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Southern Good Faith Fund proposes severance tax increase to finance trust fund for higher education

Arkansas Promise Trust Fund would transform Fayetteville Shale Play into renewable resource

LITTLE ROCK—Southern Good Faith Fund’s Public Policy program today released a report that proposes creating an Arkansas Promise Trust Fund to help more Arkansans go to college, financed by an increase in the state’s historically low severance tax on natural gas.

The Policy Points report, *From Natural Gas to College Degrees: The Arkansas Promise Trust Fund*, outlines a plan for leveraging the revenue potential presented by natural gas development of the Fayetteville Shale Play to significantly increase higher education opportunities for Arkansans.

Data presented in the Policy Points indicates that the first decade of natural gas production in the Fayetteville Shale Play could yield **\$2.4 billion to \$5.6 billion** in severance tax revenue if the state severance tax was increased to levels comparable to those of neighboring states. In contrast, such production would yield just **\$30 million** under the state’s current severance tax at recent prices.

“Under the state’s current severance tax, the Fayetteville Shale Play will be a one-time, depleting resource that will benefit a relatively fortunate few,” said Mike Leach, Director of Southern Good Faith Fund’s Public Policy program. “With very reasonable state policy changes, the Fayetteville Shale Play can be turned into a permanently renewable resource that could benefit every future generation of Arkansans.”

From Natural Gas to College Degrees notes that Arkansas has the nation’s second lowest attainment of both bachelor’s degrees and associate’s degrees, in a knowledge-based economy in which postsecondary education is more vital than ever. The proposed Arkansas Promise Trust Fund would use interest earnings from increased severance tax revenue to, first and foremost, finance a variety of need-based financial aid proposals outlined in the report. A secondary use would be to fund the state’s public colleges and universities to improve student retention and completion. Interest earnings from the Arkansas Promise Trust Fund could generate millions of dollars a year indefinitely.

Arkansas’ natural gas severance tax rate, the lowest in the nation, was last adjusted in 1957 and is just three-tenths of one cent (\$0.003) per 1,000 cubic feet (Mcf) of natural gas—a mere **0.0375 percent** of market value at recent prices. Louisiana, Mississippi, Oklahoma, and Texas currently tax the severance of natural gas at rates ranging from **3.4 percent** of market value to **7.5 percent** of market value. Unlike most states, Arkansas’ severance tax on natural gas is levied based on the volume of gas produced rather than the market value, which prevents Arkansas’ severance tax from keeping pace with changes in natural gas prices.

In fiscal 2007, Arkansas’ severance tax on natural gas generated just **\$619,418**. The state in fiscal 2007 collected more than twice as much revenue—**\$1,806,778**—from **vending machine decal fees** and nearly twice as much from **liquor permit fees (\$1,109,437)** and from **motor boat registration fees (\$1,012,417)**.

“The current severance tax structure in Arkansas is an antiquated relic that shortchanges our state,” said report author Michael Rowett, Research and Communications Manager for Southern Good Faith

Fund's Public Policy program. "It's indefensible that the state collects more than twice as much money from decal fees on vending machines as from the tax levied on the extraction of one of Arkansas' most valuable natural resources."

The report notes that the severance tax in Arkansas in fiscal 2007 represented a mere **0.011 percent** of the state's general revenue, compared with a much higher range in neighboring states: from **2.5 percent** of state general revenue in Texas to **10.7 percent** of state general revenue in Oklahoma.

From Natural Gas to College Degrees outlines the following specific proposals, all designed to increase the state's long-term commitment to need-based financial aid:

- **Increase funding for the state Workforce Investment Grant (WIG) program.** WIG targets adult students 24 and older with unmet financial aid need who are not served by either of the state's two primary need-based financial aid programs—the GO! Opportunities Grant Program and the Academic Challenge Scholarship. Both the GO! Opportunities Grant and the Academic Challenge target traditional students—those transitioning from high school to college within a year of high school graduation. Over the next two fiscal years WIG will be funded at \$3.7 million annually. This program is not funded adequately, especially given that the adult student population at Arkansas two-year colleges in recent years has grown more than twice as fast as the population of younger students. The \$3.7 million annual funding for WIG is a fraction of the annual funding for Academic Challenge (\$30.2 million a year in both fiscal years) or the GO! Opportunities Grant Program (\$7.2 million in fiscal 2008 and \$11.2 million in fiscal 2009).
- **Extend need-based financial aid to young adults who have been out of high school for more than a year but are younger than 24.** Because WIG only reaches adults 24 and older, and the state's other two primary need-based aid programs reach young adults recently out of high school, there is a critical gap in need-based financial aid eligibility. Consequently, there is very little need-based financial aid for young adults ages 19 through 23. Extending access to need-based financial aid could be accomplished by lowering the age eligibility for WIG, extending the post-high school graduation eligibility period for the GO! Opportunities Grant Program, or creating an entirely new program.
- **Increase funding and income eligibility for the GO! Opportunities Grant Program.** This program provides need-based scholarships of up to \$1,000 per year for students in lower income-families. The adjusted gross income limit is \$25,000 a year for a family with one child; for each additional child, a family is allowed an additional \$5,000 in income to qualify for the program. GO! Opportunities could be enhanced by increasing the scholarship dollar amount or increasing the base adjusted gross income limit. Because GO! Opportunities Grants can be combined with other forms of state and federal student financial aid, the proposed enhancements would significantly increase access to higher education in Arkansas.

Once these priorities are met, and as Arkansas Promise Trust Fund interest revenues continue to build, and depending on the rate of severance tax enacted, the state could eventually begin to guarantee the opportunity for college to all Arkansans. The state could establish an Arkansas Promise scholarship to guarantee every Arkansan with a high school diploma or a GED the opportunity to earn an associate's degree or even a bachelor's degree. Such a guarantee would be similar to the El Dorado Promise and Georgia's HOPE Scholarship.

Southern Good Faith Fund is a 501(c)(3) non-profit organization committed to increasing incomes and assets of low-income and low-skilled residents in rural communities. Southern Good Faith Fund, Southern Financial Partners, and Southern Property Corporation are affiliates of Southern Bancorp, a \$575 million rural development bank with banking operations in Arkansas and Mississippi.