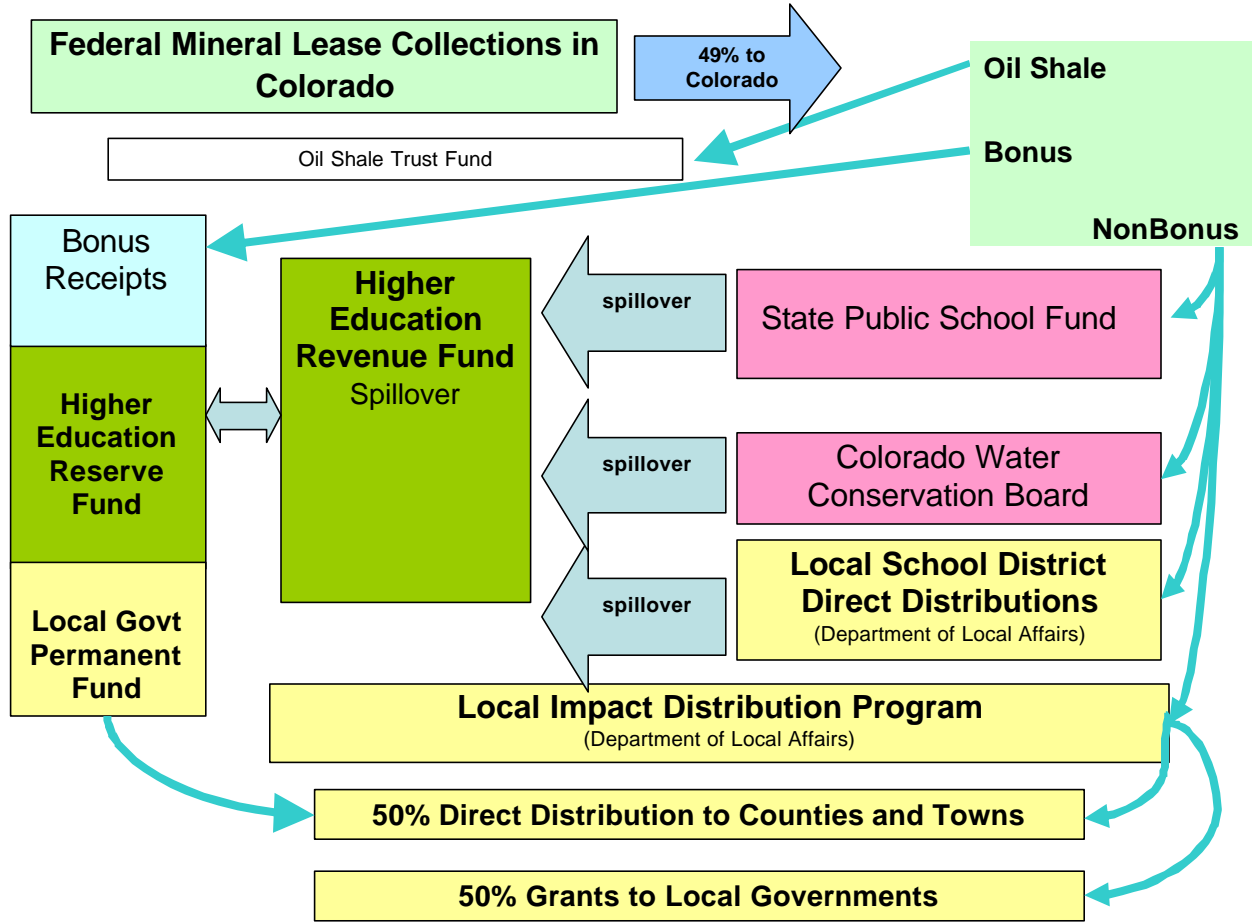
APPENDIX A - DIRECT DISTRIBUTION CALENDAR

Date	Action
December	DOLA mails Colorado Employee Residence Reports (CERR) to reporting parties.
January – June	DOLA receives/reviews/approves/inputs CERR data.
February 1	DOLA delivers to the state auditor and general assembly a detailed report accounting for the distribution of all funds for the previous year. The energy impact assistance advisory committee shall review the report prior to it being delivered and filed.
April 30	All CERR reports are due to DOLA from reporting parties.
April	Energy and Mineral Impact Advisory Committee reviews and makes recommendations to Executive Director for discretionary weightings of factors.
May 1	DOLA mails a failure to file letter to reporting parties who did not submit a form by the April 30 deadline.
June 1	Executive Direct sets default factor weights.
June 30	Local government MOUs detailing alternative direct distribution allocations are due to the Executive Director.
July	DOLA assesses penalty fees and mails notification to reporting parties who did not submit a CERR.
	Executive Director and Energy and Mineral Impact Advisory Committee review MOUs submitted by local governments for Executive Director approval.
	Executive Director and Energy and Mineral Impact Advisory Committee review and consider alternative county allocations for Executive Director decision.
Mid July – August	DOLA collects production and permit data from Department of Natural Resources and Division of Property Taxation.
	DOLA collects Highway User Lane Miles and Federal Mineral Lease Revenue by county from State Treasury.
	DOLA collects population data from the State Demographer.
	DOLA collects pupil count data from the Department of Education.
	DOLA analyzes metrics and calculates factor indices.
Executive Director determines discretionary factor weightings.	
Second week of July	DOLA convenes the Direct Distribution Oversight Committee to review staff analysis. Staff receives committee recommendations for employee counts.
July 31	DOLA deadline to receive final employee counts from reporting parties and local government challenges.
August 1 -10	DOLA input period for CERR changes/challenges.
	DOLA analyzes CERR data.
August 31	DOLA distributes state severance tax and federal mineral lease moneys.
September – December	DOLA evaluates the direct distribution procedures and as needed proposes potential changes to enhance the process.

APPENDIX B - CHART OF STATE SEVERANCE TAX



APPENDIX C - CHART OF FEDERAL MINERAL LEASE DISTRIBUTIONS



APPENDIX D - DIRECT DISTRIBUTION TERMS

County Pool Allocation – Severance tax and federal mineral lease direct distribution funds are first divided into county “buckets” based on the proportion of county wide factor data compared to the state wide factor data. Once determined, each county pool allocation is then distributed to counties, municipalities and school districts. (See “Subcounty Distribution” below.)

Factor – The quantifiable information used to measure the impact of mineral production and thereby determine the direct distribution of severance tax and federal mineral lease revenue to counties, municipalities and school districts. Statutorily, the factors used in direct distribution include Colorado Employee Residence Reports, mining and well permits, mineral production, population, road miles and federal mineral lease revenue generated by county.

Factor Weight – The percentage of importance assigned to a factor used to determine the impact of energy and mineral production impact, and therefore the direct distributions to counties, municipalities and school districts. Some factor weights are statutorily determined, while others are at the discretion of the Executive Director of the Department of Local Affairs.

Federal Mineral Lease Revenue – The state’s share (approximately 49%) of all bonus, nonbonus and oil shale funds paid to the federal government pursuant to the “Mineral Lands Leasing Act”. A portion of these funds are directly distributed to local governments by the Department of Local Affairs. See “Appendix C - Chart of Federal Mineral Lease Distributions”.

Non-Bonus Federal Mineral Lease Payments – All federal mineral lease collections by the state other than bonus payments and oil shale payments. Non-bonus payments can include leases, rents and royalties. Unlike bonus payments, they can vary in amount based on the amount of mineral production of the payer. The Direct Distribution program is comprised of these non-bonus payments. See “Appendix C - Chart of Federal Mineral Lease Distributions”.

Severance Tax – The tax imposed by the State of Colorado when nonrenewable natural resources are extracted, or severed, from the earth. Statutorily, a portion of the revenue from this tax is made available to local governments through the Direct Distribution program and the Energy and Mineral Impact Assistance Program to offset the impact created by nonrenewable resource development. By statute, the severance of metallic minerals, oil, natural gas, carbon dioxide, coal and oil shale are subject to the severance tax. See “Appendix B - Chart of State Severance Tax”.

Subcounty Distribution – Each county pool allocation is distributed to the county and the municipalities contained therein or school districts based on the proportion of individual unincorporated county/municipality/school district factor data compared to the county wide factor data. Both severance tax and federal mineral lease direct distributions are statutorily determined using county pool allocations and subcounty distributions.