JOINT
BUDGET
COMMITTEE

INTERIM SUPPLEMENTAL BUDGET REQUESTS FY 2017-18

OFFICE OF THE GOVERNOR

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

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INTERIM SUPPLEMENTAL REQUEST

COLORADO ENERGY OFFICE PROGRAM ADMINISTRATION

	REQUEST	RECOMMENDATION
TOTAL	**$3,100,000**	**$3,100,000**
FTE	0.0	0.0
General Fund	3,100,000	3,100,000
Cash Funds	0	0
Federal Funds	0	0

Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.? [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]	**YES**
Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	**YES**

Explanation: JBC staff and the Department agree that (1) this request meets the interim supplemental criteria of Section 24-75-111, C.R.S., and (2) this request is the result of unforeseen contingency.

DEPARTMENT REQUEST: The Colorado Energy Office (CEO) seeks up to $3.1 million General Fund for FY 2017-18 to continue its statutorily-mandated responsibilities, and continue delivering energy services to consumers and the energy industry.

STAFF RECOMMENDATION: Staff recommends that the Joint Budget Committee approve an appropriation of $3.1 million General Fund for FY 2017-18 to continue CEO's operations for one additional year. Staff's recommendation assumes that legislation will be offered during the 2018 session to redefine the role of the Office going forward (including required funding for the role) or to formally sunset the Office.

STAFF ANALYSIS:

What Does CEO Do?

The activities of the Office are focused on seven areas: agriculture, commercial buildings, public buildings, residential buildings, low-income energy services, transportation, and policy and research. Following is a brief description of the activities the Office conducts in these seven areas.

Agriculture

The Office's Colorado Agricultural Energy Efficiency Program provides farmers with energy audits, preliminary renewable energy assessments, technical assistance, and support for financing and implementing projects. The Office, along with the Colorado Department of Agriculture, utility and industry partners, and the U.S. Department of Agriculture, help finance energy efficiency improvements. The goal of the initiative is to decrease energy and water consumption and improve the financial standing of the state's agricultural producers.

Commercial Buildings

The Office's Colorado Commercial Property Assessed Clean Energy (C-PACE) program provides financing structures for commercial clean energy projects to pay for new heating and cooling systems, lighting improvements, solar panels, water pumps, and insulation. The model allows for a commercial building owner to apply to the New Energy Improvement District (supported by the Office) to receive financing from private lenders for projects. The owners then repay the cost of the improvements through an assessment on their property tax bills. The goal of the initiative is to reduce energy and water consumption in commercial buildings by providing access to capital to pursue upgrades.

Public Buildings

The Office's Energy Performance Contracting program provides public building owners with an opportunity to select an energy service company from a list of pre-qualified vendors to conduct energy efficiency audits, the results of which provide a guarantee of utility cost savings through the implementation of various facility improvements (e.g. lighting, electrical, plumbing). The owner contracts with the energy service company to perform the improvements and pays back the costs of the improvements over time using utility cost savings. The goal of the initiative is to assist building owners in reducing energy consumption with no upfront cost.

Additionally, the Office's Energy Savings for Schools program provides technical resources to all schools, particularly rural and low-income schools, for improving energy and water efficiency and implementing renewable energy improvements. The program includes a free energy audit, preliminary renewable energy assessment, and technical and implementation support. The program also connects school districts to other CEO programs that may assist in financing improvements, such as the Energy Performance Contracting program. The goal of the Energy Savings for Schools initiative is to lower school energy costs and improve classroom comfort.

Residential Buildings

The Office addresses energy efficiency in new home construction by working with stakeholders to increase the use of the Home Energy Rating System (HERS). HERS is the industry standard by which a home's energy efficiency is measured. It's also the nationally recognized system for inspecting, testing, and calculating a home's energy performance. Using HERS leads to energy improvements in new home builds, such as increasing the use of LED lights, installing efficient hot water heaters, and better insulation practices.

Additionally, the Office is working with stakeholders to implement the Home Energy Score (HES) for existing homes. The HES offers owners of existing homes an easy-to-understand assessment of their home's energy use to make educated choices about how to improve efficiency of their homes. The HES also provides marketable features for real estate sales, and gives information for appraisers to use in their opinion of value. The data allow a homebuyer the ability to plan for future capital improvements and possible equipment failures.

Low-Income Energy Services

The CEO Weatherization Assistance Program (WAP) provides site-specific energy auditing and the installation of measures such as insulation, appliance replacement, and air sealing for eligible low-income households. The goal of the initiative is to lower the household energy burden (the amount of household income expended on energy costs) for low-income residents.

Additionally, the Low-Income Community Solar program offers solar options to eligible low-income households through subscriptions to community solar gardens. The subscriber receives a credit on their electric bill for the power the panels produce. Colorado law dictates that community solar gardens that qualify for a direct payment or an electric bill credit from a utility company must have a plan for including low-income customers as subscribers. The goal of the initiative is to lower electricity costs for low-income residents.

Transportation

The Office is engaged in two initiatives to increase the state's supply of alternative fuel vehicle stations. This first program, known as ALT Fuels Colorado, provides grant funding for compressed natural gas (CNG) fueling station equipment with the option of additional funding for co-located electric vehicle charging and propane auto gas station equipment. The second program, known as Charge Ahead Colorado, provides grant funding for the installation of electric vehicle charging stations. The goal of the two initiatives is to reduce harmful air pollutants and encourage the diversification of the state's transportation fuels mix. Additionally, the Office's Refuel Colorado program offers free technical assistance to fleets statewide by helping to identify monetary savings and other advantages for the conversion to alternative fuel vehicles.

Policy and Research

The Office monitors and analyzes a wide range of bills related to energy production, electric utilities, energy efficiency, renewable energy, and alternative fuel transportation, and provides technical subject matter support to legislators. CEO's research unit also partners with stakeholders to study the development of geothermal, hydropower, and recycled energy to identify opportunities across the state to determine the economic feasibility of tapping into these underused sources of energy. Much of the Office's research has been documented in publically available publications. In 2016, publication topics included coal mine methane capture and use, customer-sited energy systems, STEM education for natural resources, recycled energy markets, and energy assurance emergency planning.

How is CEO Primarily Funded?

Statute calls for transfers of state money into different cash funds to support the Office's functions. The transfers are as follows:

Colorado Energy Office Cash Fund Transfers			
Cash Fund	Source	Amount	Final Statutory Transfer
Weatherization Low-Income Energy Assistance Fund *Purpose: Energy efficiency services for low-income households*	Severance Tax Tier 2	*$6,500,000	July 1, 2023
Energy Outreach Low-Income Energy Assistance Fund *Purpose: Utility bill payment assistance for low-income households*	Severance Tax Tier 2	*$3,250,000	July 1, 2023
Clean and Renewable Energy Fund *Purpose: CEO operations*	General Fund	$1,600,000	July 1, 2016
Innovative Energy Fund *Purpose: CEO operations*	Severance Tax Off-the-top	$1,500,000	July 1, 2016

*Under current law, the amount available for FY 2017-18 is forecast to be $1,650,382 for the Weatherization Low-Income Energy Assistance Fund and $825,191 for the Energy Outreach Low-Income Energy Assistance Fund.

As shown in the previous table, transfers into the two cash funds that provide money for the Office's operations were ceased via statute after FY 2016-17. Specifically, CEO received its final annual transfer of $1.6 million General Fund to the Clean and Renewable Energy Fund on July 1, 2016. This transfer occurred for five consecutive fiscal years. Additionally, the Office received its final annual transfer of $1.5 million of "off-the-top" severance tax money to the Innovative Energy Fund on July 1, 2016. This transfer occurred for five consecutive fiscal years, as well.

It is important to note that only the transfers of money into the two cash funds (Clean and Renewable Energy Fund and Innovative Energy Fund) that fund the Office's operations ended on July 1, 2016. CEO's statutory obligations were not repealed and remain in effect.

The Office also receives a variety of federal funds to support its agriculture, low-income energy assistance and transportation program areas. These funds come from the U.S. Department of Agriculture (supports agriculture programming), U.S. Department of Energy and U.S. Department of Health and Human Services (supports low-income energy services programming), and U.S. Department of Transportation (supports transportation programming).

Legislative Efforts to Fund CEO's Operations Past FY 2016-17

Beginning with the November budget request for FY 2017-18, the Office sought legislation to reauthorize these two transfers for five additional fiscal years from FY 2017-18 through FY 2021-22 so that it could continue to accomplish its statutorily-mandated responsibilities. The Joint Budget Committee (JBC) reviewed this request and determined its preference to have the proposal vetted by a committee of reference or other members of the General Assembly with energy policy interests. The Committee set-aside $3.1 million General Fund for FY 2017-18 to account for the costs associated with any legislation developed by non-JBC members related to reauthorizing funding for CEO. Subsequently, two bills were offered during the 2017 session to address CEO's funding needs:

- Senate Bill 17-301 (Energy-related Statutes) – Made a variety of policy changes to change the role of the Office and transferred $2.1 million General Fund into two cash funds for four years to cover the costs of CEO's operations for FY 2017-18 through FY 2020-21. This bill was deemed postponed indefinitely after the Senate adhered to its version of the bill and the House did not take up consideration of the Senate's adherence.

- House Bill 17-1373 (Gen Fund Transfers For CO Energy Ofc Cash Funds) – Transferred $3.1 million General Fund into two cash funds for one year to cover the costs of CEO's operations for FY 2017-18. This bill was postponed indefinitely by the Senate Committee on State, Veterans, and Military Affairs.

What Happens Now?

Due to the General Assembly's decision not to pass legislation reauthorizing funding for CEO's operations, the Office indicates that the following will take place beginning on July 1, 2017:

- CEO will retain 10.0 FTE with federal funds received for weatherization initiatives and the Alternative Fuels Colorado program.

- CEO will begin terminating 24.0 FTE funded previously with state money transferred to the Clean and Renewable Energy Fund and the Innovative Energy Fund.

- CEO will no longer receive approximately $1.7 million in federal funds from the U.S. Department of Energy and the U.S. Department of Agriculture that requires a state funding match. This match that had previously been fulfilled by state money from the Clean and Renewable Energy Fund and the Innovative Energy Fund. These federal funds are used for agricultural energy efficiency, energy saving for schools, energy performance contracting, small hydro assistance, and building energy code trainings.

- CEO will receive money from electric vehicle registration fees ($20 for each electric vehicle registration) for the electric vehicle grant program, but will not have an FTE to award grants.

- CEO will no longer operate all other programs that focus on the areas of agriculture, residential buildings, commercial buildings, public buildings, and policy and research. Additionally, various other statutory programs will cease operation (e.g. coordinating state agency comments on hydro permitting).

CEO's Proposed Solution
The Office seeks up to $3.1 million General Fund for FY 2017-18 through an emergency supplemental request to continue its statutorily-mandated responsibilities, and continue delivering energy services to consumers and the energy industry.

Staff's Recommendation and Other Options
Staff recommends that the Committee approve an appropriation of $3.1 million General Fund for FY 2017-18 to continue CEO's operations for one additional year. Staff's recommendation assumes that legislation will be offered during the 2018 session to redefine the role of the Office going forward (including required funding for the role) or to formally sunset the Office. However, if the Joint Budget Committee does not approve staff's recommendation, the Committee has two other alternatives:

- "Do nothing Approach" – The Committee may wish to reject the staff recommendation and not take any action related to this request. In this case, the Office will begin laying off 24.0 FTE and will have federal funds remaining to transition into a unit responsible only for low-income energy assistance (weatherization) and CNG station grants. If this option is selected, the Committee may wish to provide additional funds to cover the costs associated with laying off employees (e.g. unemployment insurance and leave payouts) and closing out all other obligations (e.g. leased space costs). Staff estimates that these costs may tally up to $750,000 General Fund, however the exact amount will not be determined until after the fiscal year books close and a plan is set in motion by the Office to transition to its new limited role. This funding could be provided at this time, in September during the 1331 budget process (assuming the Office submits a 1331 funding request), or in January 2018 during the traditional supplemental budget process

- "Middle of the Road Approach" – The Committee may wish to approve an amount less than the $3.1 million recommended by staff. For example, the Committee may opt to appropriate an amount equal to the appropriation included in S.B. 17-301 ($2.1 million). Any funding level between the staff recommendation ($3.1 million) and the estimated costs of reducing the Office's workforce by 24.0 FTE ($750,000) would require the Office to prioritize its required programming and retain enough staff to perform these selected functions.

	FY 2016-17 Appropriation	FY 2017-18 Appropriation	Fiscal Year 2017-18 Interim Supplemental Requested Change	Recommended Change	New Total with Recommendation

OFFICE OF THE GOVERNOR
Governor - John Hickenlooper

Interim Supplemental - Colorado Energy Office Program Administration

(1) Office of the Governor

(C) Colorado Energy Office

	FY 2016-17 Appropriation	FY 2017-18 Appropriation	Requested Change	Recommended Change	New Total with Recommendation
Program Administration	6,549,724	3,623,542	3,100,000	3,100,000	6,723,542
General Fund	0	70,000	3,100,000	3,100,000	3,170,000
Cash Funds	2,996,182	0	0	0	0
Federal Funds	3,553,542	3,553,542	0	0	3,553,542