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For Immediate Release

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Nonprofit groups release policy reports on Arkansas natural gas severance tax

*Advocates report estimates revenue from severance tax reform; SGFF report
proposes using revenue to finance Arkansas Higher Education Trust Fund*

LITTLE ROCK—Arkansas Advocates for Children & Families and Southern Good Faith Fund's Public Policy Program released two reports Thursday on policy opportunities related to Arkansas' severance tax on natural gas in the wake of development of the Fayetteville Shale Play.

The separate reports were released during a joint news conference at the state Capitol.

Arkansas' natural gas severance tax rate has not changed in 50 years, spanning the administrations of 10 Presidents and nine Arkansas Governors, and is the lowest in the nation. According to the Arkansas Advocates report, *Digging Deeper: Reforming the Arkansas Severance Tax for Working Families*, in 1957, \$1,000 worth of natural gas production in 1957 generated \$27 in severance tax revenue in Arkansas. Adjusted for inflation, in 2005, that same amount of production would generate just **40 cents** of severance tax revenue.

"The bottom line is that Arkansas' severance tax on natural gas is antiquated and should be reformed," said Rich Huddleston, Executive Director of Arkansas Advocates for Children and Families. "As for any potential revenue that might result from modernization, our organization would support a wide variety of uses, as long as it goes toward meeting the critical needs of Arkansas' children and families."

Unlike most states, which levy severance taxes based on market value, Arkansas' natural gas severance tax is levied on the volume produced. At today's prices, Arkansas' severance tax is equivalent to just **0.04 percent** of market value—significantly less than surrounding states of Texas (7.5 percent of market value); Oklahoma (7 percent of gross value); Mississippi (6 percent of market value); and Louisiana (5 percent of market value).

The recent development in the Fayetteville Shale Play offers an opportunity to reform Arkansas' severance tax. At current prices, the market value of the Fayetteville Shale production has been estimated at \$300 billion over the 30-year life of all the fields. The current severance tax would generate about \$120 million in revenue over 30 years from Fayetteville Shale production. In contrast, a market-based rate of 3

percent would generate \$4.5 billion, while a 4 percent market-based rate would generate \$6 billion and a 5 percent rate (around the regional average) would generate \$7.5 billion.

The Advocates report indicates that most, if not all, of the gas production from the Fayetteville Shale will be shipped out of Arkansas, avoiding state and local taxes and franchise fees; that the chance of consumers bearing the brunt of a severance tax increase are minimal; and that an increase in the severance tax will have little to no effect on jobs or production.

“Eight of the 10 major producers of natural gas in Arkansas are publicly traded corporations headquartered out of state,” said Jim Metzger, economist and author of the Arkansas Advocates report. “Most of any additional severance tax would be passed to these companies, not Arkansas consumers.”

The Southern Good Faith Fund report, *An Arkansas Higher Education Trust Fund: Making College Possible for Every Arkansan*, proposes using increased severance revenue to dramatically expand higher education opportunities in the Natural State.

Over the next decade, professions requiring a bachelor’s degree or higher will comprise an expanding share of total job growth. In Arkansas, projections are that jobs requiring a bachelor’s degree or higher will comprise 28 percent of total job growth from 2004 to 2014. Two years ago, 23 percent of jobs required at least a bachelor’s degree.

“A college-educated workforce is arguably the most critical resource in an increasingly knowledge-based economy,” said Mike Leach, Director of Southern Good Faith Fund’s Public Policy Program. “Arkansas’ economic future is largely dependent on the number of college graduates that stay in state to work. This is the higher education attainment imperative facing Arkansas and every other state. Unfortunately, Arkansas is already behind most states in college attainment—and thus lags behind in meeting the higher education attainment imperative.”

Arkansas ranks 48th out of 50 states in the percentage of adults with bachelor’s degrees, with just 19 percent of adults having attained a bachelor’s degree or higher. Arkansas ranks 39th in young adult college enrollment and 46th in working-age adult college enrollment.

Arkansas ranks 50th in the disparity between bachelor’s degree attainment by low and high income heads of households. Just 3 percent of heads of household from the poorest one-fifth of Arkansas households have at least four years of college, compared with 40 percent of the wealthiest one-fifth of households.

Affordability is a key factor affecting college enrollment and completion. For the poorest one-fifth of Arkansans, net college costs even at a two-year public institution represent 44 percent of annual income. For this population, public-four year college costs exceed half of all income, and private four-year college costs exceed all annual income. Middle-class Arkansans fare little better; in fact, only the richest one-fifth of Arkansas families can comfortably afford college.

If put into a permanent state trust fund, revenues from an increase in Arkansas’ natural gas severance tax could generate an estimated \$200 million to \$400 million in interest revenues every year indefinitely. These revenues could be used to fund a variety of strategies aimed at enabling more Arkansans, especially those with low incomes who currently don’t qualify for most state scholarship programs, to earn a college degree.

The programs that could be financed using interest revenues from an Arkansas Higher Education Trust Fund are:

The Aspiring Scholars Grant Program. This program would add both a seed grant and savings match grant to Arkansas’ existing 529 college savings plan, the Gift Plan. The savings match rate would vary by family income: 3-to-1 for families with incomes at or below 100 percent of poverty; 2-to-1 for families between 101 and 200 percent of poverty; and 1-to-1 for families with incomes of 201 percent to 300

percent of poverty. The annual savings match grant would be capped at \$500, and there would be a five-year limit on eligibility for the savings match. Therefore, the maximum savings match awarded to any account holder would be capped at \$1,500. Families would be required to open the account before their child's 13th birthday.

The seed grant would seed a Gift Plan account for every newborn Arkansan whose parents open an account before the newborn's first birthday. The seed grant amount would be progressive based on income: \$500 for families with incomes at or below 200 percent of poverty, \$250 for families with incomes between 201 and 300 percent of poverty, and \$50 for all other families. A seed grant has the potential to give every Arkansas child the opportunity to enroll in college.

A Need-based Young Adult Program to target young adults who have been out of high school for more than a year but are younger than 24. The state's two largest financial aid programs require students to enroll in college within a year of high school graduation, and the state's only strictly need-based aid program targets adult students 24 and older.

A Need-based Concurrent Enrollment Program to serve students who are concurrently enrolled in high school and college courses. The state currently does not have a program that provides tuition assistance to concurrently enrolled students.

Increased funding for the Workforce Improvement Grant Program, which targets low-income adult students. This program is not funded adequately, especially given that the adult student population at Arkansas two-year colleges has grown more than twice as fast as the population of younger students over the last five years.

Other higher education needs. Many colleges now do not have the institutional capacity to serve well all the students who are currently enrolled. Significantly increasing the number of students served without funding to enhance the institution's capacity to serve these additional students would be counterproductive. At the same time, institutional capacity building funding increases should be tied to increased performance accountability measures to ensure students are being better served.

Arkansas Advocates for Children & Families is a non-profit, non-partisan, child advocacy organization founded in 1977. The mission of Arkansas Advocates for Children & Families is to protect and promote through research, education and advocacy the rights and well-being of Arkansas children and their families, to assure that they have the opportunity to lead healthy and productive lives.

Southern Good Faith Fund is a 501(c) (3) non-profit organization committed to increasing incomes and assets of low-income residents in rural communities. Southern Good Faith Fund, Southern Financial Partners, and Southern Property Corporation are affiliates of Southern Bancorp, a \$500 million rural development bank with banking operations in Arkansas and Mississippi.