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Final Fiscal Note

Drafting Number: LLS 21-0391
Prime Sponsors: Sen. Coram

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Bill Status: Postponed Indefinitely
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Bill Topic: WATER RESOURCE FINANCING ENTERPRISE

- Summary of Fiscal Impact:
[X] State Revenue (conditional)
[X] State Expenditure
[X] TABOR Refund
[X] Local Government
[ ] State Transfer
[ ] Statutory Public Entity

The bill would have referred to voters a proposal to create the Water Resources Financing Enterprise, which would collect a fee from customers of public water supply systems to finance water projects through grants and loans. Conditional upon voter approval, it would have increased state and local government revenue and expenditures beginning in FY 2023-24.

Appropriation Summary: No appropriation was required.

Fiscal Note Status: The fiscal note reflects the introduced bill. The bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under SB 21-034

Table with 5 columns: Category, Sub-category, Budget Year FY 2021-22, Out Year FY 2022-23, Out Year FY 2023-24, Out Year FY 2024-25. Rows include Revenue (Cash Funds, Total), Expenditures (Cash Funds, Total, Total FTE), Transfers, and TABOR Refund.

## **Summary of Legislation**

The bill refers to voters a proposal to create the Water Resources Financing Enterprise (enterprise) in the Department of Natural Resources (DNR) to provide financing to water providers. The enterprise is governed by a board of directors that consists of the members of the Colorado Water Resources and Power Development Authority board and the Colorado Water Conservation Board (CWCB). It is designated as an enterprise for the purposes of TABOR.

**Water users fee.** Beginning July 1, 2023, the enterprise may charge a fee to all customers of public water systems. The fee is 25 cents per thousand gallons of drinking water delivered per month to each metered connection in excess of the first four thousand gallons. The board may adjust the fee for inflation and to address equity concerns. The fee is to be collected by public drinking water suppliers, which may retain three and one third percent of the amount collected as a vendor fee. The fee revenue is deposited into the Water Resources Financing Fund. In addition, the enterprise is authorized to issue revenue bonds.

**Water financing program.** The enterprise will provide grants, loans, and in-kind technical assistance to water providers, including raw water suppliers, drinking water suppliers, and wastewater treatment suppliers. Financing is restricted to projects relating to the provision of raw water, drinking water, water treatment, or wastewater treatment, and for feasibility studies, planning, permitting, and construction of infrastructure and conservation projects. Financing applicants will be evaluated based on merit and need-related characteristics, as listed in the bill. The board must report to the Water Resources Review Committee by July 1 of each year.

## **Background**

Proposition 117, approved by voters at the November 2020 General Election, requires voter approval to create a state government enterprise that collects more than \$100 million over its first five years of operation. The enterprise created by the bill is expected to collect fee revenue exceeding this threshold; therefore, voter approval is required.

## **State Revenue**

Conditioned, upon voter approval, beginning in FY 2023-24, state revenue will increase by an estimated \$36.9 million per year to the Water Resources Financing Fund. The fiscal note estimates that 153 billion gallons of water used by 2.0 million public water customers will be subject to the fee. This estimate accounts for non-public water system users, delivery losses, and water exempt from the fee. These fees are estimated to generate \$38.2 million in annual revenue, \$1.3 million of which is retained by water suppliers as a vendor fee, resulting in \$36.9 million in revenue to the enterprise. As an enterprise, this revenue is not subject to TABOR.

**Fee impact on public water system users.** Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. The fee is set in statute at \$0.25 per thousand gallons, which may be adjusted by the enterprise based on inflation and equity concerns. The table below identifies the fee impact of this bill.

**Table 2  
Fee Impact on Public Water System Customers**

<b>Fiscal Year</b>	<b>Metered Customers Affected</b>	<b>Average Monthly Fee</b>	<b>Total Annual Fee Impact</b>
FY 2023-24	2.0 million	\$1.59	<b>\$38.2 million</b>

**Revenue bonds.** The enterprise is authorized to issue revenue bonds. Bond-related revenue and expenditures are not estimated.

### State Expenditures

If approved by voters, the bill increases state expenditures in the Department of Natural Resources by \$36.9 million and 7.6 FTE in FY 2023-24 and future years from the Water Resources Financing Fund. These expenditures include grants and loans from the enterprise and administrative costs for the program. These costs are shown on Table 3 and described below.

**Table 3  
Expenditures Under SB 21-034**

	<b>FY 2023-24</b>	<b>FY 2024-25</b>
<b>Department of Natural Resources Operating</b>		
Personal Services	\$644,863	\$644,863
Operating Expenses	\$40,759	\$40,759
Capital Outlay Costs	\$49,600	-
Website	\$50,000	\$50,000
Database and Grant Portal	\$213,000	\$71,000
Legal Services	\$25,522	\$25,552
Centrally Appropriated Costs <sup>1</sup>	\$233,420	\$223,955
FTE – Personal Services	0.1 FTE	0.1 FTE
FTE – Legal Services	7.5 FTE	7.5 FTE
<b>Subtotal: Operating Costs</b>	<b>\$1,257,164</b>	<b>\$1,056,099</b>
<b>Water Resources Financing</b>		
Water Resources Financing	\$35.6 million	\$35.8 million
<b>Subtotal: Water Resources Financing</b>	<b>\$35.6 million</b>	<b>\$35.8 million</b>
<b>Total</b>	<b>\$36.9 million</b>	<b>\$36.9 million</b>
<b>Total FTE</b>	<b>7.6 FTE</b>	<b>7.6 FTE</b>

<sup>1</sup> Centrally appropriated costs are not included in the bill's appropriation.

Enterprise expenditures consist of administrative costs of the program, and grants and loans that are made with the remaining funds. To administer the enterprise, DNR will require staffing and legal services, as well as a database, grant portal, and website. The fiscal note assumes that appropriations will be made through separate legislation or the annual budget process.

**Staffing and operating costs.** DNR will require staffing similar to that of CWCB's finance section, which administers a comparable loan and grant program through the CWCB Construction Fund and Perpetual Base Fund. The costs presented here are for a team consisting of 7.0 FTE for the enterprise, and 0.5 FTE in DNR's Executive Director's Office to manage the increased administrative and purchasing workload. Workload for enterprise staff includes evaluating the technical and financial feasibility of projects, assisting in project planning and design, administering grant and loan contracts, and accounting. In addition, these costs include 240 hours of legal services (0.1 FTE) from the Department of Law at a rate of \$106.34 per hour to support the legal structure of the enterprise and issuing revenue bonds.

Operating costs include standard supplies and technology for staff (\$10,125); lodging, per diem, travel, and food for quarterly board meetings (\$21,064); and travel costs for staff to visit project locations (\$9,570).

**Grant portal and website.** The enterprise will require a database to track loan and grant disbursements and repayments. This includes an online application portal to track and manage incoming applications and awards. In addition, costs include \$50,000 for the development and operation of a website. Both projects will be developed by the Office of Information Technology. FY 2024-25 costs shown in Table 3 are estimated to continue on an ongoing basis.

**Water resources financing.** These costs are calculated as the money remaining after the administrative costs of the program are covered, and are estimated to be about \$36.0 million per year. The financing provided by the enterprise consists of grants and loans. The figures shown here present total funds available for financing; because loans are not expenditures, the actual amount expended may be lower. Bond-related expenditures are not estimated.

**Election expenditure impact — existing appropriations.** This bill includes a referred measure that will appear before voters at the November 2022 general election. While no additional appropriation is required, certain election costs are incurred by the state when ballot measures are referred. These include reimbursing counties for increased election costs, publishing the text and title of the measure in newspapers across the state, and preparing and mailing the Blue Book.

**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. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$233,420 in FY 2023-24 and \$233,955 in FY 2024-25.

## **Local Government**

Municipalities that operate public drinking water systems will experience revenue and expenditure impacts. Water suppliers are required to collect the fee on behalf of the enterprise, which will entail expenditures and workload. Water suppliers may retain three and one third percent of fees collected, which the fiscal note estimates at \$1.3 million per year collectively for all water suppliers.

## **Effective Date**

The bill was postponed indefinitely by the Senate Agriculture and Natural Resources Committee on March 11, 2021.

## **State and Local Government Contacts**

Information Technology      Natural Resources