



**Colorado
Legislative
Council
Staff**

SB16-167

**FINAL
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: August 23, 2016
Bill Status: Signed into Law
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		
Appropriation Required: None.		
Future Year Impacts: 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, income qualified energy efficiency programs, 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 June 2016 Legislative Council Economic Forecast and passage of SB 16-218, which restricted \$10 million in severance tax revenue that would have otherwise been allocated to the Operational Fund in response to the Colorado Supreme Court's decision in the B.P. America case, the DNR will be unable to fund existing Tier 2 programs in FY 2016-17. While this bill reduces the Tier 1 reserve requirement by \$2.98 million in FY 2016-17, with the restriction in place, there is no money available for funding Tier 2 programs, so this bill does not change funding of Tier 2 programs.

Effective Date

The bill was signed into law by the Governor and took effect on June 10, 2016.

State and Local Government Contacts

Natural Resources