DEPARTMENT OF NATURAL RESOURCES
FY 2021-22 JOINT BUDGET COMMITTEE HEARING AGENDA

Tuesday, January 5, 2021
3:00 pm – 5:00 pm

3:00-3:15 INTRODUCTIONS AND OPENING COMMENTS

Presenter: Dan Gibbs, Executive Director

3:15-3:30 COMMON QUESTIONS

Main Presenters:
- Dan Gibbs, Executive Director

Supporting Presenters:
- Carly Jacobs, DNR Chief Budget Officer
- Lynne Steketee, DNR Chief Operating Officer

Topics:
- Implementation of FY 2020-21 HLD Decrease: Page 1, Question 1 in the packet, Slide 5
- COVID-19 Changes: Pages 1-2, Question 2 in the packet, Slide 6

3:30-4:00 SEVERANCE TAX

Main Presenters:
- Dan Gibbs, Executive Director
- Julie Murphy, Director, Colorado Oil and Gas Conservation Commission
- Jeff Robbins, Chair, Colorado Oil and Gas Conservation Commission

Supporting Presenter:
- Carly Jacobs, DNR Chief Budget Officer

Topics:
- Severance Tax Operational Fund Update: Pages 3-6, Questions 3-7 in the packet

4:00-4:15 COLORADO PARKS AND WILDLIFE

Main Presenters:
- Dan Gibbs, Executive Director
- Dan Prenzlow, Director, Colorado Parks and Wildlife

Supporting Presenter:
- Justin Rutter, Chief Financial Officer, Colorado Parks and Wildlife

Topics:

Wolves: Page 7, Question 8 in the packet

DEPARTMENT OF NATURAL RESOURCES

FY 2021-22 JOINT BUDGET COMMITTEE HEARING AGENDA

Tuesday, January 5, 2021

3:00 pm–5:00 pm

COMMON QUESTIONS FOR DISCUSSION AT DEPARTMENT HEARINGS

1 *Please describe the Department's actions to implement the Health, Life, and Dental decrease in lieu of a 5.0 percent General Fund salary base reduction. Please include dollar and percentage share data on planned "allocations" of the decrease to all divisions and programs within the Department. Please describe the use of vacancy savings, delayed hiring, and the implementation of one-time or ongoing operating savings. Please describe the urgency of the Department's need to engage in a furlough in FY 2020-21 due to the inability to achieve savings in other ways.*

Response: The Department's FY 2020-21 Health, Life, and Dental (HLD) appropriation was reduced by $1,035,518 in lieu of a 5.0 percent General Fund salary base reduction. One-hundred percent (100%) of the reduction was allocated to the Division of Water Resources (DWR), the Department's only division with personal services supported by General Fund. To implement the reduction, DWR is primarily using vacancy savings achieved through delayed hiring in accordance with department-wide hiring guidelines, effective May 2020, that require executive review and approval of all hiring decisions on vacancies, promotions, and pay adjustments.

In addition, the Governor and DNR leadership agree that a thoughtful and restrained furlough plan offers the fairest pathway for executive agencies to meet a portion of the required reduction to HLD in FY 2020-21. DNR does not have any employees who were exempt from the furlough, but approximately 12.4% of employees fell below the $50,000 annual salary threshold and therefore will not experience a furlough. DNR's estimated furlough savings come to $166,558 General Fund, accounting for about 16% of the total required HLD reduction.

2 *Please describe how the changes implemented in response to the COVID-19 pandemic have changed the nature of the Department's work. Please address programmatic, budgetary, and office space impacts.*

Response: The overall nature of the Department of Natural Resources (DNR) mission and work remains the same. While the Department has diligently implemented changes based on public health guidelines to mitigate the spread of the virus, DNR continues to successfully manage the state's natural resources for the benefit and enjoyment of the public.

More than half of DNR's approximately 1,500 FTE, plus nearly all of the Department's 900 temporary employees, interact with the public to provide services. DNR has implemented strong COVID health and safety protocols for all staff, provided personal protective equipment to all work site locations, implemented guidelines to allow for essential field-related work, and created a reporting process for COVID-19 related concerns and cases. Since March 2020, DNR directed office staff to work from home while still maintaining a high level of customer service. DNR has limited travel to mandatory and permissible reasons under current health guidelines only, and shifted board/commission meetings and public-facing services to a virtual format.

DNR has taken a fiscally conservative approach to hiring and spending in response to the economic and budgetary uncertainty associated with the pandemic. The department is reviewing all vacancies to ensure hiring is focused on essential positions. This spring, the hiring of some temporary employee positions was delayed and in many cases the length of temporary employment was shortened by weeks or months in response to budgetary uncertainties related to the pandemic. In particular, State Parks experienced increased pressure as public use of the parks increased significantly while volunteer hours decreased. Though increased Parks visitation has led to more revenue from entry fees, the Department is still analyzing the relationship between increased revenue and increased operating costs and resource impacts. Current projections of revenue versus expenses show that the State Parks system (as indicated by the State Parks Cash Fund) will break even over FY 2020-21, when accounting for potential COVID restrictions and the possible loss of supporting revenue sources (i.e., severance tax). DNR continues to monitor all cash funds carefully--especially those with oil and gas-dependent revenue streams--and manage spending accordingly.

The COVID operating environment presents challenges, but in some cases has been less disruptive than might be expected. The Colorado Oil and Gas Conservation Commission, for example, has long operated under a dispersed home-based office model for its field staff. With this existing operating model, OGCC field staff completed 25,872 inspections from April through September of 2020, a 42-percent increase over the same period in the prior year. DNR divisions have also been responsive to the impact of the pandemic on their customers. For example, the State Land Board granted temporary rent relief to some commercial real estate customers, in recognition of the challenging economic conditions in the state and in the interest of maintaining good business relationships. In addition, the Colorado Water Conservation Board launched a new online engagement tool (www.engagecwcb.org) to help gather stakeholder input in the absence of in person meetings.

Looking forward, DNR has been working with the Governor's Office and the Department of Personnel to outline plans for the "new normal" that include evaluating flexplace arrangements and maintaining a work from home model for approximately 50% of staff that are currently assigned to office space. Part of this effort includes DNR engaging in a taskforce to identify efficiencies through a reduction or consolidation of DNR's office space where possible.

SEVERANCE TAX

ISSUE: SEVERANCE TAX OPERATIONAL FUND UPDATE

3 *[Sen. Rankin] I am concerned about upcoming rules and regulations that may impact local revenues that reduce future drilling. Is the OGCC looking at the oil and gas production and economic forecasts and considering the impacts of legislation and setback rules? Is the Department conducting cost-benefit analysis with respect to the rules? If so, please describe the process, including who is responsible for the analysis, and the timeline for communicating findings.*

Response: Senate Bill 19-181 significantly amended the Colorado Oil and Gas Conservation Act, requiring the Oil and Gas Conservation Commission (Commission) to regulate the development and production of oil and gas in Colorado in a manner that protects public health, safety, welfare, the environment and wildlife resources. The bill also repealed Section 34-60-106(2)(d), C.R.S., removing the requirement for the Commission to take into consideration the cost effectiveness of regulatory measures. However, the Commission must adopt rules for oil and gas development that are necessary and reasonable.

To implement S.B. 19-181, the Commission undertook two Mission Change rulemakings. Before initiating these rulemakings, which included proposed changes to the setback rules, the Commission held public hearings and solicited input from a wide variety of stakeholders including citizens, the oil and gas industry, environmental groups, and lobbyist organizations representing a variety of interests. The Commission requested, received, and considered industry input, including information related to potential production and economic impacts of proposed setback changes. Over the course of the rulemaking processes, the Commission received input from over 90 parties, including prehearing statements, responses, pre-filed testimony, and party presentations, that provided information about impacts to development, especially as it related to setbacks.

In addition to stakeholder input, OGCC prepared a cost-benefit analysis (CBA) for each of the two Mission Change rulemakings that were completed on November 23, 2020, after the Department's JBC staff briefing. Pursuant to the Colorado Administrative Procedure Act (APA; Section 24-4-103(2.5)(a), C.R.S.), any member of the public can request that the Executive Director of the Colorado Department of Regulatory Agencies (DORA) direct a state agency to prepare a cost-benefit analysis if such a request is made within five days of the proposed rules being published in the Colorado Register. OGCC received two such requests: one to consider the proposed changes to the 200, 300, 400, and 600 Rules Series, (including Rule 604 pertaining to setbacks); and one to consider the proposed changes to the 900 and 1200 Rules Series. In accordance with the APA, the two cost-benefit analyses were completed and published to both the OGCC and DORA websites prior to their respective hearings (200, 300, 400, and 600 Rules Series CBA; 900 and 1200 Rules Series CBA). The Commission then considered both stakeholder input and the cost-benefit analyses during the course of adopting the Mission Change rules, which is standard practice for all Commission rulemakings. Please note that the results of the cost-benefit analyses may not apply to the adopted rules, which

differed from the proposed rules as a result of input gathered from various stakeholders throughout the hearings process.

4 *[Sen. Hansen] Please provide additional detail related to the response to RFI #3 on orphaned wells activity.*

Response: Additional details related to OGCC's Orphaned Well Program for FY 2019-20 can be found in the program's annual report, available on the Commission's website at:

https://cogcc.state.co.us/documents/library/Technical/Orphan/Orphaned_Well_Program_FY2020_Annual_Report_20200901.pdf

The report includes information about a variety of Orphaned Well Program metrics:

- Table 1 (page T1) shows a summary of the type of work by work unit, the county where the work was performed, the project name, the task name, and the task status.
- Table 2 (page T16) summarizes historical financial information, FY 2019-20 expenditures, and available sureties remaining at the end of FY 2019-20 for Orphaned Well Program Bond Claim projects that had FY 2019-20 expenditures.
- Table 3 (page T17) shows all Orphaned Well Program projects that had expenses in FY 2019-20 (this information was submitted as the response to RFI #3).
- Table 4 (page T19) displays the Orphaned Well Program's July 1, 2020, Site List, which includes a total of 215 orphaned wells and 454 associated orphaned sites.

5 *[Sen. Hansen] Please explain the two highest cost projects on the list – the $1.4 million CM Production Bond Claim and the $777,000 Tudex Petroleum Bond Claim – and what amounts and percentage of total costs are related to bond claim funding.*

Response: The CM Production Bond Claim is a large project consisting of 27 wells on 26 sites (one site was a two-well pad) spread across Jackson, Logan, and Washington Counties. The Orphaned Well Program commenced work on this project in FY 2016-17, expending the available bond claim funds totaling $67,849 before using appropriated funds. Bond funds comprised 4.2 percent of the project's total cost of $1,603,187 as of the end of FY 2019-20. For FY 2019-20, Orphaned Well Program activities for this project included plugging eight wells, decommissioning five tank batteries, sampling and analysis work at six sites, and environmental remediation at four sites.

The Tudex Petroleum Bond Claim includes nine wells on eight sites (one site was a two-well pad) in Adams and Weld Counties. The Orphaned Well Program commenced work on this project in FY 2017-18, expending the available bond claim funds totaling $62,470 before using appropriated funds. Bond funds comprised 6.3 percent of the project's total cost of $988,764, as of the end of FY 2019-20. For FY 2019-20, Orphaned Well Program activities for this project included plugging nine wells, performing sampling and analysis at four sites, and performing environmental remediation at three sites.

6 *[Sen. Hansen] What was the bond level established for each of those wells and when were those bond levels established? Please provide a list of bond funding provided for each of the projects on the FY 2019-20 expenditures list included in RFI #3.*

Response: Financial assurance for both the CM Production project and the Tudex Petroleum project included claimed soil protection and plugging and abandonment bonds totaling $60,000 per operator. This bond amount was the financial assurance blanket amount required for operators with fewer than 100 wells in lieu of individual well bonds, as established by a previous Commission, and was effective July 1, 2009. The CM Production project also included a $5,000 gas facility bond, as required for operators of small systems, gathering or processing less than five million standard cubic feet per day of natural gas.

Not all project expenditures in the response to RFI #3 included bond funding. The following table shows the subset of projects partially financed with proceeds from claimed bonds, including the total bond amounts:

BONDS AND OTHER SURETY CLAIM STATUS FOR ACTIVE FY 2019-20 BOND CLAIM PROJECTS				
Project	Total Bond Claim	Amount Spent in Prior Fiscal Years	Amount Spent in FY 2019-20	Remaining Bond Balance
Atom Petroleum Bond Claim	60,000	47,207	-	12,793
Benchmark Energy Bond Claim	620,000	240,991	379,009	-
CM Production Bond Claim	67,849	67,849	-	-
Dolphin Bond Claim	55,000	55,000	-	-
Donnelly Bond Claim	20,106	20,106	-	-
Energy Search Bond Claim	60,000	53,953	6,047	-
Entek GRB Bond Claim	225,000	-	6,267	218,733
Northstar Gas Bond Claim	30,000	-	-	30,000
P&M Petroleum Management Bond Claim	61,239	-	10,088	51,151
Petrohunter Bond Claim	62,573	4,786	7,262	50,525
Pine Ridge Bond Claim	85,000	45,691	16,052	23,258
Ranchers Bond Claim*	98,424	98,424	-	-
Red Mesa Holdings Bond Claim	72,831	72,831	-	-
Red Mountain Bond Claim**	92,015	81,500	10,515	-
Redwine Bond Claim	30,000	30,000	-	-
Reynolds Noel Bond Claim	30,000	6,836	23,164	-
Ruth Bond Claim	4,826	4,826	-	-
Taylor William Bond Claim	10,000	117	-	9,883
Texas Tea Bond Claim	71,850	71,850	-	-
Tudex Petroleum Bond Claim	62,470	62,470	-	-
Vitruvian Exploration Bond Claim	30,000	9,442	146	20,412
Totals	$ 1,849,183	$ 973,878	$ 458,549	$ 416,756

*Ranchers Bond Claim includes $35,000 Colorado Department of Public Health and Environment deposit (bond transfer)
**Red Mountain Bond Claim includes $24,169 bankruptcy deposit and $5,000 State Land Board deposit (bond transfer)

This table also appears on page T16, of the Orphaned Well Program FY 2019-20 Annual Report (also referenced in the response to question 2, above).

7 *[Sen. Hansen] Please describe the general experience with bond claims over the last three years. Please explain how the Department and the OGCC are responding to the need for more appropriate and secure bond levels.*

Response: During the prior three fiscal years, OGCC's Orphaned Well Program worked on 24 bond claim projects ranging from small single well sites to large sites consisting of 20 or more wells to plug, equipment to decommission, and environmental and reclamation work to complete.[1] Bond claim amounts for these projects varied from $4,826 for a single-well bond claim to $620,000 for a bond claim with 39 wells and 44 related sites.

For 17 of the 24 projects, bond proceeds had been fully expended by the end of FY 2019-20, and proceeds from the claims were not sufficient to cover the costs of the work required for remediation of the associated sites. Work is still in progress in FY 2020-21 for all but one of these bond claim projects.

In response to Executive Order D 2018-12, OGCC convened a working group in fall 2018 to review financial assurance requirements. As a result of this review, Commission staff issued a report detailing recommended changes on December 1, 2018, which can be found on the Commission's website at:

https://cogcc.state.co.us/documents/library/Technical/FATWG/Financial_Assurance_Technical_Working_Group_Final_Report_Dec_2018.pdf

The report recommended increasing bonding for inactive wells, and will be considered as part of the rulemaking to implement S.B. 19-181's requirement to revise OGCC's financial assurance structure. In conjunction with the other rulemakings required by the bill, the Commission plans to hold hearings on rules regarding Financial Assurance beginning in early 2021.

[1] The number of bond claim projects referenced here differs from that reported in the response to question 6 due to timing. During FY 2019-20, the Orphaned Well Program expended funds in support of 21 of the 23 projects that were still in progress at fiscal year-end.

COLORADO PARKS AND WILDLIFE

WOLVES

8 *[Sen. Rankin] Does the Department have any plans to manage the wolves that are already in Colorado? If so, please describe current wolf management practices.*

Response: As of the submission deadline for these responses--Thursday, December 31, 2020--the Department does not manage wolves in the state. The gray wolf is designated as endangered under the federal Endangered Species Act. As such, management of gray wolves is currently under federal authority. Until they are delisted, Colorado Parks and Wildlife (CPW) will not take any management action on the wolves that are already in Colorado, but will monitor the animals known to be in the state using a variety of techniques. Once delisted, CPW will follow the recommendations of the Wolf Working Group (see below). These recommendations also provide guidance for CPW's response to the wolves in Colorado.

While the United States Fish and Wildlife Service has published a Final Rule that will delist wolves from the Endangered Species Act, they remain federally protected until January 4, 2021, when that Final Rule will take effect. Not taking into consideration any potential litigation of the Final Rule, at that point in time, management authority for the species will return to the state. The Department will provide an update on the status of the state's management authority during the hearing on January 5, 2021.

In 2004, the Colorado Division of Wildlife (CDOW now CPW) appointed a 14-member Working Group to address the potential management of wolves. The product that resulted from that effort is the "Findings and Recommendations for Managing Wolves that Migrate into Colorado." This guidance was reaffirmed in 2016 and remains the best source of direction for CPW on wolf management practices.

The Working Group agreed on four guiding principles for wolf management:

- Impact-Based Management: Address positive and negative impacts of wolf presence.
- Adaptive management: Learn by doing, monitor, and apply new knowledge.
- Monitoring: Use various methods to track and understand wolf populations, livestock depredation, wild ungulate populations, and human attitudes.
- Damage Payments/Proactive Measures: Compensate for losses and encourage methods to minimize livestock-wolf conflicts.

The report goes into specific recommendations regarding management strategies that will allow for wolves to live with no boundaries where they find appropriate habitat. It emphasizes monitoring and working towards solutions to mitigate issues, including appropriate education and outreach. Additionally, the recommendations include transitioning wolf management into existing management programs and procedures both internally and with partners.

Department of Natural Resources

Dan Gibbs, Executive Director

Joint Budget Committee Hearing

January 5, 2021

Agenda

- Department Overview
  - Common Questions 1-2
- FY 2021-22 Budget Requests
- Severance Tax/Oil and Gas
- Colorado Parks and Wildlife

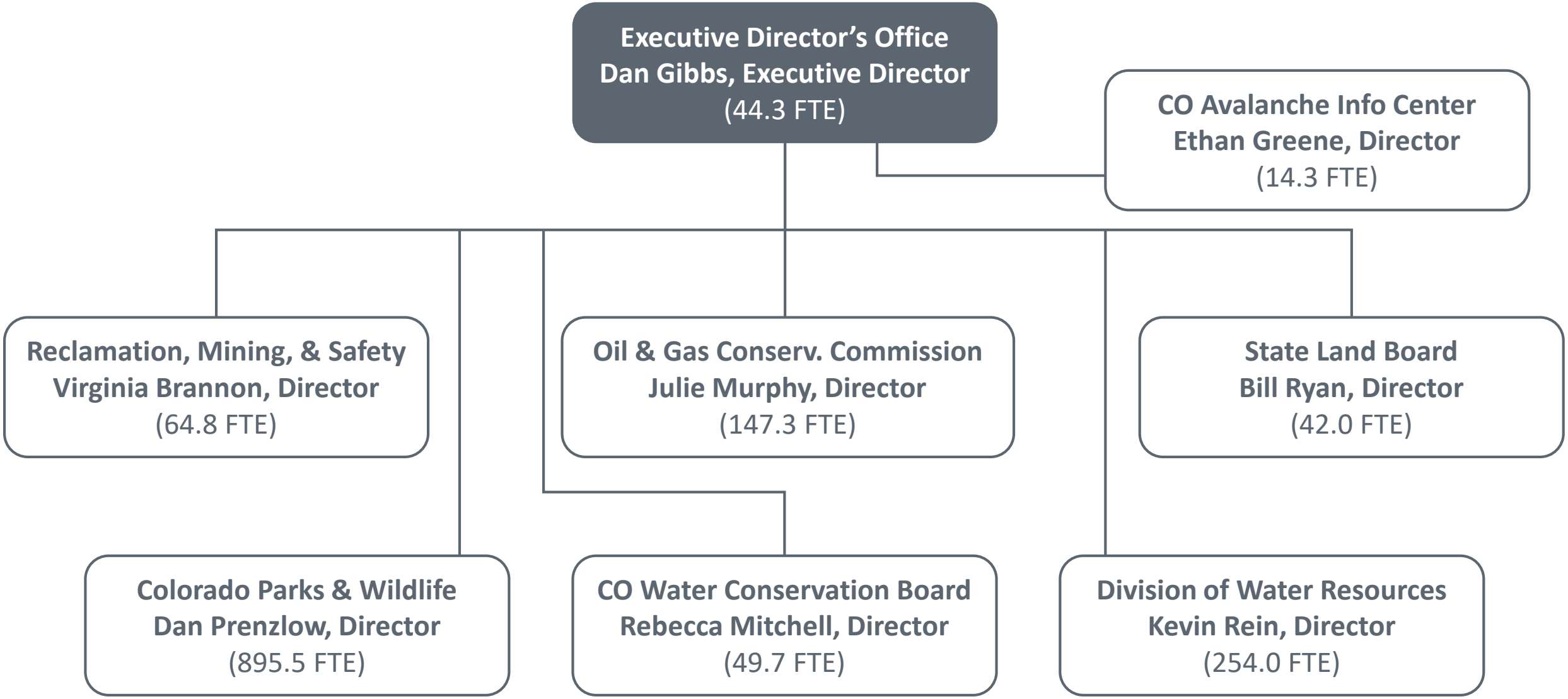
Department Mission & Vision

The mission of the Department of Natural Resources is:

To manage and conserve Colorado's natural resources for the benefit and enjoyment of people today and tomorrow.

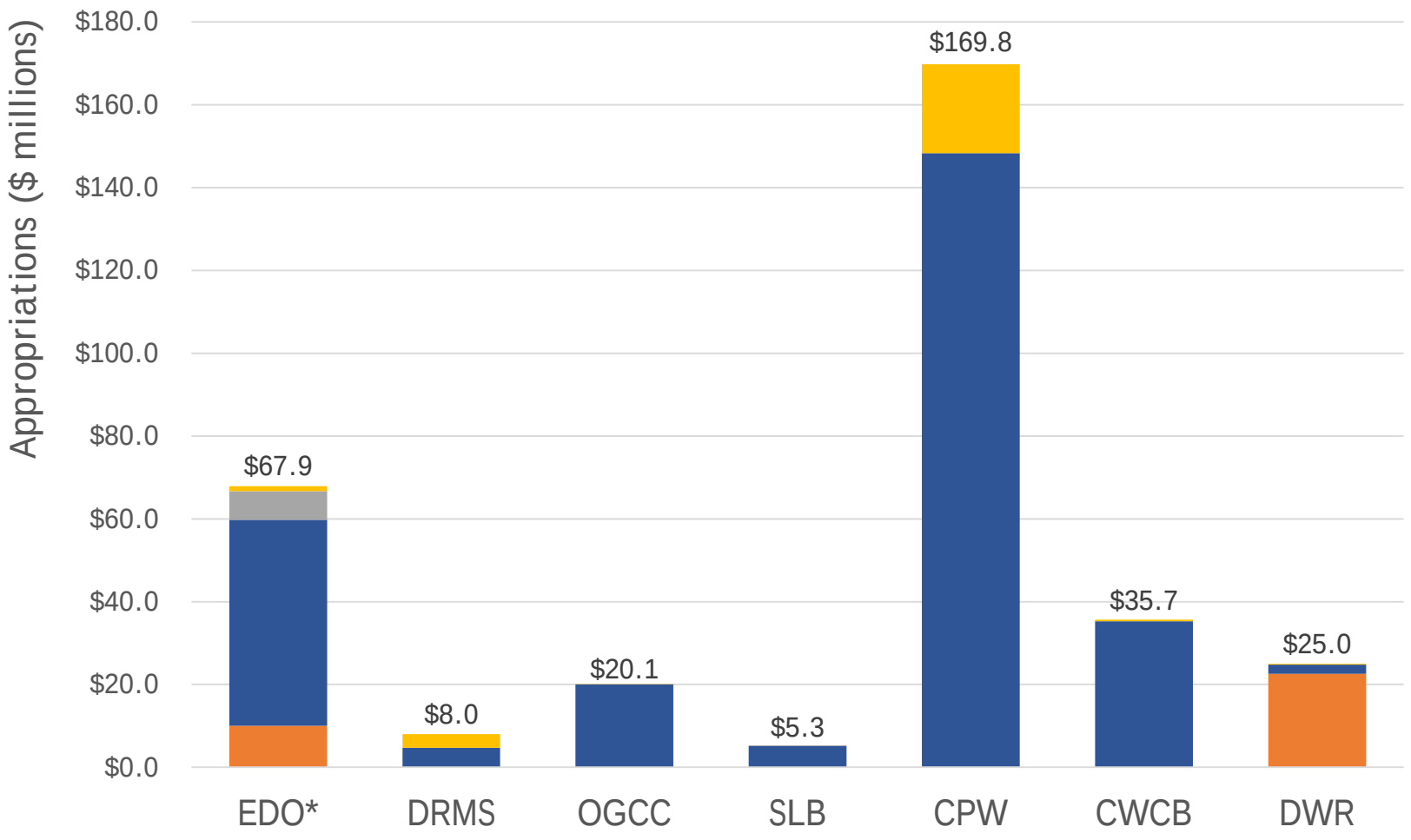
DNR's vision:

Colorado will be a national leader in promoting the responsible use and conservation of natural resources for this and future generations.



FY 2020-21 DNR Total = 1,511.9 FTE

DNR FY 2020-21 Operating Appropriations by Division



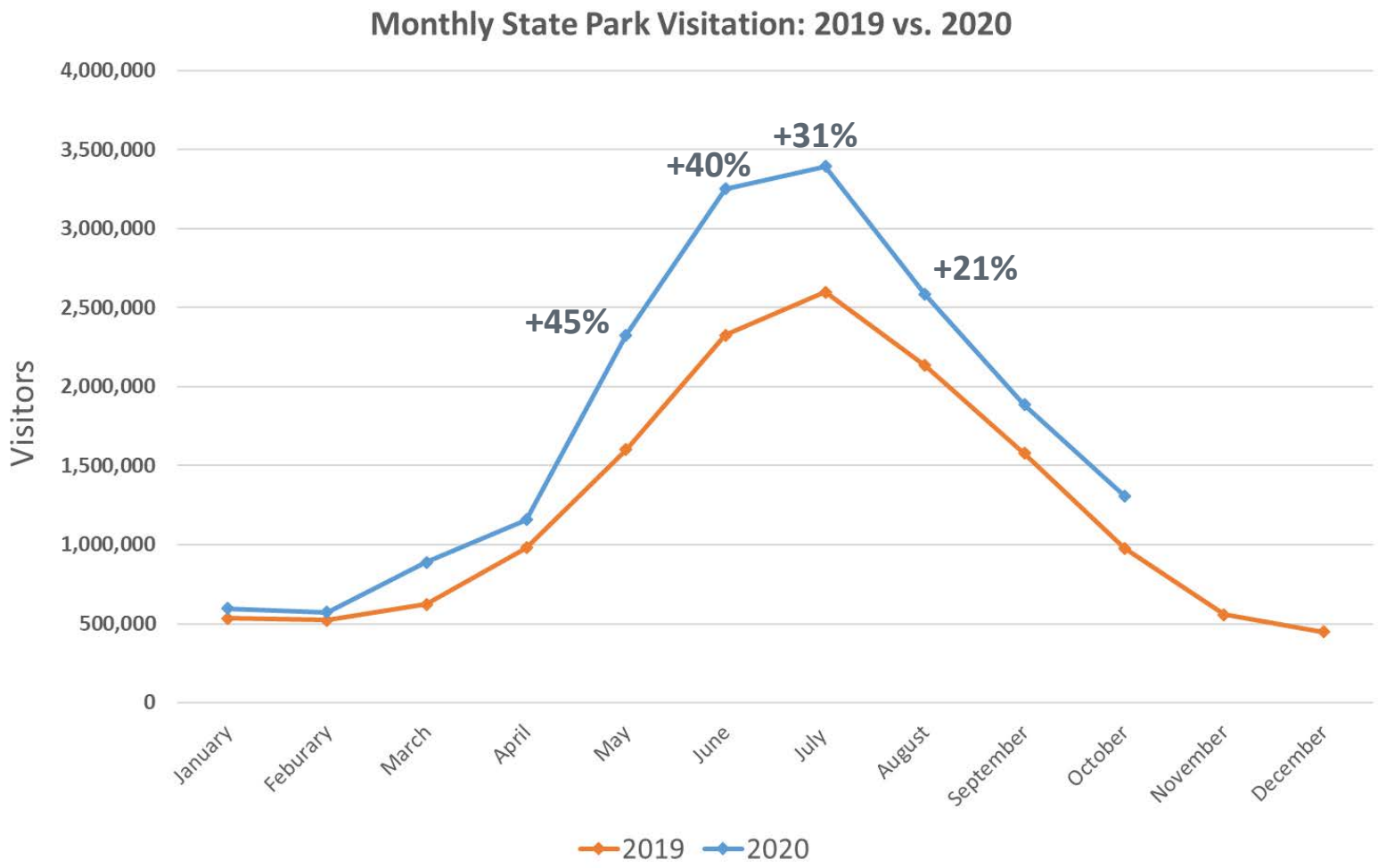
Total Approp = $331.8 million

- $32.7M General Fund – 10%
- $265.3M Cash Funds – 80%
- $7.2M Reapprop Funds – 2%
- $26.7M Federal Funds – 8%

*The Executive Director's Office (EDO) budget includes appropriations for EDO personal services and operating expenses, centrally appropriated common policy line items, and the Colorado Avalanche Information Center (CAIC). CWCB's appropriation includes the annual Projects Bill.

Recreation in the Vast, Great Outdoors

- Providing safe opportunities for responsible recreation
- Operational Impact of COVID-19



Wildly Important Goals

1. Track and Prioritize Water Project Needs
2. Balance Outdoor Recreation and Conservation
3. Sustainable Funding for Colorado Parks and Wildlife
4. Equity, Diversity, and Inclusion

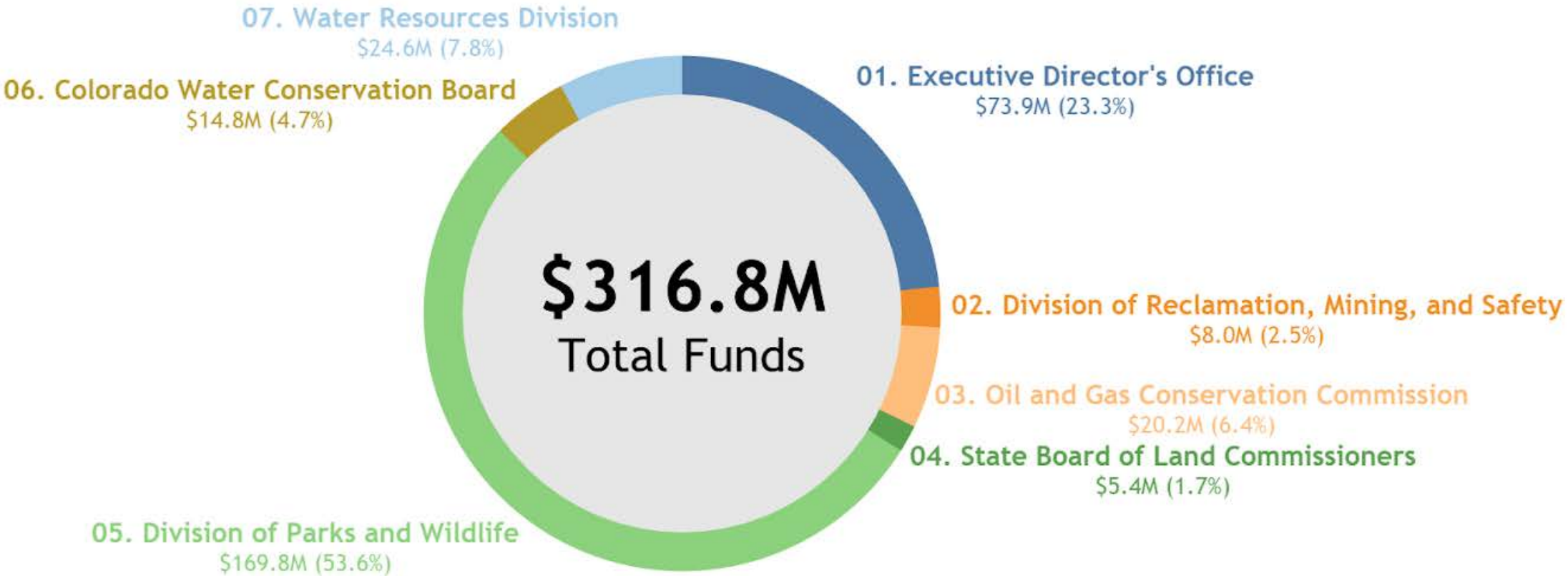
FY 2021-22 Budget Request Package

Protects funding for DNR's high priority programs and restores the FY21 reduction to the Department's operating budget.

Includes vital funding for wildfire risk mitigation, as well as economic stimulus investments in state parks infrastructure.

Advances DNR's Wildly Important Goal to balance outdoor recreation and conservation.

FY 2021-22 Budget Request Detail



General Fund = $35.2 million FTE = 1,517.0

Wildfire Response and Risk Mitigation

$20 million General Fund investment over two years (FY21 S-01, FY22 R-01)

Forest Restoration/Wildfire Mitigation

- FY 2020-21 = $6 million
- FY 2021-22 = $5 million

CWCB Watershed Restoration Grants

- FY 2020-21 = $4 million
- FY 2021-22 = $5 million

Economic Stimulus, Outdoor Rec and Conservation

- $20 million CCF for State Parks capacity expansion, infrastructure improvement projects (FY21 Supplemental, Stimulus)
- Staff and operating to open Fishers Peak State Park to the public (R-02: $208,385 CF, 2.0 FTE)
- Coordinator for multi-partner big game migration corridor projects and habitat protection efforts (R-03: $109,410 CF, 1.0 FTE)

Budget Balancing and Technical Requests

- Flexibility for the CO Avalanche Information Center to accept CDOT funds to install avalanche mitigation systems along state highways (R-04: $85,637 RF, 0.8 FTE)

- True up Off-Highway Vehicle Program admin support costs (R-05: $0 refinance)

- Continue State Parks Military Free Access Program within existing resources (R-06: -$125,000 GF)

Agenda

- Department Overview
  - Common Questions 1-2
- FY 2021-22 Budget Requests
- Severance Tax/Oil and Gas
- Colorado Parks and Wildlife

COLORADO
Department of
Natural Resources