



Legislative
Council Staff

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FISCAL NOTE

Drafting Number: LLS 19-0138
Prime Sponsors:

Date: September 20, 2018
Bill Status: Water Resources Review
Committee Bill Request
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Bill Topic: SEVERANCE TAX OPERATIONAL FUND DISTRIBUTION METHODOLOGY

- Summary of Fiscal Impact:**
- State Revenue
 - State Expenditure
 - State Transfer
 - TABOR Refund
 - Local Government
 - Statutory Public Entity

This bill changes the timing and budgeting of severance tax revenue to several grant programs administered by the Department of Natural Resources. The bill does not change the funding amount for individual programs over time but delays the transfers until severance taxes have been collected for the previous fiscal year. The impacts are ongoing.

Appropriation Summary: None required.

Fiscal Note Status: The fiscal note reflects the bill draft requested by the Water Resources Review Committee.

**Table 1
State Fiscal Impacts Under Bill 2**

		FY 2018-19 (Current Year)	FY 2019-20	FY 2020-21
Revenue				
Expenditures				
Transfers	Natural Resources and Energy Grant Programs (Tier 2)	(\$27,594,635)	(\$915,562)	-
TABOR Refund	General Fund	-	-	-

Summary of Legislation

Under current law, the operational fund of the Severance Tax Trust Fund receives 25 percent of severance tax receipts. The fund is used for Tier 1 and Tier 2 programs in the Department of Natural Resources. Tier 1 programs are prioritized in the fund and include operations for the Oil and Gas Conservation Commission; the Geological Survey; the Avalanche Information Center; the Division of Reclamation, Mining, and Safety; the Water Conservation Board; the Division of Parks and Wildlife; and the fund's statutory reserve. Tier 2 programs include water-related programs, agriculture-related programs, clean and renewable energy development, soil conservation, the control of invasive species, the Species Conservation Trust Fund, and low-income energy assistance programs. The bill formally names Tier 1 programs as Core Departmental Programs and Tier 2 programs as Natural Resources and Energy Grant Programs.

The bill also changes the timing and number of payments made to the Natural Resources and Energy Grant Programs. Current law provides a mechanism for balancing spending from the operational fund by making proportional reductions to all Natural Resources and Energy Grant Programs (Tier 2) when insufficient funds exist to fully fund those programs and still meet the fund's statutory reserve requirement. This includes providing three transfers each year based on the forecasted severance tax revenue, prior transfers, and the statutory reserve.

The bill consolidates three transfers made to Natural Resources and Energy Grant Programs on July 1, January 4, and April 1 of each fiscal year into a single transfer made annually on August 15. The current transfers are based on the forecasted revenue for current fiscal year severance tax collections. This bill transfers revenue to Natural Resource and Energy Grant Programs in arrears as a single transfer is made based on the severance tax collections from the previous fiscal year.

Finally, the bill raises the statutory reserve for the Natural Resources and Energy Grant Programs from 15 percent of authorized distributions to 100 percent of authorized distributions and transfers any unspent revenue to the Severance Tax Perpetual Base Fund.

State Transfers

The bill reduces transfers from the operational fund of the Severance Tax Trust Fund to Natural Resources and Energy Grant Programs by \$27.6 million in FY 2018-19 and \$0.9 million in FY 2019-20.

Under current law, Natural Resources and Energy Grant Programs receive three transfers in a fiscal year based on the most recent forecast of severance tax revenue. Each fiscal year, the following transfers are scheduled:

- on July 1, 40 percent of authorized grant amounts are transferred;
- on January 4, 30 percent of authorized grant amounts are transferred; and
- on April 1, the final 30 percent of authorized grant amounts are transferred.

Individual transfer amounts are adjusted based on the statutory reserve and the latest forecast. The July 1, 2018 transfers were not made because there is not sufficient revenue to make the transfer and meet other statutory requirements pursuant to House Bill 18-1338. Severance tax revenue in the September 2018 Legislative Council Staff forecast anticipates that there will be sufficient revenue for full transfers to Natural Resources and Energy Grant Programs in FY 2018-19, however these transfers will occur in the second half of the fiscal year. The current

amounts authorized for FY 2018-19 and projected for FY 2019-20 are shown in the top half of Table 2. This fiscal note assumes that the bill will become law before any transfers are made to Natural Resources and Energy Grant Programs in FY 2018-19 on April 1, 2019.

The bill does not change the authorization of Natural Resource and Energy Grant Programs, but the transfer will occur on August 15 in the year following when the severance tax collections occur. Transfers under Bill 2 are shown in the bottom half of Table 2.

Table 2
Transfers Made Under Current Law and Under Bill 2

	FY 2018-19 (Current Year)	FY 2019-20	FY 2020-21
Current Law Distributions of Severance Tax Revenue to Tier 2 Programs			
(a) Water Supply Reserve Fund	7,585,513	9,086,027	9,086,027
(b) Soil Conservation District Grants	341,348	408,871	408,871
(c) Water Efficiency Grant Program	417,203	499,731	499,731
(e) Species Conservation Trust Fund	3,792,757	-	-
(f) LEAP - Low-income Energy Assistance	9,861,167	11,811,833	11,811,833
(i) Interbasin Compact Committee	565,172	676,970	676,970
(k) and (n) Forestry Grants	1,896,378	2,271,506	2,271,506
(m) Aquatic Nuisance Species	3,038,760	3,639,866	3,639,866
(n) Abandoned Mine Reclamation	96,336	115,393	115,393
Tier 2 Program Total Distributions Under Current Law	\$27,594,635	\$28,510,197	\$28,510,197
Distributions Under Bill of Severance Tax Revenue to Natural Resources Energy Grant Programs			
(a) Water Supply Reserve Fund	-	7,585,513	9,086,027
(b) Soil Conservation District Grants	-	341,348	408,871
(c) Water Efficiency Grant Program	-	417,203	499,731
(e) Species Conservation Trust Fund	-	3,792,757	-
(f) LEAP - Low-income Energy Assistance	-	9,861,167	11,811,833
(i) Interbasin Compact Committee	-	565,172	676,970
(k) and (n) Forestry Grants	-	1,896,378	2,271,506
(m) Aquatic Nuisance Species	-	3,038,760	3,639,866
(n) Abandoned Mine Reclamation	-	96,336	115,393
NREG Program Total Distributions Under Current Law	-	27,594,635	28,510,197
Change in Transfers Under Bill 2	(\$27,594,635)	(\$915,562)	-

Effective Date

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

State Appropriations

No appropriation is required.

State and Local Government Contacts

Counties
Natural Resources

Local Affairs
Revenue

Municipalities