

SUMMARY

“The Natural Gas Severance Tax Act of 2008”

- The proposed initiated act increases the severance tax on natural gas from three-tenths of one cent (3/10 of \$0.01) per 1,000 cubic feet to seven percent (7%) of the market value of the natural gas at the time of extraction. Changes the tax from one based on quantity of production to one based on the market value of the mineral extracted.
- Effective January 1, 2009.
- Severance taxes collected under the act would be placed in the “2008 Natural Gas Severance Tax Fund” and held by the State Treasurer.
- The amount which would be raised under existing law (calculated at the rate of 3/10 of one cent per 1,000 cubic foot) would continue to be used in the same manner now set out in law. This ensures that those agencies or state accounts receiving revenues under existing law would be unaffected by the act.
- The *increased* revenues would then be used for (i) highway and road construction and (ii) supplemental funding for public institutions of higher education in Arkansas.
- The *increased* revenues in the 2008 Natural Gas Severance Tax Fund would be divided into two shares. One share will be 80% of the remaining amounts in the fund and will be known as the “Highway and Road Construction Fund Account.” The other share will be the remaining 20% of the fund and will be known as the “Public Higher Education Supplemental Funding Account.”
- The Highway and Road Construction Fund Account will be divided and distributed as we do today - 70% to the State Highway and Transportation Department, 15% to the counties and 15% to the cities and municipalities.
- The Public Higher Education Supplemental Funding Account will be used as supplemental funding for our state’s public institutions of higher education and distributed to the four-year and two-year institutions of higher education according to the existing (or amended) funding formula.

POPULAR NAME

“The Natural Gas Severance Tax Act of 2008”

BALLOT TITLE

An Act proposing that effective January 1, 2009, the severance tax on natural gas extracted from within the State of Arkansas be increased from three-tenths of one cent (3/10 of \$.01) per 1,000 cubic feet to seven percent (7.0%) of the market value of such natural gas at the time such natural gas is extracted; providing that the amount of funds raised under the current severance tax law would continue to be distributed as set forth in current law; and providing that the additional revenues collected by the State of Arkansas from such increase in the severance tax on natural gas shall be classified as special revenues of the State of Arkansas and held by the State Treasurer in a fund known as the “2008 Natural Gas Severance Tax Fund”; and providing that all remaining amounts in the 2008 Natural Gas Severance Tax Fund shall thereupon be divided and distributed fifty-six percent (56%) to the State Highway and Transportation Department Fund; twelve percent (12%) to the County Aid Fund; twelve percent (12%) to the Municipal Aid Fund; and twenty percent (20%) for supplemental funding for public institutions of higher education in the State of Arkansas to be distributed by the Department of Higher Education and the Department of Finance and Administration to public institutions of higher education in Arkansas in accordance with the funding formula for four-year public universities and two-year public colleges in the State of Arkansas (as set forth in Sections 6-61-228 and 6-61-229 of the Arkansas Code); providing that the act shall be effective on January 1, 2009; and for other purposes.

LANGUAGE OF THE PROPOSED INITIATED ACT

BE IT ENACTED BY THE PEOPLE OF THE STATE OF ARKANSAS:

Section 1. Section 26-58-111 (5) of the Arkansas Code is hereby amended to read as follows:

(5) On natural gas, seven percent (7.0%) of the fair market value of such natural gas at the time and point of severance.

Section 2. Section 26-58-124 of the Arkansas Code is hereby amended to read as follows:

(a) All taxes, penalties, and costs collected by the Director of the Department of Finance and Administration under the provisions of this subchapter, except for the tax levied under Section 26-58-111 (5) on natural gas, shall be deposited in the State Treasury to the credit of the State Apportionment Fund. All taxes, penalties, and costs collected by the Director of the Department of Finance and Administration under the provisions of Section 26-58-111 (5) of this subchapter (on natural gas) shall be classified and distributed in accordance with the provisions of (c) of this section.

(b) On or before the fifth of the month next following the month during which funds under subsection (a) of this section shall have been received by the Treasurer of State, the Treasurer of State shall allocate the funds in the following manner:

(1) Three percent (3%) of the amount of the funds to the General Revenue Fund Account of the State Apportionment Fund to be used for defraying the necessary expenses of the state government; and

(2) Ninety-seven percent (97%) of the amount of the funds, as follows:

(A) (i) All of such amount of severance taxes, penalties, and costs on timber and timber products shall be credited to the State Forestry Fund until there has been distributed to the State Forestry Fund an amount not less than the total amount of severance taxes, penalties, and costs

on timber and timber products distributed to the State Forestry Fund during the fiscal year ending June 30, 1980, plus an additional amount of two million dollars (\$2,000,000) of the funds, to be used exclusively for the purpose of carrying out the functions and duties of the Arkansas Forestry Commission.

(ii) (a) The next three hundred fifty thousand dollars (\$350,000) or so much of the funds as may be collected in severance taxes, penalties, and costs on timber and timber products, over and above the amount distributed to the State Forestry Fund during each fiscal year as provided in subdivision (b)(2)(A)(i) of this section, shall be distributed and credited to the University of Arkansas at Monticello Fund.

(b) The University of Arkansas at Monticello shall transfer from General Revenue to cash funds any timber severance tax funds as provided in this subdivision (b)(2)(A)(ii), to be set aside therein to be used solely and exclusively for providing additional support for the School of Forest Resources of the University of Arkansas at Monticello, as per the intent of this subdivision (b)(2)(A)(ii).

(iii) All of such amount of severance taxes, penalties, and costs on timber and timber products collected during each fiscal year in excess of the amounts required to be distributed for each fiscal year as provided in subdivisions (b)(2)(A)(i) and (ii) of this section shall be distributed to the State Forestry Fund to be used exclusively for the support of carrying out the functions and duties of the Arkansas Forestry Commission;

(B) Seventy-five percent (75%) of the amount of the severance taxes and penalties on diamonds shall be credited to the Arkansas State Parks Trust Fund to be used by the State Parks, Recreation, and Travel Commission for the preservation and protection of the natural resources of this state;

(C) Seventy-five percent (75%) of the amount of the severance taxes and penalties, except those on timber and timber products and except those on diamonds, shall be general revenues and shall be allocated to the various State Treasury funds participating in general revenues in the respective proportions to each as provided by, and to be used for the

respective purposes set forth in the Revenue Stabilization Law, § 19-5-101 et seq.; and

(D) (i) Twenty-five percent (25%) of such amount of the severance taxes and penalties, and costs, except those on timber and timber products, shall be special revenues and shall be allocated to the County Aid Fund.

(ii) On or before the tenth of the month following the end of each calendar quarter, the Treasurer of State shall remit by state warrants to the various county treasurers all funds under subdivision (b)(2)(D)(i) of this section then received by him or her during the quarterly period and transferred to the County Aid Fund in the proportions of the funds as between the respective counties that, as certified by the director to the Treasurer of State, the total severance tax produced from each respective county bears to the total of the taxes produced from all counties.

(iii) Upon receipt of any taxes under this subdivision (b)(2)(D), each county treasurer shall credit fifty percent (50%) of the amount to the county public school fund and fifty percent (50%) of the amount to the county highway fund for use for the same purposes as other moneys credited to the respective future funds.

(c) All taxes, penalties, and costs collected by the Director of the Department of Finance and Administration under the provisions of Section 26-58-111 (5) of this subchapter shall be deposited in the State Treasury in a fund known as the "2008 Natural Gas Severance Tax Fund." Such revenues shall be special revenues and shall be allocated as follows:

(1) The State Treasurer shall first calculate the amount of natural gas severance tax which would have been collected by the State of Arkansas based upon a tax rate of three-tenths of one cent ($\frac{3}{10}$ of \$0.01) per one thousand cubic feet (1,000 cu. ft.) of natural gas extracted. Once this amount is determined it shall be distributed in accordance with the provisions of (b) of this section.

(2) Thereafter all revenues remaining in the Natural Gas Severance Tax Fund shall be allocated and distributed as follows:

(A) On the last business day of each calendar month, the State Treasurer, shall divide the special revenues into the following shares:

(i) fifty-six percent (56%) to the State Highway and Transportation Department Fund;

(ii) twelve percent (12%) to the County Aid Fund;

(iii) twelve percent (12%) to the Municipal Aid Fund; and

(iv) twenty percent (20%) to the Department of Higher Education to be distributed by such department and the Department of Finance and Administration in accordance with the funding formula for four-year universities and two-year colleges in Sections 6-61-228 and 6-61-229 of the Arkansas Code.

(B) After the fund is divided, the State Treasurer shall thereafter promptly distribute such amounts to the foregoing funds and agency. The amount for the Department of Higher Education shall be considered to be supplemental funding for public institutions of higher education in the State of Arkansas and shall be distributed by such agency and the Department of Finance and Administration to public institutions of higher education in accordance with the funding formula for such institutions in effect on the date of this Act.

Section 3. This Act shall be effective for natural gas extracted from the State of Arkansas on or after January 1, 2009.

Section 4. The General Assembly shall adopt and enact any and all laws necessary to carry out the intent of this act.

Section 5. All laws and parts of laws in conflict with this act are hereby repealed.