

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Andrea Uhl, JBC Staff (303-866-4956)
DATE May 12, 2020
SUBJECT LOC Additional Balancing Option – Permanent Fund Transfer

The following item is a new budget balancing recommendation for the Department of Local Affairs.

→ TRANSFER LOCAL GOVERNMENT PERMANENT FUND BALANCE TO GENERAL FUND

JBC ACTION AS OF 3/16/20: The Department did not request funds from the Local Government Permanent Fund. This fund can only be used when Legislative Council Staff's December forecast shows a 10 percent or greater decrease in federal mineral leasing revenue from the previous year. The December 20, 2019 forecast did not meet the criteria for the use of this line item; the Department has not requested an appropriation since FY 2016-17.

RECOMMENDATION: Staff recommends introducing legislation to transfer \$2,300,000 of the Local Government Permanent Fund's balance to the General Fund.

ANALYSIS:

Key Consideration: One-time option. Transfers in future years could be made as the fund accumulates revenue.

Additional Background: Fifty percent of the state's share of all bonus payments from federal mineral leases is deposited to the Local Government Permanent Fund. Section 34-63-102 (5.3)(a)(I)(B), C.R.S., states that "If, based on the revenue estimate prepared by the staff of the legislative council in December of any fiscal year, it is anticipated that the total amount of moneys that will be deposited into the mineral leasing fund...during the fiscal year will be at least ten percent less than the amount of moneys so deposited during the immediately preceding fiscal year, the general assembly may appropriate moneys from the local government permanent fund to the department of local affairs for the current or next fiscal year." Money appropriated from this fund is used to enhance the direct distributions to localities' federal mineral leasing funds.

The current balance in the Local Government Permanent Fund is \$2,334,653. This fund typically receives between \$1.0 million and \$2.0 million in bonus payments annually. The outlook for federal mineral lease revenue is not as bleak as severance tax; Legislative Council Staff's May 2020 forecast shows FML revenue decreasing by 47.0 percent from FY 2018-19 to FY 2019-20, but then rebounding by 9.9 percent in FY 2020-21. The Department can only make a request to access funds from the Local Government Permanent Fund based on the December forecast each year. The December 2019 forecast did not merit a request from this fund, and, based on current projections, the December 2020 forecast will not qualify the Department to access these funds either. The COVID-19 pandemic coupled with turmoil in the energy markets will substantially reduce the amount of funds received by local governments through direct distributions and grants from the Local Government Mineral and Energy Impact Grants and Disbursements Line Item. Based on the fact that the Department likely

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will not be able to request funds from the Local Government Permanent Fund to augment its FML disbursements next fiscal year, staff recommends transferring these funds to the General Fund. This recommendation should be taken into consideration when discussing transfers from the Local Government Mineral Impact Fund or the Local Government Severance Tax Fund to the General Fund.