Colorado Legislative Council Staff

SB16-097

FISCAL NOTE

FISCAL IMPACT: ☒ State ☒ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0730	**Date:**	February 5, 2016
Prime Sponsor(s):	Sen. Scott Rep. Coram	**Bill Status:**	Senate Agriculture
		Fiscal Analyst:	Marc Carey (303-866-4102)

BILL TOPIC: USE MINERAL SEVERANCE REVENUE FOR LOCAL GOVTS

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures	**$128,751**	**$85,084**
General Fund	128,751	85,084
FTE Position Change	1.0 FTE	1.0 FTE
Appropriation Required: $128,751 - DOLA (FY 2016-17)		
Future Year Impacts: None.		

Summary of Legislation

This bill places restrictions on transferring money from various mineral related cash funds to the General Fund. Specifically, the bill prohibits transfers to the General Fund from the following cash funds (collectively referred to in the bill as the mineral severance fund):

- the Higher Education Federal Mineral Lease Revenues Fund;
- the Higher Education Maintenance and Reserve Fund;
- the Local Government Permanent Fund;
- the Local Government Mineral Impact Fund; and
- the Local Government Severance Tax Fund.

The bill prohibits the Governor from restricting the use of money in any of these funds to save money for a future transfer to the General Fund. The bill also limits the Governor's and the Joint Budget Committee's ability to use money in these funds for purposes not authorized in current law or that does not benefit the political subdivisions impacted by the severance of minerals.

Finally, the bill changes the current allocation of the Local Government Severance Tax Fund. The proportion used for direct distributions is increased from 30 to 60 percent, while the proportion used for grants is decreased from 70 to 40 percent. The bill restricts grant eligibility to political subdivisions that received more than $200,000 in direct distributions in the prior fiscal year.

Background

Severance tax revenue allocation. Severance tax revenue is divided evenly between the Department of Natural Resources (DNR) and the Department of Local Affairs (DOLA). DNR's half is deposited in the Severance Tax Trust Fund, and is again evenly split between the Perpetual Base Fund and the Operational Fund. Money in the Perpetual Base Fund is used to finance loans for state water projects, while money in the Operational Fund is used to cover the administrative costs of several DNR divisions and to fund a variety of "tier 2" programs. DOLA's severance tax revenue is credited to the Local Government Severance Tax Fund and is distributed to local governments. Under current law, 70 percent is available for discretionary loans or grants to local governments in areas socially or economically impacted by the mineral extraction industry. The other 30 percent of the money is distributed directly to local governments based on the geographic location of energy industry employees, mine and well permits, and overall mineral production.

Federal Mineral Lease (FML) Revenue Allocation. The state receives money from the federal government from rents and royalties paid for mineral extraction on federal land. FML revenue comes in the form of either bonus payments or non-bonus payments. Bonus payment revenue is equally divided between the Local Government Permanent Fund and the Higher Education Maintenance and Reserve Fund. Non-bonus payments are primarily allocated to the State Public School Fund to assist in funding school finance. The remainder is allocated to support state water projects, and to augment the severance tax money distributed to local governments of impacted areas through the grants and direct distributions described above.

Transfers of severance tax and FML revenue to the General Fund. Between FY 2008-09 and FY 2011-12, the General Assembly made significant transfers from the cash funds impacted by this bill to the General Fund. Table 1 summarizes these transfers and the years that they occurred.

Table 1. Transfers of Severance Tax and FML Revenue to the General Fund, 2008-09 through 2014-15

Cash Fund	Fiscal Years Transferred	Total Transfers
Higher Ed. FML Revenues Fund	2009-10, 2010-11	$7,750,000
Higher Ed. Maintenance and Reserve Fund	2008-09, 2009-10, 2010-11	$34,696,974
Local Government Mineral Impact Fund	2008-09, 2009-10, 2010-11, 2011-12	$68,600,000
Local Government Permanent Fund	2009-10, 2010-11	$18,442,461
Local Government Severance Tax Fund	2008-09, 2009-10, 2010-11, 2011-12	$177,827,796
Total FML Revenue Transfers		$129,489,435
Total Severance Tax Transfers		$177,827,796
Total Transfers		**$307,317,231**

** Table 1 includes transfers only and not diversions.*

State Expenditures

Department of Local Affairs, Division of Local Government. The division will incur increased expenditures of $159,549 and 1.0 FTE in FY 2016-17 and $116,097 and 1.0 FTE in FY 2017-18.

The division administers the Energy Impact Assistance Grant program and is responsible for direct distributions to impacted local governments. Currently, the division joins both severance tax and FML revenue together to increase the efficiency of the program. By establishing discretionary grant eligibility for severance tax revenue only, the bill requires severance tax revenue be handled separately, and reduces the potential applicant pool. Reduced eligibility for severance tax grants is expected to increase workload for the department in two ways. First, the smaller pool of eligible applicants implies that severance tax grant applications will be for larger amounts and more complicated projects and will require increased staff time to evaluate and manage. Second, DOLA anticipates increased competition and therefore more applications requiring review and evaluation for FML grants. To accommodate this increased workload, the division requires an additional 1.0 FTE Program Assistant II. Also, the division requires $69,864 for computer reprogramming expenses in FY 2016-17 and $30,900 in FY 2017-18. Table 2 summarizes these expenditures.

Table 2. DOLA Expenditures Under SB16-097

Cost Components	FY 2016-17	FY 2017-18
Personal Services	$53,234	$53,234
FTE	1.0	1.0
Operating Expenses and Capital Outlay Costs	5,653	950
Computer Programming	69,864	30,900
Centrally Appropriated Costs*	30,798	31,013
TOTAL	**$159,549**	**$116,097**

** Centrally appropriated costs are not included in the bill's appropriation.*

Department of Natural Resources (DNR). While the DNR does receive both severance tax and FML revenue, this bill impacts only cash funds administered by the DOLA. The DNR and the programs it administers are not directly impacted by this bill.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under SB16-097*

Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$8,018	$8,018
Supplemental Employee Retirement Payments	4,555	4,770
Indirect Costs	15,225	15,225
Leased Space	3,000	3,000
TOTAL	**$30,798**	**$31,013**

Local Government Impact

The bill will impact both the amount and the distribution of severance tax and FML funds allocated to local governments through DOLAs Energy Impact Assistance Grant and direct distribution programs. First, beginning in FY 2016-17, the bill changes the allocation of DOLA's severance tax revenue, increasing the share that is directly distributed to local governments and decreasing the share distributed through the EIA grant program by a corresponding amount. Table 4 presents information on the projected DOLA severance tax revenue, and the impact of the bill on the amount of money distributed through the direct distribution and EIA grant programs.

Table 4. Severance Tax Revenue and Impact on EIA Grants and Direct Distributions of Senate Bill 16-097
(Million of Dollars)

Cost Components	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Severance Tax Revenue*	$280.2	$71.1	$154.1	$209.3
DOLA Share	$140.1	$35.6	$77.1	$104.7
Energy Impact Assistance Grants	$0.0	$0.0	($23.1)	($31.4)
Direct Distributions	$0.0	$0.0	$23.1	$31.4

** Legislative Council Staff December Revenue Forecast.*

In addition, the bill restricts EIA grant eligibility to local governments that received over $200,000 in direct distributions the prior year. This has the practical impact of limiting grant eligibility to a fraction of the local governments currently eligible, and likely concentrating grant awards. For example, in 2015, this criteria would have reduced the number of counties and municipalities eligible for grants from 333 to 49. Seen another way, in FY 2014-15, DOLA awarded 230 severance grants to 180 local governments. Of this total, only 27 local governments (receiving 59 grants) would remain eligible under this bill.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2016-17, the DOLA requires a General Fund appropriation of $128,751 and the allocation of 1.0 FTE.

State and Local Government Contacts

Higher Education	Local Affairs	Natural Resources
Information Technology		