



**Colorado  
Legislative  
Council  
Staff**

**SB16-167**

**FISCAL NOTE**

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

**Drafting Number:** LLS 16-1118  
**Prime Sponsor(s):** Sen. Grantham  
 Rep. Rankin

**Date:** March 22, 2016  
**Bill Status:** Senate Appropriations  
**Fiscal Analyst:** Marc Carey (303-866-4102)

**BILL TOPIC:** SEVERANCE TAX OPERATIONAL FUND RESERVE REDUCTION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	See State Revenue and Expenditures section.	
State Expenditures		
<b>Appropriation Required:</b> None.		
<b>Future Year Impacts:</b> None.		

**Summary of Legislation**

Under current law, the reserve requirement for the Severance Tax Operational Fund for a given fiscal year is equal to total operating appropriations for Tier 1 programs and 15 percent of Tier 2 transfers. This bill, **recommended by the Joint Budget Committee** (JBC), reduces the portion of the reserve requirement based on the Tier 1 programs by \$2.98 million for FY 2016-17 only.

**Background**

Agencies and programs that receive funding from the Severance Tax Operational Fund are divided into Tier 1 and Tier 2 programs. Tier 1 expenditures support ongoing operational expenses for agencies in the Department of Natural Resources (DNR), including the Colorado Oil and Gas Conservation Commission (COGCC). The Tier 1 reserve requirement is equal to one full year of operating appropriations to help insulate these programs from severance tax revenue volatility. The reserve requirement effectively doubles the impact of any increases to Tier 1 appropriations; for every dollar appropriated to a Tier 1 agency, available revenue in the operational fund is reduced by two dollars.

Tier 2 programs are funded with remaining revenue after Tier 1 appropriations. Tier 2 programs include water-related programs, agriculture-related programs, clean and renewable energy development, soil conservation, the control of invasive species, low-income energy assistance, and species conservation. If mid-year projections indicate there will be insufficient revenue in the operational fund to support authorized Tier 2 expenditures, funding for these programs is proportionately reduced unless the General Assembly prioritizes cuts via legislation.

**State Revenue and Expenditures**

Based on the March 2016 Legislative Council Economic Forecast and expected expenditures from the operational fund, the DNR will be required to make a 89.8 percent proportional reduction across all existing Tier 2 programs. By exempting the one-time COGCC appropriation, the proportional reduction will be reduced to 81.7 percent.

The JBC has voted to approve a one-time increase of \$2.98 million from Tier 1 of the Severance Tax Operational Fund for the COGCC in FY 2016-17. Under current law, this one-time COGCC appropriation would reduce available revenue by \$5.96 million in FY 2016-17—\$2.98 million for the appropriation itself and \$2.98 million for the Tier 1 reserve. Based on the March 2016 Legislative Council Staff revenue forecast, the appropriation would increase proportional reductions to Tier 2 programs to 89.9 percent. By effectively exempting the appropriation from the Tier 1 reserve requirement, this bill reduces the revenue impact to \$2.98 million dollars, requiring estimated proportional reductions of 81.7 percent for Tier 2 programs in FY 2016-17. Table 1 presents affected programs and the additional funding they will see as a result of this bill.

<b>Table 1. Operational Fund Tier 2 Program Fund Projections Under Current Law and SB 16-167</b>			
<b>Tier 2 Programs</b>	<b>Current Law</b>	<b>With SB 16-167</b>	<b>Difference</b>
Water Supply Reserve Account	1,019,097	1,826,817	807,720
Soil Conservation Districts Matching Grants	45,859	82,207	36,348
Water Efficiency Grants	56,050	100,475	44,425
Species Conservation Trust Fund	509,549	913,409	403,860
Low Income Energy Assistance Program (LEAP)	1,324,826	2,374,863	1,050,037
Agriculture Value-Added Cash Fund	50,955	91,341	40,386
Interbasin Compacts	75,930	136,110	60,180
Forestry Grants / Bark Beetle	254,774	456,704	201,930
Aquatic Invasive Species	408,251	731,824	323,573
Forfeited Mine Sites	12,943	23,201	10,258
<b>TOTAL TIER 2 PROGRAMS</b>	<b>\$3,758,234</b>	<b>\$6,736,951</b>	<b>\$2,978,717</b>

*Source- Department of Natural Resources  
 All funds continuously appropriated to their respective administrative agencies.*

**Effective Date**

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

**State and Local Government Contacts**

Natural Resources