UTAH ASSOCIATION OF COUNTIES

SEVERANCE TAX ROAD MAINTENANCE

2024 Legislative Proposal

Oil and gas industry activity has an outsized impact on county roads. Authorizing taxes already paid by this industry to address direct impacts would alleviate county transportation and maintenance budget burdens.

WHAT is severance tax?

A: Severance tax is a tax paid by oil, gas, natural gas, and other gaseous or liquid hydrocarbon extraction industries when the natural resource is "severed" from the state. These taxes are paid to the state, and funds are deposited to the state's general fund. In FY22, this tax generated $75.7 million. Utah does not have a severance tax on products like coal or lumber, and has a separate severance tax for metals which are mined in the state.

WHY is the impact from the oil and gas industry bigger than other users?

A: Heavy trucks used by the oil and gas industry degrade roads more quickly than regular traffic. As oil and gas extraction moves, roads which were previously maintained less often require more regular care. Many counties report being behind on road maintenance, and using outdated equipment to keep up with the work. In addition to road concerns, counties report impact from public safety, landfill, public health, employments, smell, and federal issues.

HOW does this impact oil and gas industry members?

A: Oil and gas industry users would pay no new taxes under this proposal, and would benefit from improved roads in areas where they work. Counties and oil and gas industry members are excellent partners in economic and energy development and this would deepen the partnership. Rikki Hrenko Browning, Utah Petroleum Association representative shared, "Allowing our industry's tax dollars to serve the communities with which we partner is good business. We appreciate the county governments efforts to keep roads maintained and safe and recognize that their resources often fall short."

PROPOSAL

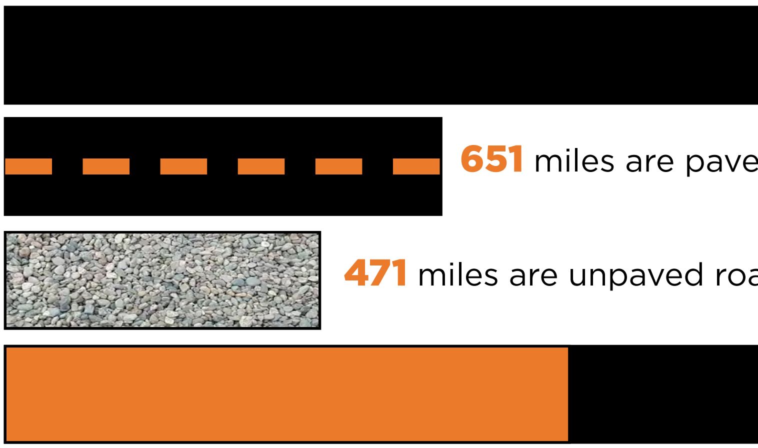
- Support Sen. Winterton's bill proposal to earmark some portion of severance tax for counties to mitigate impacts to B and C roads.

While there is uncertainty around what "above long-term trend" revenue transfers will be, the need from counties to mitigate the impacts of Oil and Gas industry on roads is greater than high estimates.

GOOD ROADS COST LEST

The Utah Department of Transportation operates on a strategy called "good roads." Regular upkeep to maintain roads over time increases the time between costly rehabilitations. Preservation costs less than rehabilitation or reconstruction.

When counties have the funds to operate on this principle, they are able to spend less overall. Duchesne County is one of the top counties in the state for rates of oil and gas production.



1122 miles of roads in Duchesne County

651 miles are paved roads

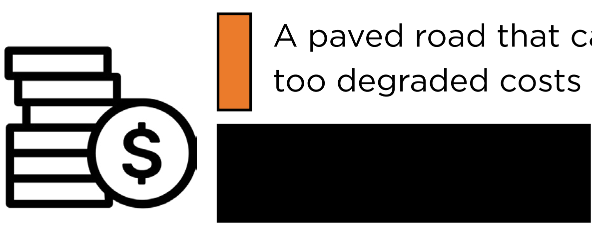
471 miles are unpaved roads

75% of roads are used by oil and gas production

Duchesne County cannot affort to build to the standard UDOT uses for roads like Highway 40 which runs through the county, because it costs $3 million per mile.

The county is **11.5 years** behind on pavement preservation due to lack of revenue and a spike in oil production over the last 3-4 years. Even unpaved roads require maintenance to fill holes and keep them graded.

In 2023, Duchesne County drained $4 million from long-term rainy day funds to try to make progress on the backlog of preservation projects. Since impact kept increasing, they were only able to keep the backlog from getting worse. The cost of not being able to keep up with preservation is high.



A paved road that can be chip sealed before it is too degraded costs **$58,000** per mile

A paved road that has to be rehabilitated with a 4" overlay costs **$614,000** per mile

In all, Duchesne County estimates that the cost to mediate all oil and gas industry impacts on county roads would be **$15 million** per year.