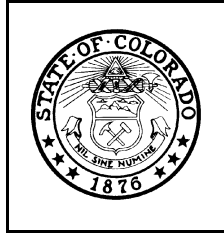


COLORADO GENERAL ASSEMBLY

JOINT BUDGET COMMITTEE



FY 2007-08 STAFF BUDGET BRIEFING: DEPARTMENT OF NATURAL RESOURCES

**(FOR THE FOLLOWING DIVISIONS:
COLORADO GEOLOGICAL SURVEY,
OIL AND GAS CONSERVATION COMMISSION,
STATE BOARD OF LAND COMMISSIONERS,
COLORADO WATER CONSERVATION BOARD,
DIVISION OF WATER RESOURCES "STATE ENGINEER'S OFFICE")**

**JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision**

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November 16, 2006

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FY 2007-08 BUDGET BRIEFING

STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE:

DEPARTMENT OF NATURAL RESOURCES

FOR THE FOLLOWING 5 DIVISIONS (ONLY):

COLORADO GEOLOGICAL SURVEY, OIL AND GAS CONSERVATION COMMISSION,

STATE BOARD OF LAND COMMISSIONERS, COLORADO

WATER CONSERVATION BOARD, DIVISION OF WATER RESOURCES "STATE ENGINEER'S OFFICE"

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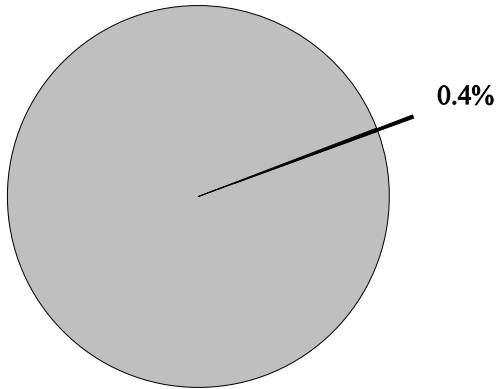
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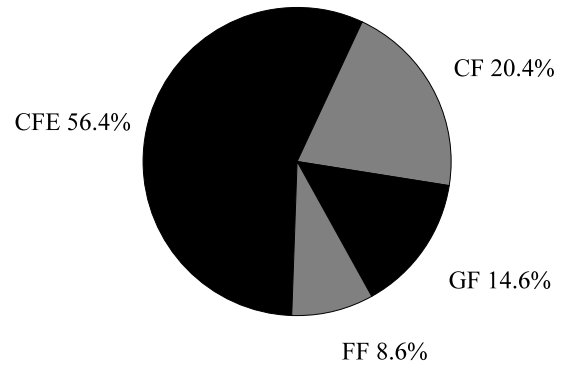
**FY 2007-08 BUDGET BRIEFING
DEPARTMENT OF NATURAL RESOURCES**

GRAPHIC OVERVIEW

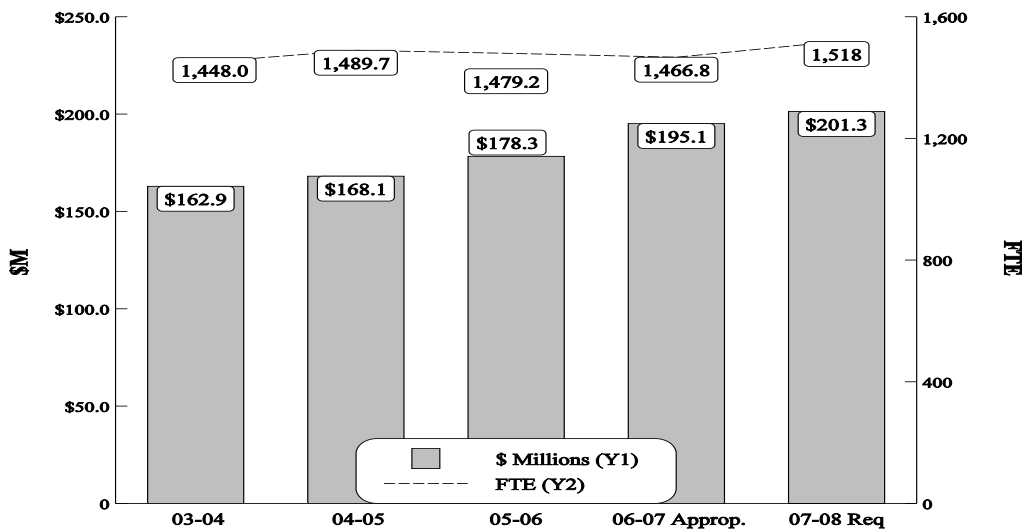
**Share of State General Fund
FY 2006-07**



**Funding Source Split
FY 2006-07**



Budget History



DEPARTMENT OF NATURAL RESOURCES OVERVIEW

(FOR THE FOLLOWING DIVISIONS:
COLORADO GEOLOGICAL SURVEY, OIL AND GAS CONSERVATION
COMMISSION, STATE BOARD OF LAND COMMISSIONERS, COLORADO
WATER CONSERVATION BOARD,
DIVISION OF WATER RESOURCES "STATE ENGINEER'S OFFICE")

Key Responsibilities

- ▶ The Colorado Geological Survey seeks to enhance the economic vitality of the state, protect citizens from adverse conditions and to provide information using geological tools.
- ▶ The Oil and Gas Conservation Commission promotes responsible development of oil and gas.
- ▶ The State Board of Land Commissioners manages state-owned lands for agriculture, minerals development, and commercial purposes, to benefit public schools and other trust beneficiaries.
- ▶ The Colorado Water Conservation Board promotes conservation of the state's water resources to ensure maximum use and flood prevention.
- ▶ The Division of Water Resources ("State Engineer's Office") administers and enforces water rights throughout the state.

General Factors Driving the Budget

Funding for the entire department consists of 14.6 percent General Fund, 20.4 percent cash funds, 56.4 percent cash funds exempt, and 8.6 percent federal funds. Funding for these divisions represented in this briefing are 65.2 percent of the Department's General Fund (solely the Division of Water Resources) excluding centrally appropriated items (*i.e.*, POTS funded in the Executive Director's Office), and 77.0 percent of the Department's General Fund when those centrally appropriated items are included. Some of the most important factors driving these budget areas are reviewed below.

Severance Tax (Operational Account) Expenditures

The Operational Account of the Severance Tax Trust Fund was created as a trust to fund programs within the Department that promote responsible resource development, offset the environmental impacts of mineral and mineral fuel development, and encourage sound management of natural resources. Pursuant to S.B. 96-170, Section 39-29-108 (2), C.R.S. provides that 50 percent of severance tax revenues are deposited into the Severance Tax Trust Fund and 50 percent of the revenues are used by the Department of Local Affairs for grants and distributions to local

governments impacted by mining activities. Section 39-29-109, C.R.S. provides that 50 percent of revenues deposited into the Severance Tax Trust Fund shall be allocated to the Perpetual Base Account of the Severance Tax Trust Fund (or 25 percent of total severance tax revenues), which is used by the Colorado Water Conservation Board for water construction projects. The other 50 percent of Severance Tax Trust Fund revenues (or 25 percent of total severance tax revenues) are allocated to the Operational Account to fund programs that "promote and encourage sound natural resource planning, management, and development related to minerals, energy, geology, and water". The following chart shows the Operational Account S.B. 96-170 authorized expenditures on Department of Natural Resources programs and in the bottom of the chart shows the recent "transfers" out of the Operational Account for other purposes.

Operational Account of the Severance Tax Trust Fund						
	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Total State Severance Tax Revenues ^{<1>}	\$57,481,000	\$32,600,000	\$125,100,000	\$152,000,000	\$234,258,000	\$161,284,000
Severance Tax Operational Account Revenues	14,370,250	8,150,000	29,923,659	36,555,003	55,333,750	37,550,000
Base DNR Operational Account Expenditures as % of Fund Revenues	47.2%	78.4%	21.0%	17.0%	13.0%	24.5%
Base (S.B. 96-170) Department of Natural Resources Expenditures						
Colorado Geological Survey	\$1,843,747	\$918,003	\$1,983,289	\$2,028,490	\$2,099,875	\$2,329,618
Colorado Oil and Gas Conservation Commission	2,139,326	2,119,508	1,395,526	912,863	1,463,687	2,160,935
Division of Reclamation, Mining, and Safety	2,165,890	2,738,548	2,298,330	2,635,116	2,747,033	3,601,026
Colorado Water Conservation Board	<u>627,963</u>	<u>614,330</u>	<u>621,087</u>	<u>628,827</u>	<u>856,489</u>	<u>1,121,194</u>
TOTAL ^{<2>}	6,776,926	6,390,389	6,298,232	6,205,296	7,167,084	9,212,773
Annual % Change	0.0%	-5.7%	-1.4%	-1.5%	15.5%	28.5%
Water Project-Based Uses of the Operational Account of the Severance Tax Trust Fund:						
H.B. 05-1254 (Water Efficiency Grants)	\$0	\$0	\$0	\$0	\$1,580,000	\$0
H.B. 06-1313 (Litigation Fund)	0	0	0	0	0	2,000,000
H.B. 06-1400 (Water Roundtables)	0	0	0	0	0	931,318
S.B. 06-179 (Water Projects)	0	0	0	0	0	10,000,000

Operational Account of the Severance Tax Trust Fund						
	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Other DNR Related Expenditures						
H.B. 06-1311 (Species Conservation)	\$0	\$0	\$0	\$0	\$4,000,000	\$8,800,000
Transfers/Other Non-S.B. 96-170 Expenditures <3>						
Emergency Fire Fighting	\$4,000,000	\$0	\$0	\$0	\$0	\$0
H.B. 02-1391 (Transfer to the General Fund)	20,200,000	0	0	0	0	0
S.B. 03-191 (Transfer to the General Fund)	0	6,877,394	0	0	0	0
S.B. 03-271 (Transfer to the General Fund)	0	0	4,600,000	0	0	0
H.B. 04-1402 (Division of Water Resources One-time appropriation) <4>	0	0	1,518,546	0	0	0
S.B. 05-201 (Low-Income Energy Assistance)	0	0	0	7,600,000	0	0
S.B. 05-226 (Payment of Kansas Damages)	0	0	0	15,500,000	4,000,000	0
H.B. 06-1200 (Low-Income Energy Assistance)	0	0	0	0	24,000,000	11,000,000
H.B. 06-1322 (Clean Energy Development Fund)	0	0	0	0	0	2,635,000
H.B. 06-1393 (Soil Conservation Programs)	0	0	0	0	450,000	450,000
S.B. 06-183 (Colorado Water Resources Research Institute)	0	0	0	0	0	500,000
S.B. 06-193 (Develop Underground Water Storage)	0	0	0	0	0	146,000

<1> Reflects the September 2006 Legislative Council Staff Severance Tax Forecast. *Includes* interest earnings.

<2> Senate Bill 96-170 authorized division and related expenditures only; does not reflect transfers to the General Fund or expenditures for purposes not specified in S.B. 96-170.

<3> Transfers or expenditures on non-S.B. 96-170 based programs total \$103,476,740 from FY 2001-02 to FY 2006-07.

<4> In FY 2003-04, H.B. 04-1402 provided a one-time appropriation to the State Engineer's Office (Division of Water Resources) of \$1,527,449 for FY 2003-04, in lieu of General Fund which was reestablished in FY 2004-05. This Severance Tax Operational Account expenditure was not part of the original S.B. 96-170 expenditure authorization and hence is not contained in the Long Bill appropriation reflected above.

State Board of Land Commissioners

Approximately 96 percent of the land managed by the State Board of Land Commissioners is for the School Trust. These school trust lands generate cash fund and cash funds exempt revenues for the public school system (K-12). Total annual revenues for this Trust have doubled since FY 2001-02, mostly due to mineral royalties. The following table shows the revenues from the School Trust's exempt and non-exempt cash sources. After administrative expenses for the Board of State Land Commissioners are removed, the net cash funds exempt earnings are deposited into the Public School Fund. Pursuant to S.B. 05-196, the first \$12.0 million of cash fund revenues generated are authorized for appropriation in School Finance; any revenues in excess of this sum are deposited into the Public School Fund. These excess cash fund revenues, along with the retained interest earnings and cash fund exempt revenues provide a estimated ending balance in the Public School Fund of \$453.0 million at the end of FY 2005-06. This Fund is managed by the State Treasurer.

SCHOOL TRUST REVENUE	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
	Actual	Actual	Actual	Estimate	Projection
School Trust-Total Revenues	\$36,445,680	\$53,771,940	\$63,868,553	\$55,581,917	\$63,321,685
Mineral Rental	986,720	1,253,324	1,751,130	1,708,113	1,708,113
Mineral Royalties/Bonuses	24,517,032	40,121,204	50,399,909	42,493,157	49,036,878
Surface Rental	6,793,722	7,988,701	8,009,916	8,218,484	8,614,531
Commercial/ Other	3,937,968	4,033,546	3,478,051	2,924,243	3,724,243
Land Sales	25,054	75,707	11,286	11,286	11,286
Interest and Penalties	106,389	149,153	126,634	126,634	126,634
Timber Sales	78,795	150,305	91,627	100,000	100,000

Increase in Oil and Gas Activity

The Colorado Oil and Gas Conservation Commission (OGCC) is responsible for promoting the exploration, development, and conservation of Colorado's oil and natural gas resources. Colorado has experienced a significant increase in oil and gas drilling activity, which has dramatically affected the Colorado Oil and Gas Conservation Commission's workload and necessary expenditures with which to respond to the rising needs. As the table below indicates, workload estimates for FY 2006-07 project the following as compared to a FY 2002-03 baseline: (1) a 207 percent increase in oil and gas permits received; (2) a 38 percent increase in active wells; and (3) a 203 percent increase in the number of drilling rigs.

Oil and Gas Conservation Commission	FY 02-03 Actual	FY 03-04 Actual	FY 04-05 Actual	FY 05-06 Actual	FY 06-07 Estimate
<u>Workload Activity</u>					
Number of Drilling Permits Received	2,081	2,650	3,847	5,829	6,400
Number of Drilling Permits Approved	1,986	2,576	3,507	4,957	5,940
Number of Active Wells	24,489	25,870	28,032	30,324	33,900
Average Number of Drilling Rigs	30	47	63	83	91
Total OGCC Expenditures ^{1/}	\$3,275,376	\$3,331,168	\$3,623,183	\$3,977,718	\$7,325,191
Total FTE	34.0	34.0	35.3	38.0	49.0

^{1/} Division-only expenditures include all fund sources; does not include centrally appropriated items funded in the Executive Director's Office.

Division of Water Resources General Fund

This division, also referred to as the Office of the State Engineer, receives over 65 percent of the Department's total General Fund appropriation (and \$22.0 million and 77 percent including centrally appropriated line items in the Executive Director's Office). The majority of the Division's General Fund appropriation is associated with personal services costs. In FY 2006-07, the fees authorized by S.B. 03-181 sunsetted and the \$3.2 million in cash funding was replaced with General Fund.

Division of Water Resources ^{1/} Long Bill General Fund	FY 02-03 Actual	FY 03-04 Actual	FY 04-05 Actual	FY 05-06 Actual	FY 06-07 Approp.
General Fund - Division	\$13,326,454	\$11,767,032	\$13,469,665	\$14,422,604	\$18,591,308
<i>Percent Change</i>	<i>0.0%</i>	<i>-11.7%</i>	<i>14.5%</i>	<i>7.1%</i>	<i>28.9%</i>
Total Department General Fund	\$22,320,367	\$22,339,483	\$22,060,071	\$22,729,255	\$28,534,012
<i>Division GF as % of Department GF</i>	<i>59.7%</i>	<i>52.7%</i>	<i>61.1%</i>	<i>63.5%</i>	<i>65.2%</i>

^{1/} Direct expenditures only; does not reflect centrally appropriated items ("POTS") in the EDO.

Summary of Major Legislation

- ✓ **S.B. 06-179 (Isgar/Penry): Additional Financial Support for Water Projects.** Transfers \$10.0 million a year from the Operational Account to the Water Supply Reserve Account starting in FY 2006-07.
- ✓ **H.B. 06-1200 (Buescher/Kester): Operational Account moneys for Low-Income**

Energy Assistance. Appropriates a portion of the Operational Account of the Severance Tax Trust Fund to the Department of Human Services for the Low-Income Energy Assistance Program (LEAP) and the Office of the Governor for direct bill payment assistance and home energy efficiency improvements for low-income households. For FY 2005-06, appropriates \$24.0 million in total from the Operational Account, with the Department of Human Services receiving \$17.0 million to increase benefits in the LEAP program, and the Office of the Governor receiving \$7.0 million for direct bill payment assistance and home energy efficiency improvements for low-income households. For FY 2006-07, appropriates \$11.0 million in total from the Operational Account, with the Department of Human Services receiving \$5,950,000 to increase benefits in the LEAP program, and the Office of the Governor receiving \$5,050,000 for direct bill payment assistance and home energy efficiency improvements for low-income households. Fiscal year 2007-08 and FY 2008-09 will provide for \$12.0 million and \$13.0 million of appropriations, respectively, for these programs combined. Finally, the bill ensures that there is an adequate reserve in the prior year with which to make each year's appropriations.

- ✓ **H.B. 06-1400 (Buescher/Isgar): Approval of Interbasin Compact Charter.** Approves the interbasin compact charter, pursuant to the provisions of H.B. 05-1177. Appropriates \$75,837 cash funds from the Operational Account of the Severance Tax Trust Fund and 0.5 FTE to the Office of the Governor, Director of Compact Negotiations, and \$855,481 cash funds from the Operational Account of the Severance Tax Trust Fund and 1.2 FTE to the Department of Natural Resources, Colorado Water Conservation Board, for FY 2006-07.
- ✓ **S.B. 05-196 (Owen/Buescher): State Land Board Investment and Development Fund.** Creates the State Board of Land Commissioners Investment and Development Fund. Transfers \$1,000,000 cash funds exempt (from State Land Board earnings on mineral royalties and bonus revenue) into the Fund for expenditure by the State Land Board on rezoning, platting, master planning, or other development activities that increase the value of or rate of return on the lands. Also continuously appropriates \$1,000,000 cash funds exempt from the State Board of Land Commissioners Investment and Development Fund annually to the Division and exempts expenditures from this Fund from the procurement and budgeting processes in order to allow the State Land Board to operate more like a business. Finally, the bill creates accountability and tracking requirements.
- ✓ **S.B. 05-226 (Owen/Plant): Kansas v. Colorado Litigation Payments.** Creates the *Kansas V. Colorado* Plaintiff's Damages Payment Fund and the *Kansas V. Colorado* Plaintiff's Legal Costs Fund in the State Treasury. Makes the following changes for FY 2004-05 to pay the damages in the settlement: (1) creates the *Kansas v. Colorado* Plaintiff's Damages Payment Fund ("Damages Payment Fund"); (2) authorizes the State Treasurer to transfer \$34,796,129 into the Damages Payment Fund comprised of the following: \$15,500,000 from the Operational Account; \$15,500,000 from the Perpetual Base Account; and \$3,796,129 from the Local Government Severance Tax Fund; (3) authorizes the Department of Law to expend from the Damages Payment Fund and appropriates \$34,796,129 CFE from the Damages

Payment Fund for FY 2004-05 (and authorizes the expenditure of moneys not spent in FY 2004-05 to be spent in FY 2005-06) to the Department of Law; and (4) provides that any moneys not utilized in the damages payment to Kansas shall be transferred to the Local Government Severance Tax Fund on July 1, 2006.

Makes the following changes for FY 2005-06 to pay for potential court (legal) courts: (1) creates the *Kansas v. Colorado* Plaintiff's Legal Costs Fund ("Legal Costs Fund") for the purpose of paying a portion of Kansas' legal costs; (2) on July 1, 2005, transfers \$4,000,000 from the Operational Account of the Severance Tax Trust Fund to the Legal Costs Fund; (3) provides the Department of Law with continuous spending authority to pay Kansas for its legal costs "up to" the \$4,000,000 from the Legal Costs Fund subject to the written approval of the JBC to the State Controller; (4) repeals the provisions effective July 1, 2007 and provides that the remaining funding not expended in this Legal Costs Fund shall be transferred (back) to the Operational Account. Finally, the bill exempts the transaction from the provisions of H.B. 05-1001 (restriction on the transfer of moneys from cash funds) in the event that H.B. 05-1001 is passed and the bill exempts this Operational Account transaction from the statutory two year required reserve for Operational Account expenditures.

- ✓ **H.B. 04-1402 (Young/Reeves): Elimination of the Water Administration Fee.** Repeals the water administration fee (authorized in S.B. 03-278) and requires the State Engineer to refund all such moneys collected by June 30, 2004.
- ✓ **S.B. 03-181 (Owen/Young): Elimination of the General Fund Subsidy of Well-Permit Activities.** Increases well-permitting fees to fund the Division of Water Resources (State Engineer's Office) in the Department of Natural Resources. *(NOTE: this statute sunset on July 1, 2006 and the cash was replaced with \$3.2M General Fund.)*
- ✓ **S.B. 03-191 (Owen/Young): Severance Tax Transfer.** For purposes of augmenting General Fund revenues for FY 2002-03, requires the State Treasurer to transfer funds from various cash funds to the General Fund, including \$7.1 million from the Severance Tax Operational Account to the General Fund on June 30, 2003.
- ✓ **S.B. 03-278 (JBC): Water Administration Fees to Offset General Fund in the State Engineer's Office.** Authorized the State Engineer to establish and collect annual water administration fees to cover costs associated with administration of appropriative water rights. *(Fee was ceased by H.B. 04-1402.)*
- ✓ **S.B. 02S1-1 (Owen/Hoppe): Spending Flexibility from the Perpetual Base Account.** Allows up to \$1,000,000 in the Perpetual Account of the Severance Tax Trust Fund to be appropriated to the Director of the Water Conservation Board and the State Engineer (Water Resources) to make loans or grants to agricultural organizations for emergency drought-related water augmentation purposes, if drought criteria is met.

- ✓ **H.B. 02-1152 (Hoppe/Isgar): Annual Water Legislation.** In addition to the annual grants and loan authorizations, the legislation authorized the Water Conservation Board to make loans of up to \$1.0 million without General Assembly approval and provides for the balances in the Construction Fund and the Perpetual Account to be continuously appropriated for this purpose. The Board is required to submit a report of such loans to the General Assembly by January 15 of the following year.

- ✓ **H.B. 02-1041 (Rippy/Taylor): Operational Account of the Severance Tax Trust Fund Balance.** Establishes the intent of the General Assembly that a year end balance be maintained in the Operational Account of the Severance Tax Trust Fund equal to double that of funding for severance tax programs in the Department of Natural Resources.

- ✓ **H.B. 02-1391 (Young/Reeves): Transfer of Severance Tax to the General Fund.** Transferred \$20,200,000 from the Operational Account of the Severance Tax Trust Fund into the General Fund in FY 2001-02. Provided for a pay-back of \$7,900,000 in the prioritized list.

- ✓ **S.B. 97-206 (Bishop/George); and Amendment 16 to the Colorado Constitution: Land Board Restructuring.** Restructured the State Board of Land Commissioners to include five appointed, non-paid members and a paid staff director; and established the Stewardship Trust program.

- ✓ **S.B. 96-170 (Bishop/Dyer): Severance Tax Reform.** Severance taxes are taxes charged on the “severing” of minerals and mineral fuels from the earth. Under S.B. 96-170, 50.0 percent of severance tax revenues are deposited into the Severance Tax Trust Fund, and 50.0 percent of the revenues are used by the Department of Local Affairs for grants and distributions to local governments affected by mining. Fifty percent of revenues deposited into the Severance Tax Trust Fund are allocated to the Perpetual Account, which is used by the Water Conservation Board to make loans for water construction projects. The other 50.0 percent of Severance Tax Trust Fund revenues are allocated to the Operational Account, to fund programs that promote and encourage planning, management, and development of minerals, energy, and water resources. The bill specifies that the General Assembly may appropriate up to 45.0 percent of the Operational Account balance to the Oil and Gas Conservation Commission, up to 30.0 percent to the Division of Minerals and Geology, up to 20.0 percent to the Colorado Geological Survey, and up to 5.0 percent to the Water Conservation Board.

Major Funding Changes FY 2005-06 to FY 2006-07

Action (Source)	General Fund	Other Funds (Source)	Total	FTE
Colorado Water Conservation Board		\$3,550,000	\$3,550,000	0.0

Action (Source)	General Fund	Other Funds (Source)	Total	FTE
H.B. 06-1311 Annual Water Projects bill Oil and Gas Conservation Commission JBC initiative - Emergency response funding	\$0	CWCB Reserves \$1,500,000 OGCC Fund Reserves	\$1,500,000	0.0
Oil and Gas Conservation Commission Department and JBC initiative - Increase for drilling related workload	\$0	\$1,062,712 Severance and OGCC Fund Reserves	\$1,062,712	11.0
Water Resources Division Department initiative - Increases for Water Divisions 1 and 3	\$577,201	\$0	\$577,201	11.5
Oil and Gas Conservation Commission JBC initiative - special environmental studies	\$0	\$500,000 OGCC Fund Reserves	\$500,000	0.0
Geological Survey Coalbed methane stream depletion study		\$153,000 Operational Account Severance CF	\$153,000	0.0
Water Resources Division Sunset S.B. 03-181 well permit fees	\$3,186,051	(\$3,186,051) Well permit fees	\$0	0.0
Colorado Water Conservation Board H.B. 05-1311 Annual Water Projects Bill One-time Funding Discontinued		(\$3,732,813) CWCB Cash Fund Reserves	(\$3,732,813)	0.0
Oil and Gas Conservation Commission Elimination of FY 2005-06 emergency funding for La Plata County		(\$908,445) OGCC CF	(\$908,445)	0.0
Geological Survey Federal funds reduction (moneys not used)		(\$212,606) Federal Funds	(\$212,606)	(2.0)

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
1	Reclamation, Mining and Safety Minerals Environmental Protection Specialist FTE <i>[Section 39-29-109, C.R.S.]</i>	\$0	\$213,418 <i>[Operational Account of the Severance Tax Trust Fund]</i>	\$0	\$0	\$213,418	1.0
2	Oil and Gas Conservation Commission Consulting engineer to review oil shale permits <i>[Sections 39-29-109 (1) (a) (II) and (c)(I), 34-60-102 (1) and 106 (2) (d), C.R.S.]</i>	\$0	\$0	\$60,000 <i>[Oil and Gas Conservation and Environmental Response Fund]</i>	\$0	\$60,000	0.0
3	Division of Water Resources Ground water administration service personnel <i>[Sections 37-80-101; 37-82-101; 37-84-101; 37-90-101; 37-92-101, C.R.S.]</i>	\$515,876	\$0	\$0	\$0	\$515,876	7.1

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
4	Oil and Gas Conservation Commission Continuation of contract funds, addition of FTE and leased space to address permit workload <i>[Sections 34-60-102 (1) and 106 (2) (d), C.R.S.]</i>	\$0	\$28,688 <i>[Oil and Gas Conservation and Environmental Response Fund]</i>	\$542,784 <i>[Oil and Gas Conservation and Environmental Response Fund reserves]</i>	\$0	\$571,472	4.0
5	Executive Director's Office Responding to energy development on Colorado's lands <i>[Sections 24-1-105, 24-1-124, 24-33-101 through 24-33-111, C.R.S.]</i>	\$0	\$10,504 <i>[Statewide and departmental indirect cost recoveries]</i>	\$138,232 <i>[Statewide and departmental indirect cost recoveries]</i>	\$0	\$148,736	2.0
6	Oil and Gas Conservation Commission Information technology professional III - application programmer <i>[Section 34-60-102 (1) and 106 (2) (d), C.R.S.]</i>	\$0	\$966 <i>[Oil and Gas Conservation and Environmental Response Fund]</i>	\$77,269 <i>[Oil and Gas Conservation and Environmental Response Fund reserves]</i>	\$0	\$78,235	1.0

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
7	Colorado Geological Survey Address current and emerging geological issues <i>[Sections 34-1-103 (1); 39-29-109 (1) (a); 34-60-105; 22-32-124 (1); 30-28-136; 24-65.1-101, C.R.S.]</i>	\$0	\$390,229 <i>[Operational Account of the Severance Tax Trust Fund and from fees for geological services]</i>	\$0	\$0	\$390,229	2.0
8	State Board of Land Commissioners Water portfolio management <i>[Title 36, Article 1, C.R.S.]</i>	\$0	\$28,444 <i>[SLB Revenue Proceeds from CF Sources, including rentals]</i>	\$90,569 <i>[SLB Revenue Proceeds from CFE Sources, including mineral royalties]</i>	\$0	\$119,013	1.0

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
9	Parks and Outdoor Recreation New facilities - operations and FTE <i>[Section 33-10-101 through 33-15-112, C.R.S.]</i>	\$7,691	\$956,455 <i>[Parks and Outdoor Recreation Cash Fund]</i>	\$0	\$0	\$964,146	11.5
10	Parks and Outdoor Recreation Operational FTE <i>[Section 33-10-101 through 33-15-112, C.R.S.]</i>	\$272,640	\$338,277 <i>[Parks and Outdoor Recreation Cash Fund]</i>	\$0	\$28,494	\$639,411	12.5

**FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List**

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
11	Reclamation, Mining and Safety Forfeited mine site reclamation <i>[Section 39-29-109, C.R.S.]</i>	\$0	\$342,000 <i>[Operational Account of the Severance Tax Trust Fund]</i>	\$0	\$0	\$342,000	0.0
12	Colorado Water Conservation Board Severance Tax Projects (conducting water studies and preparing water resource plans, producing maps, facilitating water conservation, providing information, rehabilitate infrastructure, protecting the environment, reducing flood-related hazards and restoring streams) <i>[Section 39-29-109; 37-60-102; and 106, C.R.S.]</i>	\$0	\$756,500 <i>[Operational Account of the Severance Tax Trust Fund]</i>	\$0	\$0	\$756,500	0.0

**FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List**

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
13	Executive Director's Office Additional staff for human resources <i>[Section 24-1-105, 24-1-124, and 24-33-101 through 24-33-111, C.R.S.]</i>	\$0	\$8,188 <i>[Statewide and departmental indirect cost recoveries]</i>	\$90,690 <i>[Statewide and departmental indirect cost recoveries]</i>	\$0	\$98,878	2.0
14	State Board of Land Commissioners New minerals auditor and legal services hours. (NOTE: legal services hours are funded in the Executive Director's Office.) <i>[Title 36, Article 1, C.R.S.]</i>	\$0	\$29,166 <i>[SLB Revenue Proceeds from CF Sources, including rentals]</i>	\$92,868 <i>[SLB Revenue Proceeds from CFE Sources, including mineral royalties]</i>	\$0	\$122,034	1.0
15	Colorado Water Conservation Board Compact dues and operating increase <i>[Sections 37-60-102 and 106; 37-62-101 and 105; 37-69-101 and 105, C.R.S.]</i>	\$0	\$0	\$43,397 <i>[Colorado Water Conservation Board Construction Fund]</i>	\$0	\$43,397	0.0

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
16	Executive Director's Office (for the Division of Wildlife) Legal services for the Division of Wildlife (funded in the Executive Director's Office) <i>[Section 33-1-112 (3.5) (a) (b), C.R.S.]</i>	\$0	\$0	\$121,986 <i>[Division of Wildlife Cash Fund]</i>	\$0	\$121,986	0.0
17	State Board of Land Commissioners New district office <i>[Title 36, Article 1, C.R.S.]</i>	\$0	\$34,672 <i>[SLB Revenue Proceeds from CF Sources, including rentals]</i>	\$110,401 <i>[SLB Revenue Proceeds from CFE Sources, including mineral royalties]</i>	\$0	\$145,073	2.0
18	Oil and Gas Conservation Commission Data cleanup project <i>[Sections 39-29-109 (1) (a) (II) and (c)(I), 34-60-102 (1) and 106 (2) (d), C.R.S.]</i>	\$0	\$119,356 <i>[Operational Account of the Severance Tax]</i>	\$0	\$0	\$119,356	0.0

**FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List**

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
19	Division of Water Resources New well testing and hydrographic vehicles <i>[Title 37, Articles 80, 82 - 84, 87, and 92, C.R.S.]</i>	\$3,660	\$0	\$0	\$0	\$3,660	0.0
20	Oil and Gas Conservation Commission Rifle lease space and vehicle for relocated supervising engineer <i>[Sections 34-60-102 (1) and 106 (2) (d), C.R.S.]</i>	\$0	\$18,882 <i>[Oil and Gas Conservation and Environmental Response Fund]</i>	\$18,138 <i>[Oil and Gas Conservation and Environmental Response Fund reserves]</i>	\$0	\$37,020	0.0
21	Reclamation, Mining and Safety Minerals, energy, and geology education assessment <i>[Section 39-29-109, C.R.S.]</i>	\$0	\$78,000 <i>[Operational Account of the Severance Tax Trust Fund]</i>	\$0	\$0	\$78,000	0.0

**FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List**

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
22	Colorado Geological Survey Increase land use review fees, increase in severance tax funding <i>[Section 34-1-103 (1); 39-29-109 (1) (a); 34-60-105, C.R.S.]</i>	\$0	\$148,125 <i>[Operational Account of the Severance Tax Trust Fund and from fees for geological services]</i>	\$0	\$0	\$148,125	0.0
23	Oil and Gas Conservation Commission Computer system maintenance: asset maintenance <i>[Sections 39-29-109 (1) (a) (II) and (c)(I), 34-60-102 (1) and 106 (2) (d), C.R.S.]</i>	\$0	\$91,338 <i>[Operational Account of the Severance Tax Trust Fund]</i>	\$0	\$0	\$91,338	0.0
24	Division of Wildlife Public Education Advisory Council spending authority <i>[Section 33-1-112 (3.5) (a) (b), C.R.S.]</i>	\$0	\$0	\$900,000 <i>[Wildlife Management Public Education Fund]</i>	\$0	\$900,000	0.0
Statewide	Executive Director's Office	\$59,291	\$52,492	\$2,194	\$789	\$114,766	0.0

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Decision Item Priority List

Priority	Division: Description <i>[Statutory Authority]</i>	GF	CF <i>[Source]</i>	CFE <i>[Source]</i>	FF <i>[Source]</i>	Total	FTE
	Multiuse Network payments statewide request <i>[Section 24-30-908 (1) and (2), C.R.S.]</i>		<i>[Various sources]</i>	<i>[Various sources]</i>	<i>[Various sources]</i>		
Statewide	Executive Director's Office Vehicle replacements statewide request <i>Section 24-30-1104 (2) (f), C.R.S.</i>	\$54,243	\$14,336 <i>[Various sources]</i>	\$100,454 <i>[Various sources]</i>	\$3,596 <i>[Various sources]</i>	\$172,629	0.0
	Total Request	\$913,401	\$3,660,036	\$2,388,982	\$32,879	\$6,995,298	47.1
	Total for Shaded Items	\$519,536	\$1,859,784	\$1,035,426	\$0	\$3,414,746	19.1
	Total for UnShaded Items	\$393,865	\$1,800,252	\$1,353,556	\$32,879	\$3,580,552	28.0

FY 2007-08 Joint Budget Committee Staff Budget Briefing
FOR THE FOLLOWING FIVE (OF NINE) DIVISIONS:
COLORADO GEOLOGICAL SURVEY, OIL AND GAS CONSERVATION COMMISSION,
STATE BOARD OF LAND COMMISSIONERS, COLORADO WATER CONSERVATION BOARD,
DIVISION OF WATER RESOURCES "STATE ENGINEER'S OFFICE"

The Department of Natural Resources' FY 2007-08 request for these five divisions is *\$1.1 million total funds* lower but *\$0.7 million General Fund (3.5 percent) higher* than the FY 2006-07 appropriation.

Requested Changes FY 2006-07 to FY 2007-08 <1>

Category	Total	GF	CF	CFE	FF	FTE
FY 2006-07 Appropriation	\$47,610,231	\$18,591,308	\$10,130,274	\$17,618,719	\$1,269,930	428.5
FY 2007-08 Request	46,484,566	19,249,883	13,498,248	12,446,332	1,290,103	444.6
Change	(\$1,125,665)	\$658,575	\$3,367,974	(\$5,172,387)	\$20,173	16.1
Percent Change	-2.4%	3.5%	33.2%	-29.4%	1.6%	3.8%

<1> Figures shown are for these five divisions only, not the entire department. Please note, this General Fund portion represents the majority (60.5 percent) of the total Departmental General Fund request. Also note, the overall decrease is attributable to the discontinuation of 2006 one-time water projects bill funding in H.B. 06-1313.

Notable FY 2007-08 Budget Changes: Oil and Water Continue to Drive Spending Needs.

The Department has requested 24 decision items. Of those 24 decision items, 15 decision items and 57 percent of the General Fund increase (\$0.5 million) are contained in these five divisions. Ten of the 15 requests are oil and water related.

General Fund Increase.

The General Fund changes are solely in the Division of Water Resources. Most notably is an increase of **\$516,000 General Fund** and 5.1 FTE for additional ground water administration personnel, including staff in the South Platte (Water Division 1).

Cash Funds/Cash Funds Exempt Changes.

- **\$1.7 million** of cash funds exempt from reserves are refinanced with cash funds from the same source in the Oil and Gas Conservation Commission.
- A decrease of **\$3.5 million cash funds exempt** is attributable to the discontinuation of the 2006 water projects funding. Together, these two changes explain the cash funds exempt decrease.
- **\$1.3 million** is requested from the Operational Account of the Severance Tax Trust Fund by the CWCB for water projects (\$0.9M) and by Geological Survey (\$0.4M).
- **\$0.3 million** cash funds for the Oil and Gas Conservation Fund, along with 5.0 FTE are requested to address increasing workload needs. The cash funds increases noted here, along with the \$1.7 million in refinance explain the \$3.4M cash funds increase.
- **\$0.4 million** cash funds/cash funds exempt is requested by the State Land Board, a 10.1 percent increase.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
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DEPARTMENT OF NATURAL RESOURCES
Executive Director: Russell George
Various Divisions Included Herein: Geo. Survey, Oil and Gas, State Land Board, CO Water Conservation Board, Division of Water Resources (State Engineer's Office)

(3) COLORADO GEOLOGICAL SURVEY

State Geologist: Vince Matthews

(Primary function: providing sound geologic information to the public and local gov't. Cash funds are from severance tax revenues and from fees for geological services provided. Cash funds exempt are from transfers from other state agencies for geological services and from grants and donations.)

Environmental Geology and Geological

Hazards Program	1,857,828	1,988,873	2,600,334	2,964,177	DI #7, 22
FTE	<u>15.7</u>	<u>14.9</u>	<u>18.2</u>	<u>18.2</u>	
Cash Funds	1,199,469	1,232,038	1,230,586	1,590,119	
Cash Funds Exempt	438,443	482,713	770,793	773,628	
Federal Funds	219,916	274,122	598,955	600,430	

Coalbed Methane Stream Depletion Study - CF (Severance)

	153,000	0
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Mineral Resources and Mapping

	1,201,066	1,145,068	1,312,779	1,518,568	DI #7
FTE	<u>9.4</u>	<u>9.7</u>	<u>9.5</u>	<u>11.5</u>	
Cash Funds	915,326	919,836	997,499	1,201,350	
Federal Funds	285,740	225,232	315,280	317,218	

Colorado Avalanche Information Center

	561,671	577,182	579,446	591,869	
FTE	<u>7.2</u>	<u>6.8</u>	<u>7.3</u>	<u>7.3</u>	
Cash Funds	144,958	149,079	149,654	153,162	
Cash Funds Exempt	394,328	406,359	405,792	414,615	
Federal Funds	22,385	21,744	24,000	24,092	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
Indirect Cost Assessment - FF	61,512	28,161	32,125	23,954	
					Approp. vs. Request
Total - Geological Survey	3,682,077	3,739,284	4,677,684	5,098,568	9.0%
FTE	<u>32.3</u>	<u>31.4</u>	<u>35.0</u>	<u>37.0</u>	
Cash Funds	2,259,753	2,300,953	2,530,739	2,944,631	16.4%
Cash Funds Exempt	832,771	889,072	1,176,585	1,188,243	1.0%
Federal Funds	589,553	549,259	970,360	965,694	-0.5%

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
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(4) OIL AND GAS CONSERVATION COMMISSION

Brian Macke, Director

(Primary function: promoting and regulating responsible development of oil and gas natural resources. Cash sources are from the Oil and Gas Conservation and Environmental Response Fund and Severance Tax. Cash exempt sources are from Oil and Gas Fund reserves.)

Program Costs	2,729,533	3,174,352	4,321,272	4,788,335	DI #2, 4, 6, 20, 23
FTE	<u>33.3</u>	<u>36.0</u>	<u>47.0</u>	<u>52.0</u>	
Cash Funds	2,229,533	3,164,555	2,160,935	4,090,144	
Cash Funds Exempt	500,000	9,797	2,160,337	698,191	
Underground Injection Program - FF	77,296	97,878	96,559	96,559	
FTE	2.0	2.0	2.0	2.0	
Plugging and Reclaiming Abandoned Wells - CFE	213,799	216,897	220,000	220,000	
Environmental Assistance Projects	<u>360,302</u>	<u>264,676</u>	<u>312,033</u>	<u>312,033</u>	
Cash Funds	0	0	312,033	312,033	
Cash Funds Exempt	360,302	264,676	0	0	
Emergency Response - CFE			1,500,000	1,500,000	
Special Environmental Protection and Mitigation Studies - CF			500,000	500,000	
Piceance and D-J Basin Water Studies and Environmental Data Tool Development					
Cash Funds Exempt		46,525	0	0	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
DI #10 Phase II Raton Basin Gas Seep Investigation - CFE			188,625	0	
Hearing and Environmental Record Imaging at	74,980	22,015	0	0	
Data Cleanup Project - CF				119,356	DI #18
Indirect Cost Assessment - CF	167,273	155,375	186,702	223,260	
					Approp. vs. Request
Total - Oil & Gas Conservation Commission	3,623,183	3,977,718	7,325,191	7,640,187	4.3%
FTE	<u>35.3</u>	<u>38.0</u>	<u>49.0</u>	<u>54.0</u>	
Cash Funds	2,471,786	3,341,945	3,159,670	5,125,437	62.2%
Cash Funds Exempt	1,074,101	537,895	4,068,962	2,418,191	-40.6%
Federal Funds	77,296	97,878	96,559	96,559	0.0%

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
(5) STATE BOARD OF LAND COMMISSIONERS					
Britt Weygandt, Director					
(Primary Functions: Manages around 2.6 million surface acres and 4.5 million mineral acres of state trust lands for the benefit of 8 public trusts, the largest of which is the School Trust (96% of holdings). Both cash and cash funds exempt sources are from the Trust Administration Fund; cash funds represent revenue from leases, timber sales and interest, and cash funds exempt sources represent revenue from property sales or use of non-renewable minerals.)					
Personal Services	2,135,319	Included Below in Program Costs			
FTE	32.4				
Operating Expenses	233,388	a/ Included Below in Program Costs			
Program Costs		2,623,613	2,678,712	3,043,413	DI #8, 14, 17
FTE		31.5	34.0	38.0	
SLB Investment and Development Fund (SB 05-196)					a/
State Trust Land Asset Management and Analysis	567,509	659,509	659,509	659,509	
Lowry Range Project	<u>194,138</u>	Included Above in Program Costs			
FTE	0.3				
Document Imaging Project	162,577	One-time annual funding not continued			
Land Use Planning and Engineering Contract Resources		Included Above in State Trust Land Asset Management and Analysis			

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
Indirect Cost Assessment	140,657	147,377	167,095	157,555	
					Approp. vs. Request
Total - (5) State Board of Land					
Commissioners	3,433,588	3,430,499	3,505,316	3,860,477	10.1%
FTE	<u>32.7</u>	<u>31.5</u>	<u>34.0</u>	<u>38.0</u>	
Cash Funds	40,000	115,000	894,846	979,729	9.5%
Cash Funds Exempt	3,393,588	3,315,499	2,610,470	2,880,748	10.4%

a/ Senate Bill 05-196 continuously appropriated \$1,000,000 cash funds exempt for the SLB Investment and Development Fund. As these moneys are continuously appropriated, they are not appropriated by the General Assembly and are not shown in the Long Bill.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
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(7) COLORADO WATER CONSERVATION BOARD

Rod Kuharich, Director

(Primary Functions: Responsible for water development and planning, as well as floodplain management. From FY 1994-95 to FY 2000-01, funding for this Division was divided about equally between the General Fund and cash funds exempt reserves from the Colorado Water Conservation Board Construction Fund. Since FY 2001-02, the Division has been funded with this cash funds exempt source (Construction Fund) in lieu of General Fund, due to the General Fund budget shortfall).

(A) Administration

Personal Services	2,620,605	2,403,548	2,722,177	2,777,570	
FTE	26.7	26.0	30.0	30.0	
Operating Expenses	88,602	93,100	89,994	89,994	
Interstate Compacts	284,718	289,522	289,536	330,433	DI #15
Western States Water Council Dues	25,000	25,000	25,000	27,500	DI #15
River Decision Support Systems	488,381	468,671	508,235	516,452	
FTE	4.2	5.0	5.0	5.0	

Subtotal - (A) Administration	3,507,306	3,279,841	3,634,942	3,741,949	
FTE	<u>30.9</u>	<u>31.0</u>	<u>35.0</u>	<u>35.0</u>	
Cash Funds	339,777	339,777	339,777	339,777	
Cash Funds Exempt	3,167,529	2,940,064	3,295,165	3,402,172	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
(B) Special Purpose					
(SWSI) Water Supply Management, Development, and Implementation Assistance - CFE			470,980	470,980	
House Bill 06-1400 (Interbasin Compacts) CF			855,481	1,108,425	
FTE			1.2	1.2	
Federal Emergency Management Assistance	86,471	185,719	146,120	146,120	
FTE	<u>1.0</u>	<u>1.0</u>	<u>2.0</u>	<u>2.0</u>	
Cash Funds Exempt (CWCB)	0	160,907	13,941	13,941	
Federal Funds	86,471	24,812	132,179	132,179	
Weather Modification - CF (Fees)	19,002	8,918	25,000	25,000	
Water Conservation Program - CFE (CWCB)	162,086	173,208	179,738	183,278	
FTE	2.2	2.2	2.5	2.5	
H.B. 05-1254 (Water Efficiency Grant Program) - CFE		86,409 a/	517,280	517,280	
Severance Tax Projects - CF	583,594	826,405	840,000	1,596,500	DI #12
HB 05-1177 (Negotiation of Interbasin Compacts) - CF (Sev. Tax)		209,802	237,444	237,129	
FTE		0.5	0.5	0.5	
Platte River Basin Cooperative Agreement - CFE (CWCB)	208,466	219,399	232,657	234,492	
FTE	1.0	1.0	1.0	1.0	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
S.B. 02-87 Colorado Watershed Protection Fui	182,367	78,606 b/	119,942	119,942	
Indirect Cost Assessment	<u>336,397</u>	<u>368,134</u>	<u>404,980</u>	<u>462,725</u>	
Cash Funds Exempt (CWCB)	322,673	356,789	389,816	448,126	
Federal Funds	13,724	11,345	15,164	14,599	
Water Construction Fund Bill - CFE	5,601,692	0	3,631,555	0 c/	
S.B. 06-193 Study - CF			125,000	0	
Subtotal - (B) Special Purpose	7,180,075	1,860,389	7,786,177	5,101,871	
FTE	<u>4.2</u>	<u>4.2</u>	<u>7.2</u>	<u>7.2</u>	
Cash Funds	602,596	835,323	2,082,925	2,967,054	
Cash Funds Exempt	6,477,284	828,002	5,555,909	1,988,039	
Federal Funds	100,195	197,064	147,343	146,778	

a/ This line item was appropriated \$457,738 in FY 2005-06; \$457,738 of that sum was reverted.

b/ This line item was appropriated \$207,079; \$128,473 of this sum was reverted.

c/ Funding for this area is provided through a special bill: the annual water projects bill. As such the request for FY 2006-07 will "appear" lower than the final funding will be because it does not reflect the funding in the 2006 projects bill.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
					Approp. vs. Request a/
Total - (7) Colorado Water Conservation Board	10,687,381	5,140,230	11,421,119	8,843,820	-22.6%
FTE	<u>35.1</u>	<u>35.2</u>	<u>42.2</u>	<u>42.2</u>	
Cash Funds	942,373	1,175,100	2,422,702	3,306,831	36.5%
Cash Funds Exempt	9,644,813	3,768,066	8,851,074	5,390,211	-39.1%
Federal Funds	100,195	197,064	147,343	146,778	-0.4%

a/ Please note, the request appears to contain a decrease in funding; however, the FY 2007-08 request does not include funding for the annual water bill which is carried in separate special legislation. The funding for the annual water bill is included in the FY 2006-07 appropriation (H.B. 06-1313) but is not included in the Long Bill request for FY 2007-08, as is the practice. When the annual funding bill is adjusted for, there is a 13.5 percent increase.

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
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(8) WATER RESOURCES DIVISION ("State Engineer's Office")

Hal Simpson, State Engineer

(Primary Function: Responsible for administration of the State's water resources. Cash funds are from the Groundwater Management CF and Cash Funds Exempt are CWCB Construction Fund.)

Personal Services	15,260,987	15,943,082	17,709,234	18,345,130	
FTE	<u>227.9</u>	<u>235.1</u>	<u>261.3</u>	<u>266.4</u>	DI #3
General Fund	12,372,692	13,175,085	17,200,603	17,827,641	
General Fund Exempt	0	4,719 a/	0	0	
Cash Funds (Mostly Groundwater Mgt. CF)	2,887,391	2,752,428	492,739	501,629	
Cash Funds Exempt	0	10,850	15,892	15,860	
Federal Funds	904	0	0	0	
Operating Expenses	<u>1,330,423</u>	<u>1,390,032</u>	<u>1,518,586</u>	<u>1,547,404</u>	DI #3, 19
General Fund	719,036	900,524	1,024,078	1,052,896	
General Fund Exempt	2,133	0 a/	0	0	
Cash Funds	431,156	398,979	403,979	403,979	
Cash Funds Exempt	178,098	90,529	90,529	90,529	
Interstate Compacts - GF	70,900	74,298	76,002	76,002	
Republican River Compact Compliance	<u>193,094</u>	<u>104,281</u>	<u>46,278</u>	46,278	
FTE	0.3	0.6	1.0	<u>1.0</u>	
General Fund	71,808	32,432	46,278	46,278	
General Fund Exempt	0	67,708 a/	0	0	
Cash Funds Exempt	121,286	4,141	0	0	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
Satellite Monitoring System	333,369	355,265	359,347	362,066	
FTE	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	
General Fund	235,229	240,265	244,347	247,066	
Cash Funds	94,443	115,000	94,443	94,443	
Cash Funds Exempt	3,697	0	20,557	20,557	
Augmentation of Water for Sand and Gravel E	<u>28,050</u>	<u>30,723</u>	<u>44,400</u>	<u>44,400</u>	
Cash Funds	0	28,273	44,400	44,400	
Cash Funds Exempt	28,050	2,450	0	0	
Dam Emergency Repair - H.B. 92-1131					
Cash Funds Exempt	0	0	50,000	50,000	
Federal Grants - FF (Mostly FEMA)	92,187	62,385	54,554	79,595	
River Decision Support Systems	345,557	353,539	361,900	367,552	
FTE	<u>3.3</u>	<u>3.7</u>	<u>4.0</u>	<u>4.0</u>	
Cash Funds Exempt	345,557	353,539	361,900	367,552	
H.B. 03-1334 Temporary Interruptible Water Supply Agreements - CF	0	0	61,589	61,589	
S.B. 04-225 Well Enforcement - CF		342	1,489	1,489	
Technology Initiative (Year 3 of 3) - CF			165,000		
Indirect Cost Assessment	<u>105,041</u>	<u>206,242</u>	<u>47,542</u>	<u>60,009</u>	
Cash Funds	42,122	172,531	23,678	34,091	
Cash Funds Exempt	60,663	29,839	22,750	24,441	
Federal Funds	2,256	3,872	1,114	1,477	

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
Expenditure of Water Project Bill Funds - CFE	402,607	296,711	350,000	0 b/	
					Approp. vs. Request
Total - (8) Water Resources Division	18,162,215	18,816,900	20,680,921	21,041,514	1.7%
FTE	<u>233.5</u>	<u>241.4</u>	<u>268.3</u>	<u>273.4</u>	
General Fund	13,469,665	14,422,604	18,591,308	19,249,883	3.5%
General Fund Exempt	2,133	72,427 a/	0	0	
Cash Funds	3,483,162	3,470,003	1,122,317	1,141,620	1.7%
Cash Funds Exempt	1,111,908	785,609	911,628	568,939	-37.6%
Federal Funds	95,347	66,257	55,668	81,072	45.6%

a/ These represent a roll-forward from FY 2004-05.

b/ Funding for this area was provided through a special bill (water projects bill).

	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07 Appropriation	FY 2007-08 Request	Change Requests
					Approp. vs. Request a/
Total - Geo Survey, Oil and Gas, State Land Board					
CWCB, Water Resources	39,588,444	35,104,631	47,610,231	46,484,566	-2.4%
FTE	<u>368.9</u>	<u>377.5</u>	<u>428.5</u>	<u>444.6</u>	
General Fund	13,469,665	14,422,604	18,591,308	19,249,883	3.5%
Cash Funds	9,197,074	10,403,001	10,130,274	13,498,248	33.2%
Cash Funds Exempt	16,057,181	9,296,141	17,618,719	12,446,332	-29.4%
Federal Funds	862,391	910,458	1,269,930	1,290,103	1.6%

a/ Please note, the request appears to contain a decrease in funding; however, the FY 2007-08 request does not include funding for the annual water bill which is carried in separate special legislation. The funding for the CWCB annual water bill is included in the FY 2006-07 appropriation (H.B. 06-1313) but is not included in the Long Bill request for FY 2007-08, as is the practice. When the annual funding bill is adjusted for, there is a 5.7 percent increase.

For Information Only:

					Approp. vs. Request a/
Total - Colorado Department of Natural Resources (Entire Department)	168,138,669	178,253,316	195,061,772	201,280,974	3.2%
FTE	<u>1,489.7</u>	<u>1,479.2</u>	<u>1,466.8</u>	<u>1,518.4</u>	
General Fund	22,060,071	22,729,255	28,534,012	31,827,094	11.5%
General Fund Exempt	2,133	72,427	0	0	
Cash Funds	35,091,088	38,808,642	39,837,017	46,586,413	16.9%
Cash Funds Exempt	96,733,502	102,124,517	109,938,993	106,274,596	-3.3%
Federal Funds	14,251,875	14,518,475	16,751,750	16,592,871	-0.9%

FY 2007-08 Joint Budget Committee Staff Budget Briefing

Department of Natural Resources FY 2006-07 Long Bill Footnote Update

- Other six footnotes in the DNR 2006 Long Bill appropriation, two (2) were common to all departments statewide and four applied to the Department of Natural Resources specifically. This briefing contains summaries of the two footnotes for this portion of the DNR assignment.

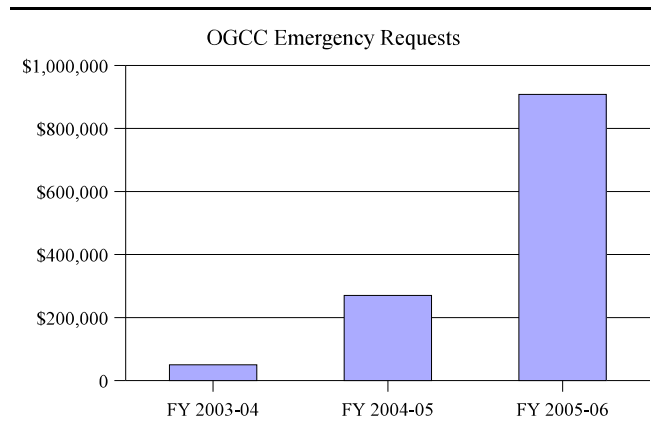
98 Department of Natural Resources, Oil and Gas Conservation Commission, Emergency Response -- It is the intent of the General Assembly that funding for this line item be expended in the event that there is an oil and gas related emergency under the jurisdiction of the Oil and Gas Conservation Commission. The purpose of this funding is for investigation, prevention, monitoring, and mitigation of circumstances which are caused by or are alleged to be associated with oil and gas activities and which call for immediate action by the Oil and Gas Conservation Commission. An emergency creates a threat to public health, safety, or welfare or to the environment as proclaimed by the Oil and Gas Conservation Commission Director and approved by order of the Oil and Gas Conservation Commission. The Oil and Gas Conservation Commission is requested to include in its annual budget request a report detailing all expenditures made in the previous year from this line item.

Comment: This footnote expresses legislative intent. In the FY 2006-07 budget, the JBC added a new line item entitled "Emergency Response" with an appropriation of \$1.5 million from the Oil and Gas Conservation and Environmental Response Fund. Said sum is to be used -- if and when necessary -- for emergency responses. Over the last few years, there have been a number of emergency funding requests both during the session and during the interim.

Recent years' examples which drove the funding change included the following:

- \$50,000 in FY 2003-04 for EnCana West Divide Creek leak;
- \$70,000 for FY 2004-05 for additional complaints/workload demand;
- \$200,000 in FY 2004-05 for initial research on the La Plata County natural gas explosion; and,
- \$908,445 in FY 2005-06 for drilling on the La Plata County natural gas explosion.

The funding was added due to a concern that emergency funding would be necessary during a time when the JBC may not yet be meeting during the interim (and thus would have to wait for a "1331") if the substantial increase in drilling activities combined with the encroachment of residential and commercial development resulted in additional emergencies that required immediate funding.



- 99 Department of Natural Resources, Oil and Gas Conservation Commission, Special Environmental Protection and Mitigation Studies -- It is the intent of the General Assembly that funding for this line item be used for special environmental protection and mitigation studies including, but not limited to gas seepage mitigation studies, outcrop monitoring studies, soil gas surveys in the vicinity of plugged orphaned wells, and baseline water quality and subsequent follow-up studies. The Oil and Gas Conservation Commission is requested to include in its annual budget request a report detailing all expenditures made in the previous year from this line item.

Comment: This footnote expresses legislative intent. In the FY 2006-07 budget, the JBC recognized the OGCC's need for faster movement with respect to substantial large scale projects, and added a new line item entitled "Special Environmental Protection and Mitigation Studies" and funding of \$500,000 cash funds authorized from the Oil and Gas Conservation and Environmental Response Fund. The JBC's goal was greater efficiency may be possible if the Commission is able to think forward about projects and use overlapping analyses and resources. Examples of projects might include the following: a gas seep mitigation study in La Plata County and also in Raton Basin, soil gas surveys for where orphaned wells were plugged (to prevent another La Plata County, Bondad explosion), baseline water quality study in Yuma county, another Piceance Basin DJ Basin analysis, Piceance basin water sampling followup, and La Plata County follow-up water sampling. All of these aforementioned studies would each be in the \$200,000 - \$300,000 range. Knowing that funding is available up front and in advance may result in planning efficiencies for the Commission. The footnote is designed to ensure accountability over the expenditures.

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
FOR THE FOLLOWING 5 DIVISIONS (ONLY): GEOLOGICAL SURVEY, OIL AND GAS
CONSERVATION COMMISSION, STATE BOARD OF LAND COMMISSIONERS, COLORADO
WATER CONSERVATION BOARD, DIVISION OF WATER RESOURCES

ISSUE:

Department of Natural Resources Performance Measures (selected divisions within this assignment).

DISCUSSION:

Department Mission

Mission Statement:

Develop, preserve and enhance Colorado's natural resources for the benefit and enjoyment of current and future citizens and visitors.

Goals and Performance Measures

The Department's strategic plan is 45 pages long and is comprised of eight strategic objectives deemed essential, nine deemed high, and three medium, and four low. In addition, each division has specific performance measures which reflect targets and actual experience.

Staff Analysis

Joint Budget Committee staff reviewed selected program's performance measures submitted in the budget. Staff assessed these performance measures using the following common checklist:

1. Do the goals and performance measures correspond to the program's directives provided in statute?
2. Are the performance measures meaningful to stakeholders, policymakers, and managers?
3. Does the Department use a variety of performance measures (including input, output, efficiency, quality, outcome)?
4. Do the performance measures cover all key areas of the budget?
5. Are the data collected for the performance measures valid, accurate, and reliable?
6. Are the performance measures linked to the proposed budget base?
7. Is there a change or consequence if the Department's performance targets are not met?

The Department's performance measures for the areas covered in this budget briefing are generally consistent with their respective statutory directives. Some programs have more clear goals stated in statute than others. For instance, the State Board of Land Commissioners has extremely clear outcome based goals in the Colorado Constitution and associated statutes. The Colorado Geological Survey has broad goals stated in statute. The State Engineer's Office has goals as well as functional requirements listed in statute.

The performance measures cover the large span of this diverse budget area which ranges from water to gas to land and geology. Most of the Department's performance measures are input/output workload based items rather than performance outcome based measures. Many of the Department's measures in this assignment's area provide information on the workload levels (e.g., approved x number of permits, held x number of meetings); however, the performance measures and their associated outcomes reported do not give an overall perspective on what the goal is or what percent of the goal is covered by the performance standard shown.

The performance measures are not linked to the proposed budget base in any of the areas evaluated. This is not the requirement for this budget, nor for other budgets statewide, so it is not unique to these areas within Department of Natural Resources. There is not a direct impact to the programs if the Department's performance targets are not met, exceptions aside.

The following are examples of key goals and performance measures from selected programs or divisions.

Colorado Geological Survey - Sample Performance Measures

- Number of geologic maps distributed to citizens - Mineral Resources and Mapping (550 estimated for FY 2006-07)
- Number of land-use reviews performed - Environmental Geology and Geologic Hazards (513 in FY 2006-07).

The Colorado Geological Survey divides its performance indicators into workload/output measures and also into effectiveness/outcome measures. This distinction reflects the understanding of the difference between these two points. However, in many areas the "outcome measure" reflected is still an output measure. The examples provided above for Mineral Resources and Mapping and for Environmental Geology and Geologic Hazards are probably better categorized as workload/output measures than end outcome measures (reflecting the purpose or goal met as a result of the output function).

The Colorado Avalanche Information Center, however, provides a contrast. The Center is also a section within the Colorado Geological Survey. While it has a number of workload and output measures (e.g., monitor weather and avalanche conditions), the Center also has strong outcome measures ("... reduce the number of people caught/injured/killed in avalanches"). The inclusion of

both output and outcome measures is very helpful in understanding the way the Center uses its budget toward meeting its programmatic goals.

Staff would like to note that the Colorado Geological Survey, irrespective of this JBC project, has plans to work this year to properly categorize its existing performance measures and to develop strong outcome measures for the two programs listed above.

State Board of Land Commissioners - Sample Performance Measures

- Minerals Program - Encourage the exploration and development of mineral assets - Number of leases auctioned per year (250 leases est. in FY 2006-07).
- Real Estate Program - Increase the income generated by commercial property - Total income generated by commercial property (\$3.5 million est. in FY 2006-07).
- Financial Operations Program - Number of trust accounting reports compiled (12) and percentage of line item appropriations evaluated and successfully managed (100%).

Section 10 (1) of Article IX of the Colorado Constitution states the goal of the State Board of Land Commissioners as to "produce reasonable and consistent income over time". Section 36-1-101.5 (4) (d), C.R.S. provides that the State Land Board shall "manage the development and utilization of natural resources . . . which will conserve the long-term value of such resources." Many of the State Land Board's performance measures are workload and/or output oriented. That said, the Real Estate Program's performance measures (example reflected above) includes end-outcome measures. The Financial Operations Program performance measures read more like a workload to-do list. All in all, it is difficult to determine the State Board of Land Commissioner's overarching outcome based vision from its performance measures alone. Given recent oil and gas revenue earnings, it has been easier for the State Land Board to dramatically increase its revenue.

It is staff's understanding that the State Land Board is interested in making changes to its performance measures and will respond to this issue briefing at the JBC hearing.

Division of Water Resources -- Sample Performance Measures

#1.1.1 Distribute available water supplies in time and amount necessary to meet water right demands in priority on a daily basis.

- Number of water rights: (152,000 water rights est. in FY 2005-06)
- Percent of structures diverting water (127,071 structures est. in FY 2005-06)

The Division of Water Resources' performance measures mostly provide information on the specific functions listed relative to the administration of water. These measures typically do not provide information on *how well they do this* nor on overarching performance outcome objectives. This is not to say that the Division does not do a good job; rather, it is only to say that one cannot determine from these measures the degree to which the job is being done. In discussing this assessment with the Division, which is very performance oriented, it seems that determining an overarching outcome

goal(s) to measure against might be very challenging. Instead, it may be the case that the outcomes standard is equal to the sum of the functional workload measures being met. That said, the Division of Water Resources' interstate compact area is one which is highly conducive to the performance outcome assessment and the Division's measures reflect this. This contrasts with the workload (output) based focus of the above example.

Division of Water Resources -- Sample Performance Measures

- Goal 1.2 Maximize efficient use of Colorado's water resources and comply with and enforce other states' compliance with interstate compacts.
- Percentage of daily compliance in delivering interstate river compact obligations to the state line (95% estimated in FY 2005-06)
- Measured compact deliveries to downstream states are within 3% of compact obligations (98% of standard met in FY 2005-06).

These performance measures address end outcome efforts and impacts by the Division. The contrast between these measures and the previously mentioned measures may simply be the nature of the function at hand.

Questions for Department

Staff recommends that the Committee discuss the following questions with the Department during the FY 2007-08 budget hearing:

1. How do your performance measures influence department activities and budgeting?
2. To what extent do the performance outcomes reflect appropriation levels?
3. To what extent do you believe that appropriation levels in your budget could or should be tied to specific performance measure outcomes?
4. As a department director, how do you judge your department's performance? What key measures and targets do you use?

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Oil and Gas Conservation Commission

ISSUE:

Oil and gas industry growth in Colorado continues to drive a significant workload for the Oil and Gas Conservation Commission (Commission). Despite significant increases provided for the Commission in the FY 2006-07 Long Bill, above and beyond the Department's request, the Commission continues to experience shortfalls. Additionally, available funding sources may not be sufficient to meet the Commission's needs, despite statutory allocations from the Operational Account of the Severance Tax Trust Fund.

SUMMARY:

- Colorado continues to experience unprecedented oil and gas development in Colorado. Colorado natural gas production is 3.3 billion cubic feet per day, increasing at 5.0 percent a year. Drilling permits requests continue to set records. Fiscal Year 2007-08 drilling permits received are 21 percent higher than FY 2005-06 (and 239 percent higher than the baseline year of FY 2002-03). The active well count is estimated at 36,800 for FY 2007-08, 21 percent higher than FY 2005-06 (and 50 percent more than in the baseline year FY 2002-03).
- The FY 2006-07 Long Bill contained \$3.3 million and 84.2 percent more than was the Commission spent in FY 2005-06. The FY 2006-07 Long Bill appropriation contained \$2.3 million and 2.0 FTE more for the Commission than was requested. Included in these resources were \$239,000 contract dollars for addressing the permit backlog. Despite significant resources added by the Joint Budget Committee and the General Assembly for FY 2006-07, the Commission continues to experience shortfalls.
- According to the resource division for the Operational Account of the Severance Tax Trust Fund, the OGCC was to receive 45.0 percent of the resource. However, due to other uses of the Fund, the increasing needs of the Oil and Gas Conservation Commission cannot be "afforded" by the Operational Account of the Severance Tax Trust Fund. As a result, the OGCC will be increasing its mill levy to maintain enough funds. Thus, the alternative uses of the Operational Account in the 2006 session have translated into a mill levy increase of \$1.0 million to \$4.0 million a year on oil and gas funds.

RECOMMENDATION:

- Staff recommends that the JBC discuss with the Department the level of resources necessary for the Oil and Gas Conservation Commission to balance its focus on environmental and regulatory protection during this significant increase in workload.

- Staff recommends that the JBC discuss with the Commission what source of cash funding it anticipates using for its substantial workload and project needs, including the \$1.0 million mill levy increase necessary because of the lack of severance tax dollars available for the regulation of oil and gas activities.

DISCUSSION:

The Oil and Gas Conservation Commission (OGCC) is responsible for promoting the exploration, development, and conservation of Colorado's oil and natural gas resources in a responsible fashion.

Colorado has been referred to as the "Saudi Arabia of natural gas." Colorado natural gas production is 3.3 billion cubic feet per day, increasing at 5.0 percent a year, according to the Oil and Gas Conservation Commission. Based on industry estimates, drilling operations will be continuing at a substantial level in Colorado for many years to come. Additionally, recoverable oil reserves ranging from 500 billion to 1.1 trillion barrels, the Rocky Mountain region's oil shale deposits are the world's largest.

Based on industry estimates, drilling operations will be continuing at a substantial level in Colorado for many years to come. Additionally, recoverable oil reserves ranging from 500 billion to 1.1 trillion barrels, the Rocky Mountain region's oil shale deposits are the world's largest.

Accordingly, the Commission is experiencing significant workload increases. As the following table indicates, workload estimates for FY 2007-08 project the following increases as compared to a FY 2002-03 baseline:

- ✓ There has been a 239 percent increase in oil and gas permits sought;
- ✓ There has been a 50 percent increase in active wells; and
- ✓ The number of active drilling rigs is up 233 percent.

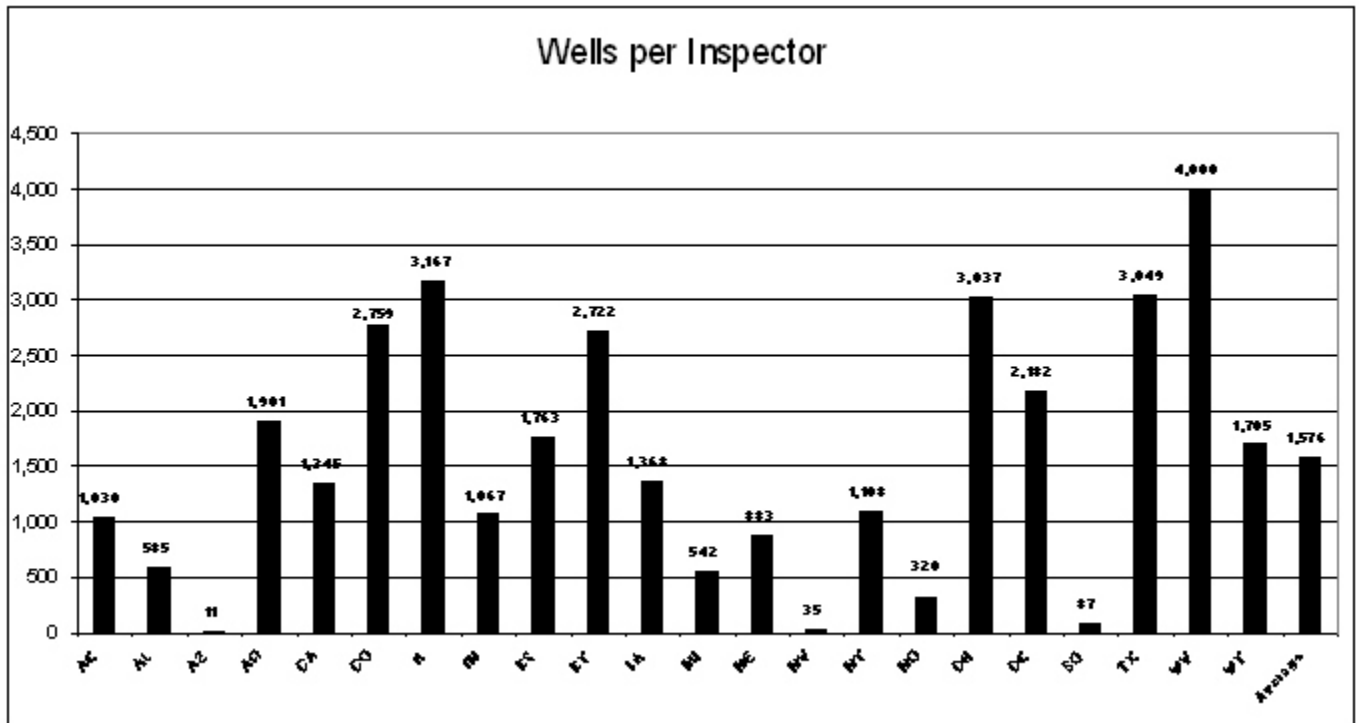
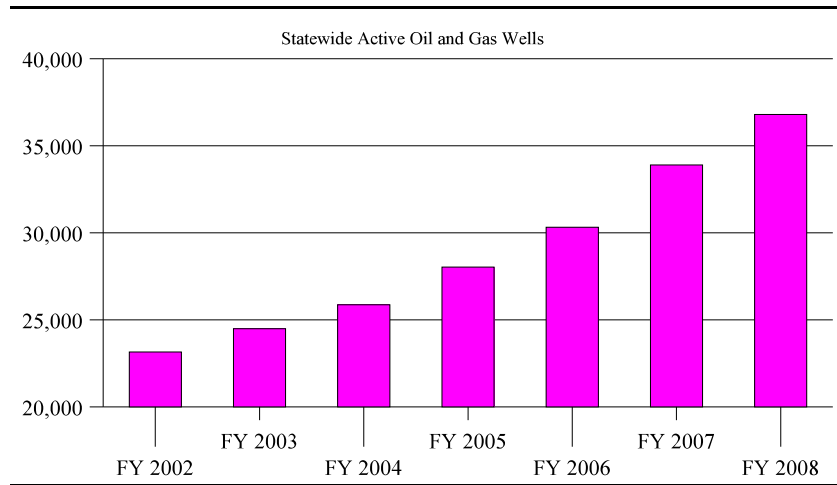
Oil and Gas Conservation Commission	FY 02-03 Actual	FY 03-04 Actual	FY 04-05 Actual	FY 05-06 Actual	FY 06-07 Estimate	FY 2007-08 Estimate
<u>Workload Activity</u>						
Number of Permits Received	2,081	2,650	3,847	5,829	6,400	7,050
Number of Permits Approved	1,986	2,576	3,507	4,957	5,940	4,800
Number of Active Wells	24,489	25,870	28,032	30,324	33,900	36,800
Average Number of Drilling Rigs	30	47	63	83	91	100

The following chart shows the increase in the number of active oil and gas wells in the state. These active wells are indicative of the workload increase for the Commission. Each well must be permitted

to be drilled and then a portion of them are inspected.

Inspections

Last year, the JBC asked the OGCC about the number of well inspections anticipated. The Commission indicated that it would inspect 12,000 oil and gas wells with its FY 2006-07 funding. Responses to staff queries indicate that instead, about 9,800 inspections will occur - a difference of over 18 percent. However, the Commission indicates that it has shifted inspection priorities with the new funding granted and the additional drilling which is occurring. The Commission is encouraging its inspectors to spend more time witnessing cementing operations and plugging and abandonment operations. These activities are the "critical points" for a well and such operations can be extremely time consuming for an inspector.



The Commission reports that between July 1, 2005 and October 31, 2006, a total of 2,254 wells were

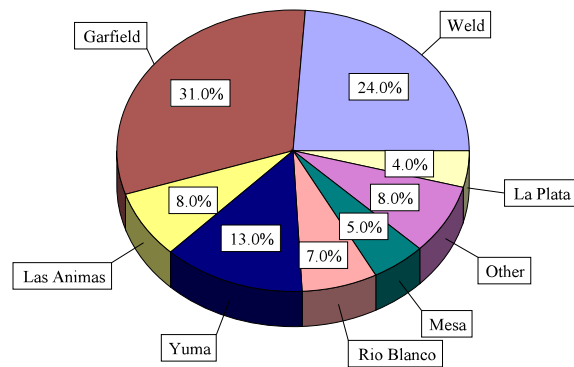
drilled. The Commission performed 736 inspections on these new wells. Thus, it appears that while there are fewer inspections overall, these inspections are more "risk" sensitive, thereby consistent with the funding goals indicated by the JBC last year.

Colorado has an average well to inspector level of 2,759 to one. This compares to Wyoming with 17,045 wells and a 1,705 well to inspector ratio, Oklahoma with 120,000 wells and a 2,182 to inspector ratio, and Louisiana with 36,933 wells and a 1,368 to inspector ratio.

Counties Affected

As the JBC and the General Assembly is well aware, some counties are more affected by drilling operations than others. According to Commission monthly reports, Garfield County continues to lead with 1,373 drilling permits in 2006 with Weld County second at 24 percent. One of the FY 2007-08 requests seeks funding to relocate an engineer to Rifle so that there is more of a field presence. This request is discussed later in this briefing issue.

Percent of Total OGCC Oil and Gas Permits by County
Current OGCC Statistics (as of October 2006)



FY 2006-07 Appropriation

In the FY 2006-07 Long Bill, the Oil and Gas Conservation Commission received a significant increase in funding to address the substantial workload increase it is experiencing. The FY 2006-07 appropriation is \$3.3 million and 84.2 percent higher than the FY 2005-06 actual expenditures. Included in the FY 2006-07 increase is the following:

- \$1.5 million spending authority for unforeseen emergencies;
- \$1.1 million and 11.0 FTE for drilling workload and inspections, including \$239,000 contract funds for permit workload above and beyond the request; and
- \$0.5 million for special environmental protection and mitigation studies.

FY 2007-08 Request

Despite the significant resources added this year, many of which were beyond the Department's request, the OGCC's workload is still significantly short of its available funding. The Oil and Gas Conservation Commission has requested six (25 percent) of the total Department's 24 new initiatives for FY 2007-08. These initiatives, totaling almost \$1.0 million, do not include potential FY 2007-08 budget amendments

which total over \$4.5 million for FY 2007-08 and FY 2008-09. The initiatives follow:

Oil and Gas Conservation Commission FY 2007-08 Budget Initiatives				
Decision Item	Cash Funds	Cash Funds Exempt	Total	FTE
DI #2: Staff for Oil shale permits	\$0	\$60,000	\$60,000	0.0
DI #4: Permit and other workload	28,688	542,784	571,472	4.0
DI #6: IT applications	966	77,269	78,235	1.0
DI #18: Data cleanup	119,356	0	119,356	0.0
DI #20: Rifle relocation costs	18,882	18,138	37,020	0.0
DI #23: Computer asset maintenance	91,338	0	91,338	0.0
OGCC TOTAL	\$259,230	\$698,191	\$957,421	5.0

- Decision Item #2: \$60,000 cash funds exempt from the Oil and Gas Conservation and Environmental Response Fund.** This request seeks funding for a consulting engineer to review oil shale permits. The request assumes 15 projects taking 40 hours each to review at \$100 per hour. The request assumes that the average project area is 160 acres, that the average well density is 40 wells per acre, or 6,400 wells per project, that the project area includes four different well types. While the request acknowledges that there are a lot of unknowns in this area, its assumptions are detailed.
- Decision Item #4: \$28,688 cash funds and \$542,784 cash funds exempt from the Oil and Gas Conservation and Environmental Response Fund and 4.0 FTE.** This request seeks \$257,088 in contract funding for permit review plus 4.0 FTE to address increasing workload. Without the increase in funding and FTE requested, the OGCC will experience a permit delay of 193 days above the 30 day wait (so 7.2 months per permit).

FY 2007-08 Months	Projected Permit Applications Received	Projected Permits Processed	Projected Permit Applications Withdrawn	Projected Backlog of Permit Applications	Projected Additional Days to Approve Backlog a/
July	530	400	22	695	53
August	538	400	22	810	62
September	548	400	23	935	71
October	559	400	23	1071	81

FY 2007-08 Months	Projected Permit Applications Received	Projected Permits Processed	Projected Permit Applications Withdrawn	Projected Backlog of Permit Applications	Projected Additional Days to Approve Backlog a/
November	569	400	24	1216	92
December	580	400	24	1372	104
January	591	400	25	1538	117
February	603	400	25	1716	130
March	615	400	26	1905	145
April	627	400	26	2106	160
May	640	400	27	2319	176
June	652	400	27	2544	193
Totals	7,051	4,800	294	N/A	N/A

a/ Represents backlog days beyond the 30 day period. So, 193 days = 193 days + 30 days = 223 days.

In the FY 2006-07 Long Bill, the JBC added and the General Assembly approved \$239,000 in contract funding over the FY 2006-07 Department request. This increase was intended to lower the permit backlog. The FY 2007-08 request seeks to continue this funding and to add additional permit FTE as well. Had the JBC not added the additional resources for FY 2006-07, additional funding would have been needed.

The Decision Item is comprised of the following components:

Contract funding

Records administrators (2.0 contractors)	4,160 hours @ \$15.45/hr =	\$64,272
Permit technician (1.0 contractor)	2,080 hours @ \$46.35/hr =	96,408
Engineering technician (1.0 contractor)	2,080 hours @ \$46.35/hr =	<u>96,408</u>
Total Contract Staff		\$257,088

New FTE

Engineering Well Permit Technician (1.0 FTE) ¹		\$69,142
Engineering Well Permit Technician (1.0 FTE)		69,142
Professional Engineer (1.0 FTE)		101,217
Accountant I (1.0 FTE)		<u>49,688</u>
Total New FTE		\$289,188

Leased Space at Chancery Building

1,331 square feet @ \$17.92/foot plus operating		25,196
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¹ Includes \$57,600 annual salary, \$5,846 for PERA @ 10.15%, \$691 for AED @ 1.2%, \$144 SEAD @ 0.25%, \$835 for Medicare @ 1.45%, \$500 for operating costs, \$690 for one-time PC, \$189 for monitors for desktop PCs, \$294 for one-time software, \$2,021 for one-time furniture, and \$331 for IT maintenance costs.

Total

\$571,472

- **Decision Item #6: \$966 cash funds and \$77,269 cash funds exempt and 1.0 FTE from the Oil and Gas Conservation and Environmental Response Fund.** This request seeks to replace contract funds currently in the FY 2006-07 budget with an FTE programmer. The volume and type of information has changed in accordance with technological advances in the oil and gas industry. The OGCC cites the need for institutional memory to be retained, something that is not possible with contract programmers. The OGCC has quantified 10,700 hours of projects that require programmer work; this calculates to at least five years worth.
- **Decision Item #18: \$119,356 cash funds from the Operational Account of the Severance Tax Trust Fund.** This request seeks \$119,356 to fund half of the need for a data cleanup project. The other half would be funded presumably at a later date. The funds would help verify and correct data migrated from the OGCC's old computer system to the new computer system. Well data, Commission orders, pit data, and information on complaints and spills need to be cleaned up or added. This information is important to industry and helps in tracking abandoned wells.
- **Decision Item #20: \$18,882 cash funds and \$18,138 cash funds exempt from the Oil and Gas Conservation and Environmental Response Fund.** This request seeks funding for leased space in Rifle and for a vehicle for the Rifle field staff. The FY 2006-07 budget appropriated funding for a new engineer, originally thought to be housed in the Denver office of the OGCC. The Division now seeks to locate this position in Rifle, to provide more of a field presence to better respond to complaints. In order to do this, funding is requested for a jeep, mileage, rent space, and associated costs.

Lease Jeep for \$294/mo. for three months in FY 2007-08	\$882
Annual mileage (11,000 miles @ 22.3 cents per mile)	2,453
Installation of voice over IP telephone system	12,310
Annual communication costs	3,375
Rent of office space (\$1,200 per month)	14,400
Utilities and common area maintenance	<u>3,600</u>
Total	\$37,020

- **Decision Item #23: \$91,338 cash funds from the Operational Account of the Severance Tax Trust Fund.** This request seeks funding to cover its annual cost of hardware and software replacement. Currently, \$101,840 is funded in the base; annual costs are actually \$193,178, a difference of \$91,338 - the request.

<u>Components</u>	<u>Life Span (years)</u>	<u>Replacement Cost</u>	<u>Annual Cost</u>
Desktop replacements	4	\$32,000	\$8,000
Laptop replacements	3	57,600	19,200
Desktop/Laptop software	3	42,000	14,000

Desktop peripherals	4	27,265	6,816
Servers	3	95,685	31,895
Network infrastructure	6	49,456	8,243
Network peripherals	5	84,500	16,900
Annual maintenance contracts	1	80,499	80,499
COGIS software	4	<u>30,500</u>	<u>7,625</u>
TOTAL		\$499,505	\$193,178
Funding in base budget			<u>(101,840)</u>
Remaining need			\$91,338

Funding Needs for OGCC

The Oil and Gas Conservation Commission is funded by two primary areas: the Operational Account of the Severance Tax Trust Fund and the Oil and Gas Conservation and Environmental Response Fund. In the 2005 and 2006 sessions, the JBC sponsored legislation to help the OGCC in its management and maintenance of its Fund. House Bill 05-1285 consolidated two conflicting funds into one and raised the allowable fund balance from \$1.0 million to \$2.0 million. Following significant emergency expenditures and other needs, S.B. 06-142 increased that allowable balance from \$2.0 million to \$4.0 million.

As discussed in the issue briefing on the Severance Tax Trust Fund within this briefing document, the Oil and Gas Conservation Commission has a substantially increasing workload and a fairly flat revenue stream. The statutory allowance for OGCC from the Operational Account is 45.0 percent of the available moneys for \$41.5 million in FY 2006-07; instead it is actually spending \$2.2 million and its budget for FY 2007-08 and on is growing substantially. This funding increase is not supported by the Operational Account of the Severance Tax Trust Fund.

The OGCC has indicated to staff that it will be increasing its mill levy in order to bring in a sufficient amount of revenue to the Oil and Gas Conservation and Environmental Response Fund. This mill levy increase, which could range from a 25 percent to a 100 percent increase, would raise \$1.0 million to \$4.0 million respectively. However, based on JBC staff's understanding of other funding needs on the horizon, the Commission will need about \$4.4 million for future major projects. There is, at present, no fund source for these items outside of a mill levy increase.

The Oil and Gas Conservation and Environmental Response Fund had a balance in recent years which was believed to be sufficiently large. However, increases in the Commission budget, other alternative uses for the fund balance in S.B. 05-66 totaling \$3.0 million, and a drop in natural gas prices have converged, resulting in a potential shortfall in funding.

Oil and Gas Conservation and Environmental Response Cash Fund Reserves					
	Actual FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07 ^{3/}	Estimate FY 2007-08	Estimate FY 2008-09
Beginning Fund Balance	\$202,186	\$2,012,821	\$6,568,689	\$1,471,850	\$748,889
Transfer per H.B. 05-1285 ^{1/}	0	4,188,456	0	0	0
Cash Fund Revenue	4,561,534	5,146,007	3,441,735	4,045,381	4,110,760
Currently Known Expenditures from the Cash Fund ^{2/}	(2,750,899)	(4,778,595)	(8,538,574)	(4,768,342)	(4,423,553)
Ending Balance	2,012,821	6,568,689	1,471,850	748,889	436,096

^{1/} House Bill 05-1285 combined two cash funds into the Oil and Gas Conservation and Environmental Response Cash Fund. The funds in the Environmental Response Fund are shown here as transferred in on a one-time basis.

^{2/} The expenditures herein include \$1,728,224 in FY 2005-06 and \$1,250,000 in FY 2006-07 (\$3,056,000 total) expended in Higher Education per S.B. 05-66 [Energy Research Institute Project] as well as FY 2005-06 supplemental appropriations of \$908,445 for the La Plata emergency and \$203,600 for Program Costs. Also, includes a \$1,810,635 transfer to ERF.

^{3/} Ending balance for FY 2006-07 assumes that the full \$1,500,000 authorized for emergency response is expended.

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
State Board of Land Commissioners

ISSUE:

State Land Board revenues continue to climb as compared to prior forecasts. The impact of the \$1.0 million S.B. 05-196 Investment and Development Fund initiative is also included in the revenue forecasts, but it currently accounts for only a very marginal revenue gain. Most of the impact of the Investment and Development Fund is projected to take the form of increases in the value of the present lands, rather than annual revenue returns.

SUMMARY:

- Compared to estimates provided last year for FY 2005-06, total State Land Board annual gross revenues earned were up \$10.3 million compared to estimated from last year. This unforeseen increase was largely attributable to additional oil and gas bonus revenue. The projection of gross revenues for the School Trust is \$324.8 million for FY 2006-07 through FY 2010-11. This does not include interest earnings in the Public School "Permanent" Fund.
- Estimated FY 2006-07 revenues are down 2.9 percent compared to FY 2006-07 revenues estimated last year. However, despite that change, over the five year period from FY 2005-06 to FY 2009-10 total State Land Board gross revenues are projected up \$18.7 million (\$3.7 million on average a year). Most of the increase for these years (97.5 percent) is from mineral royalties and bonuses revenue.
- The JBC sponsored S.B. 05-196 which created the Investment and Development Fund. This bill created management flexibility and continuously appropriated \$1.0 million a year for the State Land Board, with a cumulative impact of \$5.0 million from FY 2005-06 to FY 2009-10. The Investment and Development Fund investments thus far are currently projected to generate years from now \$21.2 million in net value increases and annual revenue increases which range from \$122,873 in FY 2006-07 to \$685,598 in FY 2009-10 (for a total of \$1,778,031 in revenues over the five-year Investment and Development Fund authorization period).
- Senate Bill 05-196 also allows for more State Land Board revenues to flow into the Public School "Permanent" Fund. For FY 2006-07, this impact is estimated at a net of \$1,381,310.¹ The Public School "Permanent" Fund is \$453.0 million as of FY 2005-06 close. This fund

¹ \$15,401,119 gross cash fund revenues, less \$1,019,809 State Land Board cash funded administrative costs in the FY 2006-07 Long Bill, less \$12,000,000 appropriated for K-12. Offsetting this sum in the Public School Permanent Fund is \$1,000,000 cash funds exempt continuously appropriated pursuant to S.B. 05-196.

is estimated to reach \$1.0 billion between 2014 and 2015 without law changes.

- Plans for development of the former Lowry Range property continue to hold great state *long-term* growth potential for the state. A portion of the property has been put out to bid recently. Respondents to the RFP provided proposals which carry a net present value return between \$10.3 million to \$47.0 million.

RECOMMENDATION:

Staff recommends that the JBC discuss the following issues with the State Land Board:

- Early information indicates that the Investment and Development Fund will reap relatively small annual revenue gains, focusing instead on significant value gains. What is the State Board of Land Commissioner's goals for the Investment and Development Fund -- annual revenues or net increases in property values? How will the investment decisions translate into "reasonable and consistent" income (for the Public School "Permanent" Fund)?
- What other areas of flexibility would aid the State Land Board in accomplishing its constitutional and statutory goals for optimizing revenues for K-12? Are there further changes that would be useful now that S.B. 05-196's Investment and Development Fund is being implemented?
- The State Board of Land Commissioners has received responses to its Request for Proposal (RFP) for development of the Lowry Range from four respondents. This initiative will reap future benefits for the School Land Trust. The JBC may want to discuss the status of the proposals with the State Land Board.
- Does the State Board of Land Commissioners have an opinion on how much of the proceeds should be spent on K-12 versus invested in the Public School "Permanent" Fund?

DISCUSSION:

In 1876, the federal government granted Colorado 4.75 million acres of land to be used for public schools. Currently, the State Board of Land Commissioners manages about 2.8 million of surface acres and about 4.0 million mineral acres.

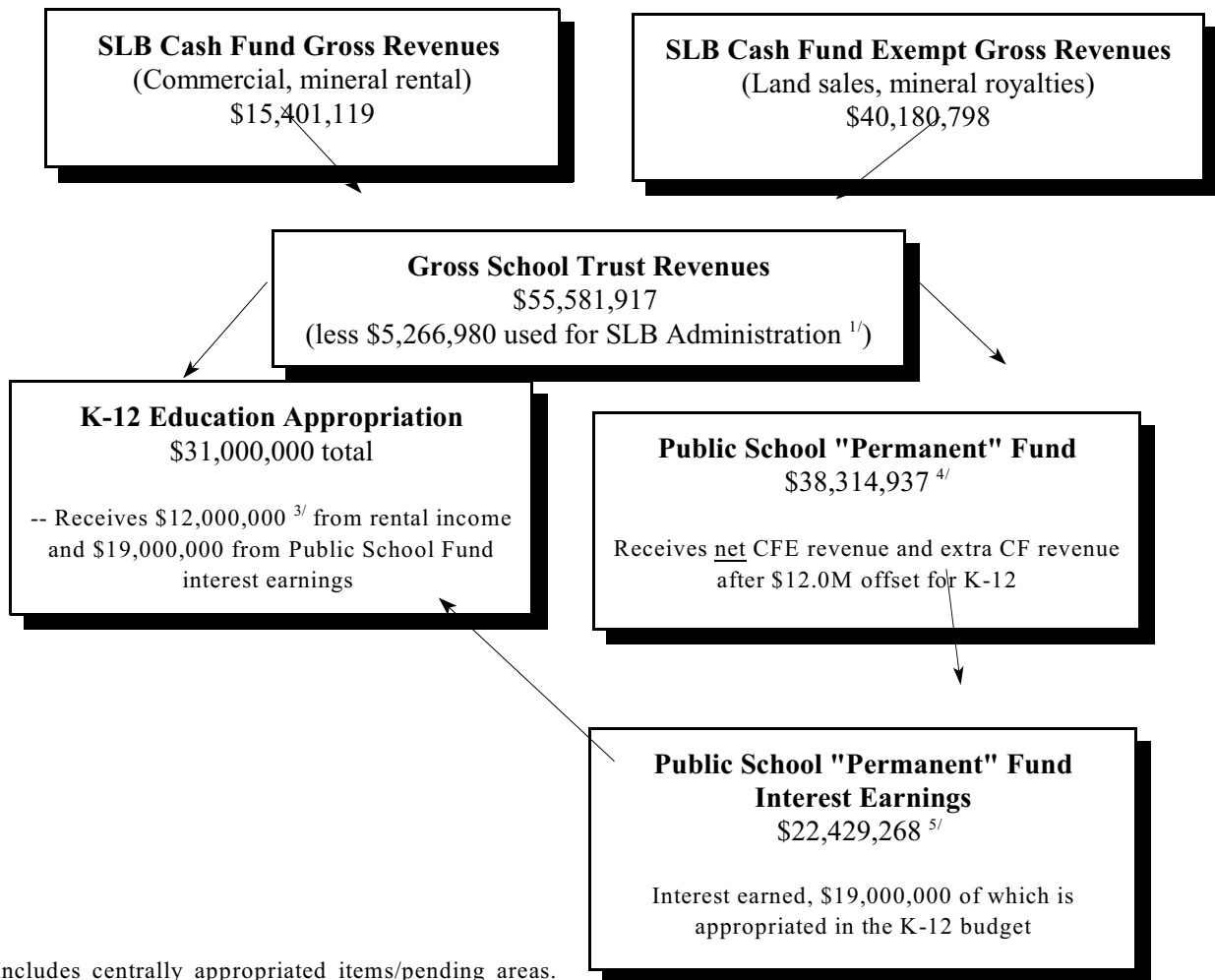
Approximately 96 percent of the land managed by the State Board of Land Commissioners is for the School Trust. These school trust lands generate cash fund and cash fund exempt revenues for the public school system (K-12), consistent with the constitutional and statutory directives.

The revenues earned include cash funds from ventures such as commercial sources and rentals, and include cash funds exempt from ventures including mineral royalties and land sales. For FY 2006-07, it is estimated that the State Land Board will earn \$55.6 million in gross revenues from the following:

- \$15.4 million (27.7 percent) in cash funds from surface rental revenue and commercial ventures; and
- \$40.2 million (72.3 percent) in cash funds exempt from mineral royalties.

The following schematic shows the sources of revenues generated by the School Trust (the bulk of the investment), the offset for Division expenses, and then the distribution to the respective funds, including the Income Fund (which directly finances School Finance) and the Permanent Fund (which interest is used for School Finance).

FY 2006-07 Estimated Earnings and Distributions of SLB Trust Revenues and Proceeds



^{1/} Includes centrally appropriated items/pending areas. Includes the \$1,000,000 from the Investment and Development Fund. Also, the expenditures for the SLB shown include all costs including those costs borne by the SLB on behalf of its other trustees. It is shown consolidated herein for purposes of discussion.

^{2/} Of this sum, no more than \$19 million of interest earnings is distributed to school districts in the School Finance Act, offsetting the State General Fund cost of K-12.

^{3/} Senate Bill 05-196 capped the SLB revenue which can be applied in K-12 to \$12,000,000. Any cash fund revenues

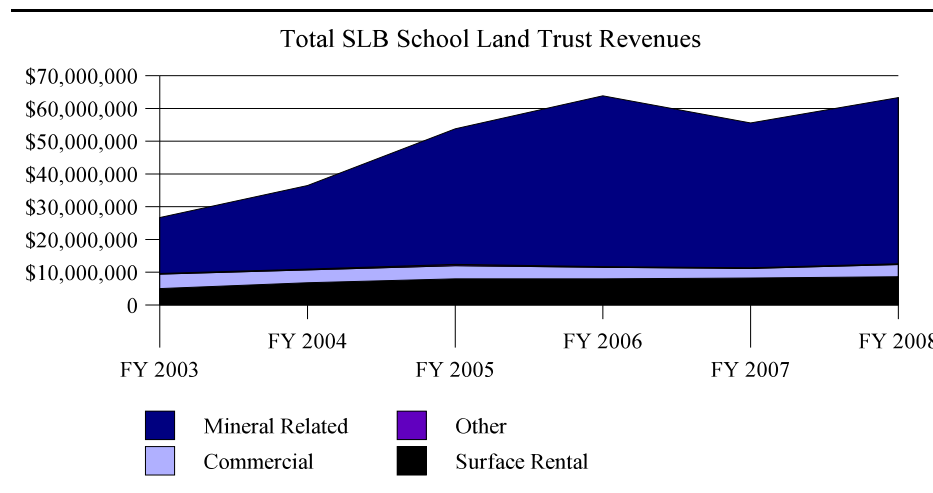
in excess of this capped amount are transferred to the Public School "Permanent" Fund.

^{4/} \$38,314,937 = (\$40,180,798 total CFE SLB School Trust revenues - \$4,247,171 SLB CFE expenses = \$35,933,627) + (\$15,401,119 SLB School Trust CF revenues less \$12,000,000 less \$1,019,809 SLB CF expenses= \$2,381,310).

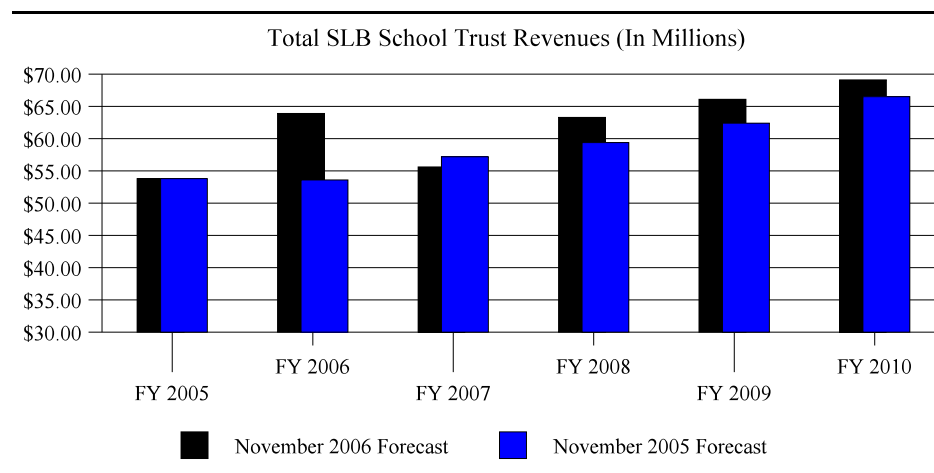
^{5/} Estimated ending balance based on FY 2005-06 ending fund balance, plus estimated interest earnings of 4.75% adjusted by updated SLB revenue and expenditure information.

Total State Land Board revenues are up through FY 2009-10.

As the following chart shows, the bulk of the increases in the State Land Board's School Trust Land revenues are from mineral royalties and bonuses. Fiscal Year 2005-06 revenues came in \$10.3 million higher than expected due to mineral revenue (bonuses mostly). However, FY 2006-07 revenue projections are down slightly (\$1.6 million).



Over the five year period from FY 2005-06 to FY 2009-10 total State Land Board gross revenues are projected up \$18.7 million (\$3.7 million on average a year) compared to the forecast last year. Most of the increase (97.5 percent) is from mineral royalties and bonuses revenue. This growth reflects the increase in drilling and production attributable to higher prices. These cash funds exempt royalties are deposited directly into the Public School Fund, after State Land Board administrative expenses are netted out, including the \$1.0 million Investment and Development Fund expenditure.

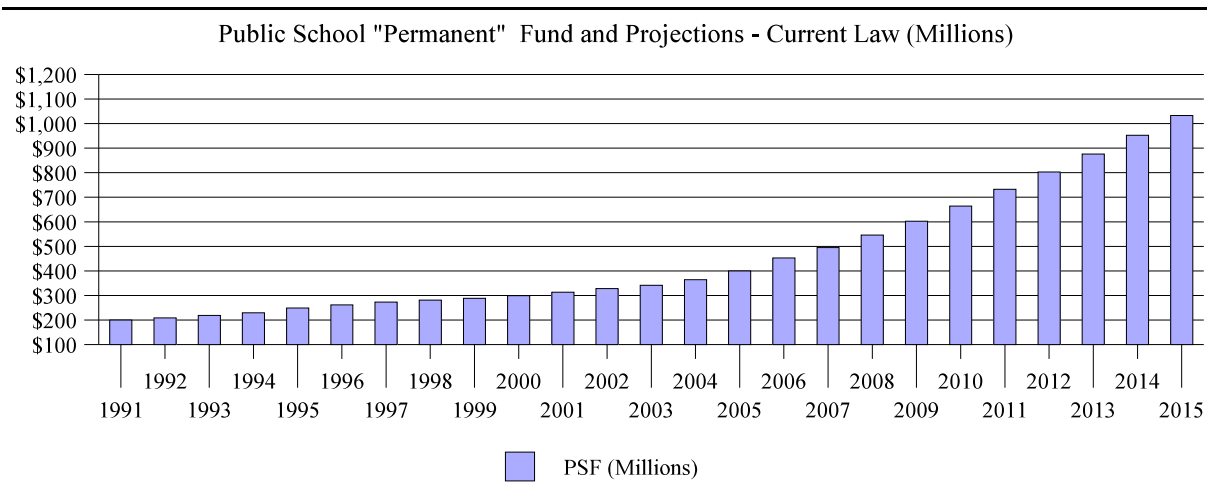


Impact on the Public School "Permanent" Fund

As noted earlier, the net revenues generated by the State Land Board are deposited into the Public School "Permanent" Fund and are also expended on K-12 education. Thus, the more money is generated by the State Land Board, the more money is available to grow the Public School Fund if it is retained in the Fund.

- From 1991 to 2000, the average annual growth per year of net State Land Board revenue to the Public School Fund was \$9.7 million.
- From 2001 to 2005, the average annual growth per year of net State Land Board revenue to the Public School Fund was \$19.4 million, exactly double the rate of growth of the prior 10 year period average.
- From 2006-2012, the projected average annual growth per year of net State Land Board revenue to the Public School Fund is \$48.2 million, almost 150 percent higher than the rate of growth of the 2001 to 2005 period and almost 400 percent of the 1991 to 2000 growth te.

The following chart shows the growth in the Public School "Permanent Fund" and the potential growth of that fund using the State Land Board's cash fund and cash fund revenue projections, offsetting administrative costs, and a 4.75 percent interest rate earned by the State Treasury.

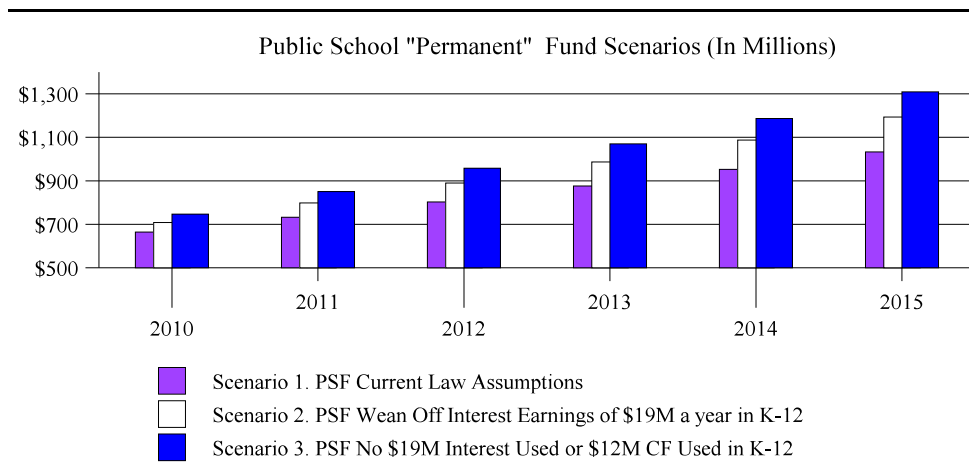


Equally important, the more money generated *and maintained* in the Public School Fund, the more it will grow. Statutes provide that \$19.0 million of the interest earnings are spent each year on K-12, along with \$12.0 million of the net cash fund revenues. Thus, a total of \$31.0 million in annual earnings from the State Land Board and the Public School "Permanent" Fund is spent. If these moneys were retained in the Public School Fund, the balance of that fund would grow significantly.

When Utah's State Land Board became an independent entity, it eliminated the annual payments from its school fund and kept that instead in the corpus. Utah's goal is to reach \$1.0 billion in its permanent fund by 2010.² In 2005, Utah had a balance of \$569 million in its permanent fund (\$166 million more than Colorado in 2005). Utah had State Land Board 2005 revenues of \$93.9 million (Colorado had \$54 million). For Colorado, the \$31.0 million in K-12 school finance would have to be replaced with General Fund to maintain the budget. Under the 6.0 percent limitation on General Fund appropriations, this is very difficult to achieve. For informational purposes only, the following table compares the following three scenarios:

Current earnings estimates show the Colorado's Public School Fund hitting the \$1.0 billion mark around 2014 or 2015.

- **Scenario 1.** The growth in the PSF under current law, using the \$12M cash funds and \$19M cash funds exempt in K-12. This scenario shows the Public School Fund hitting the \$1.0 billion mark in 2014 or 2015.
- **Scenario 2.** The growth in the PSF with a decreasing dependence on the interest earnings in K-12, lowering to \$9.5M in FY 2007-08, \$4.75 million in FY 2008-09, and \$0 in FY 2010-11 and thereon. This scenario shows the Public School Fund hitting the \$1.0 billion mark in 2013 or 2014.
- **Scenario 3.** The growth in the PSF with a decreasing dependence on the interest earnings in K-12 (noted above in the second bullet) plus an elimination of the \$12M cash funds used in K-12. This scenario shows the Public School Fund hitting the \$1.0 billion mark in 2012 or 2013.



² Office of the Utah Legislative Auditor General, Report to the Utah Legislature, Number 2006-01, A Performance Audit of the School & Institutional Trust Land Administration (SITLA) January 2006, page 9.

Senate Bill 05-196 Investment and Development Fund

As the JBC will recall, S.B. 05-196 created the State Board of Land Commissioners' Investment and Development Fund. The bill also annually transfers \$1,000,000 cash funds exempt (from State Land Board earnings on mineral royalties and bonus revenue) into the Fund for continuous expenditure by the State Land Board.

Senate Bill 05-196 is anticipated to cost \$5,000,000 from FY 2005-06 to FY 2009-10 (\$1.0 million a year authorized to be continuously spent). About \$1.5 million has currently been spent. Over \$10.4 million in additional future expenditures have been identified; this is far more than is available with the sunset of the \$5.0M.

Preliminary information obtained from the State Land Board show that the Investment and Development is anticipated to generate a \$24.5 million in wealth increases. The revenue figures total a cumulative \$1.8 million from FY 2005-06 to FY 2009-10, ranging from \$122,873 in FY 2006-07 to \$685,598 in FY 2009-10.

The bill required an annual report on the Fund from the State Land Board in January; however, the Department provided staff with a courtesy draft preview of the report for this briefing. Preliminary information obtained from the State Land Board show that it is anticipated to generate a \$24.5 million in gross wealth increases from FY 2005-06 to FY 2009-10. The revenue figures total a cumulative \$1.8 million from FY 2005-06 to FY 2009-10, ranging from \$122,873 in FY 2006-07 to \$685,598 in FY 2009-10.

State Land Board Lowry Range Development

The State Board of Land Commissioners has received responses to its RFP for development of the Lowry Range from four respondents. Plans for development of the former Lowry Range property continue to hold great state *long-term* growth potential for the state. The financial formula in the proposals include a return for the State Land Board between 15.0 percent of gross sales to 26.0 percent of gross sales. The respondents provided proposals which carry a cash return to the State Land Board over time of \$54.4 million to \$106.0 million; this translates into a net present value return between \$10.3 million to \$47.0 million.

The respondents provided proposals which carry a cash return to the State Land Board over time of \$54.4 million to \$106.0 million; this translates into a net present value return between \$10.3 million to \$47.0 million.

The proposals assume a cash flow around 2010 and project life of about 20 years. As this proposal review process is still underway, no estimates have been incorporated into out-year projections. The State Land Board anticipates selecting a developer in early 2007.

Colorado State Land Board Budget

The Colorado State Land Board has a FY 2006-07 budget of \$3.5 million comprised of cash funds and cash funds exempt and 34.0 FTE. In addition, S.B. 05-196 provided for the \$1.0 million Investment and Development Fund for specified purposes. Included in this legislation is flexibility to manage and hire additional staff related to the Fund's purposes.

Below is a comparison of the Colorado State Land Board relative to other western states. As the Committee may observe from this table, Colorado's funding and staffing is smaller than other states.

Western State Land Boards	FY 2004 Surface Acre Holdings	FY 2004 FTE	FY 2004 State Land Board Revenues (Millions)	FY 2004 Operating Budget (Millions)
New Mexico State Land Board	9.0	155.0	\$278.7	\$14.0
Washington DNR - Trust Lands Management Activities	2.8	770.0	215.9	23.6
Wyoming Office of State Lands and Investments	3.5	97.0	93.0	10.0
Idaho Department of Lands	2.2	29.0	65.6	4.6
Utah School & Institutional Trust Land Administration	3.4	62.0	60.4	7.5
Montana Trust Land Management Division	5.1	108.0	46.3	5.2
Colorado State Land Board	2.8	34.0	36.4	3.5
Oregon Department of State Lands	0.7	86.0	15.8	6.9
Average	3.7	167.6	\$101.5	\$9.4
Adjusted Average (w/o High and Low)	3.3	89.5	\$86.3	\$8.0

Source: Office of the Utah Legislative Auditor General, Report to the Utah Legislature, Number 2006-01, A Performance Audit of the School & Institutional Trust Land Administration (SITLA) January 2006.

How Colorado Compared for FY 2004:

- Colorado has 75.7 percent of the average western state average surface acre holdings (84.8 percent with the high/low removed). Of course, the type and value of the holdings is not represented here.
- Colorado State Land Board's budget is 37.2 percent of the average western state operating budgets (43.8 percent with the high/low removed).

- Colorado State Land Board's FTE are 20.3 percent of the average western state FTEs (38 percent of the average with the high/low removed).

The Colorado State Land Board has requested the following budget increases for FY 2007-08:

- \$119,013 CF/CFE and 1.0 FTE to establish a water portfolio management program. The State Land Board acknowledges the necessity to include water in its total portfolio management process. (Decision Item #8)
- \$122,034 CF/CFE and 1.0 FTE for a new minerals auditor and for legal services hours. The latter are funded in the Executive Director's Office. (Decision Item #14)
- \$145,073 CF/CFE and 2.0 FTE to add a new district office and for contract range conservation specialists. (Decision Item #17)

November 2006 Estimates for FY 2006-07 to FY 2010-11

SCHOOL TRUST REVENUE	FY 2001/02	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11
	Actual	Actual	Actual	Actual	Estimate	Projection	Projection	Projection	Projection
School Trust-Total Revenues	<u>28,184,568</u>	<u>36,445,680</u>	<u>53,771,940</u>	<u>63,868,553</u>	<u>55,581,917</u>	<u>63,321,685</u>	<u>66,089,522</u>	<u>69,095,969</u>	<u>70,708,824</u>
Mineral Rental Revenue	994,186	986,720	1,253,324	1,751,130	1,708,113	1,708,113	1,708,113	1,708,113	1,708,113
Mineral Royalties and Bonuses Revenue	15,269,738	24,517,032	40,121,204	50,399,909	42,493,157	49,036,878	51,268,878	53,821,878	54,957,878
Surface Rental Revenue	7,274,547	6,793,722	7,988,701	8,009,916	8,218,484	8,614,531	8,777,944	8,944,624	9,114,639
Commercial/ Other Rental Revenue	4,319,510	3,937,968	4,033,546	3,478,051	2,924,243	3,724,243	4,096,667	4,383,434	4,690,274
Land Sales	118,997	25,054	75,707	11,286	11,286	11,286	11,286	11,286	11,286
Interest and Penalties	68,063	106,389	149,153	126,634	126,634	126,634	126,634	126,634	126,634
Timber Sales	139,527	78,795	150,305	91,627	100,000	100,000	100,000	100,000	100,000
CFE Revenue:									
Mineral Royalties	14,670,922	23,331,380	34,038,944	45,990,054	40,054,878	47,036,878	50,268,878	52,821,878	53,957,878
Land Sales	118,997	25,054	75,707	11,286	11,286	11,286	11,286	11,286	11,286
Interest and Penalties	<u>62,587</u>	<u>97,830</u>	<u>137,153</u>	<u>114,634</u>	<u>114,634</u>	<u>114,634</u>	<u>114,634</u>	<u>114,634</u>	<u>126,634</u>
Subtotal CFE	14,852,506	23,454,264	34,251,804	46,115,974	40,180,798	47,162,798	50,394,798	52,947,798	54,095,798
Annual Growth		8,146,863	10,797,540	11,864,170	(5,935,176)	6,982,000	3,232,000	2,553,000	1,148,000
Annual % Growth		53.2%	46.0%	34.6%	-12.9%	17.4%	6.9%	5.1%	2.2%
CF Revenue:									
Mineral Rental Revenue	994,186	986,720	1,253,324	1,751,130	1,708,113	1,708,113	1,708,113	1,708,113	1,708,113
Bonus Revenue	598,816	1,185,652	6,082,260	4,409,855	2,438,279	2,000,000	1,000,000	1,000,000	1,000,000
Surface Rental Revenue	7,274,547	6,793,722	7,988,701	8,009,916	8,218,484	8,614,531	8,777,944	8,944,624	9,114,639
Commercial/ Other Rental Revenue	4,319,510	3,937,968	4,033,546	3,478,051	2,924,243	3,724,243	4,096,667	4,383,434	4,690,274
Timber Sales	139,527	78,795	150,305	91,627	100,000	100,000	100,000	100,000	100,000
Interest and Penalties	<u>5,476</u>	<u>8,559</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>0</u>
Subtotal CF	13,332,062	12,991,416	19,520,136	17,752,579	15,401,119	16,158,887	15,694,724	16,148,171	16,613,026
Annual Growth		1,629,319	6,528,720	(1,767,557)	(2,351,460)	757,768	(464,163)	453,447	464,855
Annual % Growth		14.3%	50.3%	-9.1%	-13.2%	4.9%	-2.9%	2.9%	2.9%

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Severance Tax Trust Fund and the Operational Account

ISSUE:

The Severance Tax Trust Fund was created to hold severance moneys in a perpetual trust. In the 2006 Session, the General Assembly authorized around \$148 million in obligations from the Operational Account for FY 2005-06 through FY 2010-11. Despite substantial revenue increases in recent years, the severance tax base remains a volatile revenue base and is currently not sufficient to support workload-related increases for the Oil and Gas Conservation Commission, causing a potential mill levy increase for oil and gas funds. Should the purpose and use of the Severance Tax Trust Fund be revisited at a broad policy level?

SUMMARY:

- In 1996, the General Assembly established the Severance Tax Trust Fund and its statutory purpose with the passage of S.B. 96-170. The statutory purpose(s) of the Severance Tax Trust Fund is to hold funds in trust as replacement for depleted resources and to provide for water conservation. Programs related to oil and gas, water, and minerals and geology receive percentages of the total revenues.
- The Legislative Council Staff September 2006 severance tax forecast for FY 2006-07 is \$68.9 million. This is 30 percent lower than the December 2005 Legislative Council Staff severance tax forecast used during the legislative session.
- In the last two sessions there have been 16 bills passed to spend the Operational Account of the Severance Tax Trust Fund (five in 2005 and eleven in 2006). In the 2006 session, the General Assembly's eleven bills authorized a cumulative \$148 million from FY 2005-06 through FY 2010-11. This represents almost three-quarters of the estimated spending for that time period. Funding for the core areas in the Department of Natural Resources' budget represent only approximately one-quarter of the Operational Account spending.
- A number of these recent bills have expanded the allowable statutory uses of the Operational Account beyond the original S.B. 96-170 programs and scope. Of the \$36.5 million in new FY 2006-07 Operational Account expenditures, \$25.5 million (55.7 percent of total expenditures) represent an expansion of programs and scope. [Moreover, the Department of Natural Resources includes in its Operational Account balance sheet for the 2007 session additional increases of \$14.2 million, all above the FY 2007-08 Long Bill request. The cumulative impact of these bills and funding demands means that there is a shortfall of available funding for the Oil and Gas Conservation Commission's expanding needs.]

RECOMMENDATION:

Staff recommends that the JBC and the General Assembly consider the following issues when planning for uses of the Severance Tax Trust Fund:

- Colorado has a volatile and unpredictable source of funds in severance, particularly with natural gas prices declining recently.
- The General Assembly created the Severance Tax Trust Fund as a perpetual trust.
- The Oil and Gas Conservation Commission, and other DNR divisions, have many identified unmet needs exceeding the funds available in the Operational Account for this purpose.
- Colorado continues to have no rainy day fund.

Additionally, staff recommends that the JBC discuss the role they would like to have in managing the expenditures from the Operational Account of the Severance Tax Trust Fund.

DISCUSSION:

Overview

Section 39-29-108 (2), C.R.S., provides that 50 percent of severance tax revenues are deposited into the Severance Tax Trust Fund, for the Department of Natural Resources, and 50 percent of the revenues are used by the Department of Local Affairs for grants and distributions to local governments affected by mining activities.

Section 39-29-109 (1) (a), C.R.S., provides that the Severance Tax Trust Fund is to be "perpetual and held in trust as a replacement for depleted natural resources" and other specific purposes. The Operational Account of the Severance Tax Trust Fund was created as a trust to fund programs within the Department that promote responsible resource development, offset the environmental impacts of mineral and mineral fuel development, and encourage sound management of natural resources.

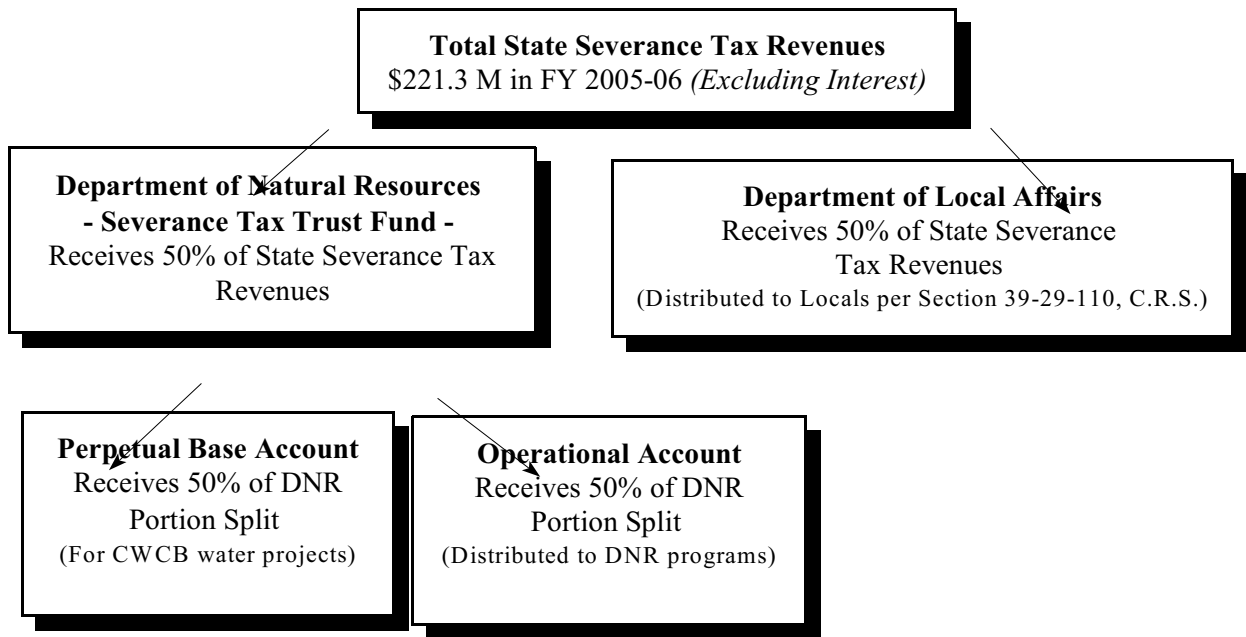
The Severance Tax Trust Fund is to be "perpetual and held in trust as a replacement for depleted natural resources" and other specific purposes.

With respect to the Severance Tax Trust Fund specifically:

- Section 39-29-109 (1) (a) (I), C.R.S., provides that 50 percent of revenues deposited into the Severance Tax Trust Fund (or 25 percent of total severance tax revenues) shall be allocated to the Perpetual Base Account of the Severance Tax Trust Fund, which is used by the Colorado Water Conservation Board for water construction projects.
- Pursuant to Section 39-29-109 (1) (a) (II), C.R.S., the other 50 percent of Severance Tax Trust Fund revenues (or 25 percent of total severance tax revenues) are allocated to the Operational Account to fund programs that "promote and encourage sound natural resource

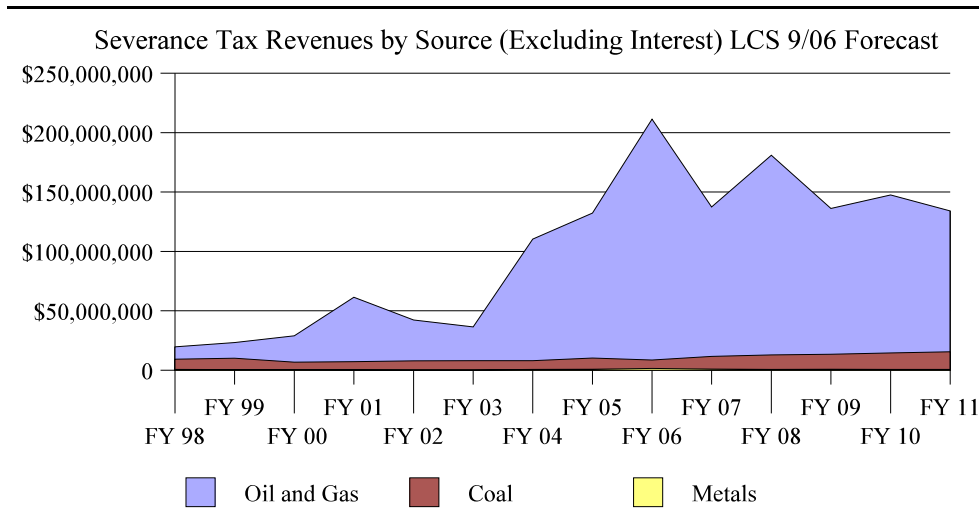
planning, management, and development related to minerals, energy, geology, and water".

The following table illustrates the State's distribution of total state severance tax revenues into the Severance Tax Trust Fund and to the Department of Local Affairs:



Forecast

The Legislative Council Staff September 2006 forecast for FY 2006-07 is \$161.3 million (\$150.2 million excluding interest). While still significantly higher than past years, this sum is \$63 million and 28.3 percent lower than the September 2005 forecast. The chart below illustrates the past year spike and the volatility of the revenues over the next few years.



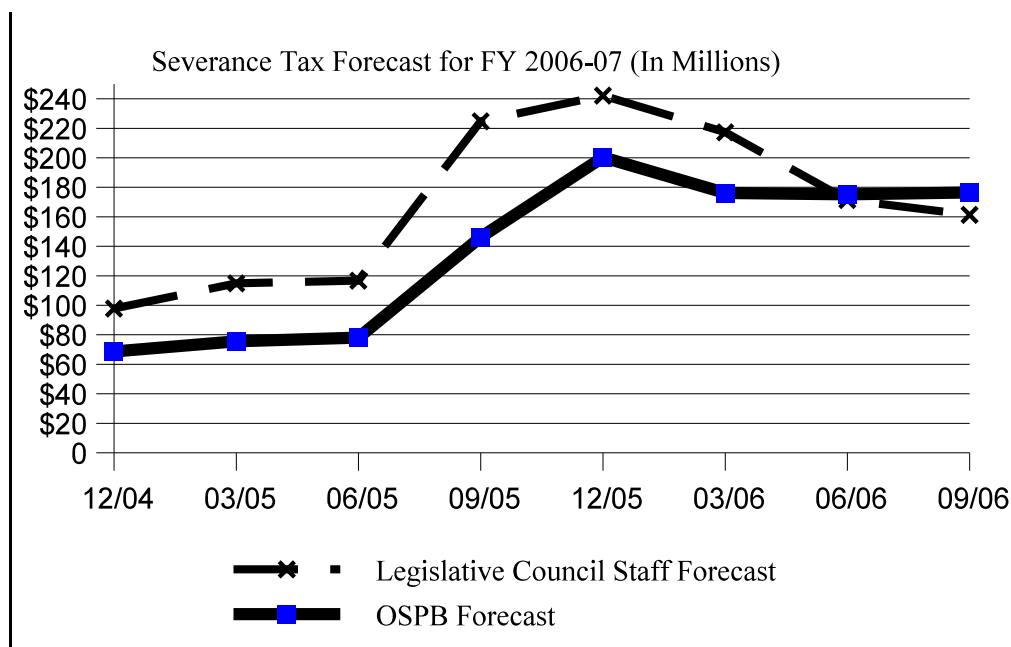
This chart does not include the estimate of interest earnings (\$11.1 million in FY 2005-06). These

earnings are associated with the respective programs that receive severance (e.g., Department of Local Affairs, Severance Tax Trust Fund). As such, policy discussions on the severance tax totals are best done without the inclusion of interest earnings which can distort the total revenue picture.

The following table compares the current forecast to the December 2005 forecast, which was used during the session.

	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 07 to FY 11
Dec. 05	229,985,000	148,255,000	130,034,000	127,356,000	123,488,000	759,118,000
Sept. 06	<u>161,284,000</u>	<u>207,118,000</u>	<u>161,979,000</u>	<u>175,182,000</u>	<u>162,766,000</u>	<u>868,329,000</u>
	(68,701,000)	58,863,000	31,945,000	47,826,000	39,278,000	109,211,000
	-29.9%	39.7%	24.6%	37.6%	31.8%	14.4%

The following chart compares the forecasts for severance between the Legislative Council Staff and the Office of State Planning and Budgeting.



2006 Session Legislation - Trust Funds Expended in the Operational Account

In the 2006 session, the General Assembly's eleven bills authorized a cumulative \$148 million from FY 2005-06 through FY 2010-11. This represents almost three-quarters of the estimated spending for that time period. Funding for the core areas in the Department of Natural Resources' budget represent only approximately one-quarter of the spending.

A number of these recent bills have now expanded the S.B. 96-170 statutory use of the funds. Of the \$36.5 million in new FY 2006-07 Operational Account expenditures, \$25.5 million (55.7 percent of expenditures) represents an expansion beyond the original S.B. 96-170 programs and scope.

The following table is a list of the bills authorized in the 2006 Session and their respective cumulative impact from FY 2005-06 to FY 2010-11:

Cumulative Authorizations from the 2006 Session: FY 2005-06 to FY 2010-11		
HB 1200 (LEAP)	\$60,000,000	40.6%
SB 179 (Water Projects)	40,000,000	27.1%
SB 229 (Laboratory)	16,000,000	10.8%
HB 1311 (Species Conservation)	12,800,000	8.7%
HB 1322 (Clean Energy Develop)	7,635,000	5.2%
HB 1400 (Roundtables)	5,971,710	4.0%
HB 1393 (Soil Conservation)	2,700,000	1.8%
HB 1313 (Litigation Acct)	2,000,000	1.4%
SB 183 (H2O Research Institute)	500,000	0.3%
HB 193 (Underground storage)	146,000	0.1%
Subtotal 2006 Legislation	\$147,752,710	100.0%

This level of expenditure relative to the available revenues raises the question of whether the Severance Tax Trust Fund is still being treated as a "Trust" in the traditional sense of the term.

Section 39-29-109 (1) (a), C.R.S., provides that the Severance Tax Trust Fund is to be "perpetual and held in trust as a replacement for depleted natural resources" and other specific purposes. The Operational Account of the Severance Tax Trust Fund was created as a trust to fund programs within the Department that promote responsible resource development, offset the environmental impacts of mineral and mineral fuel development, and encourage sound management of natural resources. Pursuant to S.B. 96-170, the distribution of funds among the divisions in the Department of Natural Resources is established by statute. This Trust represents the Department of Natural Resources share of the total severance tax proceeds (50 percent). This Trust is divided between the Operational Account and the Perpetual Base Account.

Whether the Severance Tax Trust Fund is a trust should be contemplated based on the particular circumstances for the Fund.

Circumstances for the State:

- **Volatile and unpredictable severance revenue base.** The General Assembly should be cognizant of the volatility of the severance tax revenue base. The Legislative Council Staff forecast was significantly close(r) to the final FY 2005-06; this forecast, however, still reflects that volatility and difficulty to predict. Further expenditures from the severance tax should be cognizant of this volatility and of the fund reserves created within it to respond to this.
- **Statutes created severance as a Trust Fund but spends, not saves, the funds.** While the statutes establishing the Severance Tax Trust Fund provided that the moneys be held in reserve or perpetuity, the General Assembly made significant commitments for the Operational Account of the Severance Tax Trust Fund into the future. These changes have been made in individual amendments to S.B. 96-170 bill by bill.

- ✓ Should an overarching policy be established by the General Assembly with a five or ten year perspective? Such a perspective could consider holding these moneys in a true reserve fund or using it as a liquid portion of the state's TABOR reserve.
- **OGCC regulatory oversight workload increases require alternative funding.** The Oil and Gas Conservation Commission has a substantially increasing workload and a fairly flat revenue stream. The statutory allowance for OGCC from the Operational Account is 45 percent of the available moneys for \$41.5 million in FY 2006-07; instead it is actually spending \$2.2 million. Thus, the difference between what it would have been authorized to receive and its budget is \$39.8 million. Further, OGCC's budget for operations is growing substantially in FY 2007-08. This funding increase is not supported by the Operational Account of the Severance Tax Trust Fund. This issue is discussed in more detail in the Oil and Gas Conservation Commission issue, contained in this issue briefing.
- **Colorado does not have a rainy day fund.** Current statutes do not support a General Fund reserve greater than the 4.0 percent requirement since any amount larger than this sum is transferred to transportation and capital construction. However, if there were to be an economic downturn and the General Fund were again to falter, the General Fund spending under the 6.0 percent limit would effectively "ratchet" down, eliminating the benefits of Referendum C. Last year at this time, staff recommended that alternative funds from the severance tax be held in trust as a separate reserve account. Using severance tax as part of the rainy day fund did not get legislative support.

Additionally, the State's TABOR reserve continues to contain a significant amount of non-liquid assets. The Severance Tax Trust Fund was not used in the FY 2006-07 reserve because of the increase in spending from this source.

Operational Account Minimum Reserve Requirements

Section 39-29-109 (1) (c) (III) (A), C.R.S. was established by H.B. 02-1041 and provides that a year end balance be maintained in the Operational Account of the Severance Tax Trust Fund equal to double that of funding for severance tax programs funded in the Department of Natural Resources.

In addition to this two-year balance requirement, H.B. 06-1200 (LEAP) provides that a prior year ending balance must have a sum equal to the current year's appropriation required by H.B. 06-1200. For instance, on July 1, 2006, \$11.0 million was authorized for LEAP from the Operational Account (for FY 2006-07); hence, the June 30, 2006 ending fund balance had to have \$11.0 million in it for the authorization to implement the FY 2006-07 appropriation.

SAO Audit

The State Auditor's Office found that appropriate "controls" were not available to ensure the "accuracy of oil and gas production data." This briefing issue does not discuss the bulk of these issues as they pertain to the Department of Revenue. However, the Oil and Gas Conservation Commission was

criticized by the State Auditor's Office in a June 2006 severance tax performance audit. The criticism charged that the Commission needed to strengthen its controls over oil and gas production measurement. Said production measurement is critical to determine the taxes owed. The SAO found that Colorado does not "directly or indirectly inspect or verify the accuracy of metering instruments used by oil and gas producers." The OGCC will implement rules around March 2007 to require that operators maintain their paperwork for five years.

Summary Table

The following table summarizes the severance tax proposals which passed during the 2006 Session.

Overview of Severance Tax Legislation: Impact to Operational Account (Only)			
Bill/Plan	Area	Operational Account Impact	Description
<i>Expenditure Bills (Operational Account Impact)</i>			
HB 06-1311 (Curry)	Species Conservation	\$4,000,000 in FY 2005-06; \$8,800,000 in FY 2006-07	Transfers \$2,000,000 from the Operational Account of the Severance Tax Trust Fund to the Capital Account of the Species Conservation Trust Fund in FY 2005-06 and \$4,400,000 in FY 2006-07; also transfers \$2,000,000 from the Operational Account of the Severance Tax Trust Fund to the Operations and Maintenance Account of the Species Conservation Trust Fund in FY 2005-06 and \$4,400,000 in FY 2006-07.
HB 06-1313 (Curry)	Water Projects Bill	\$2,000,000 in FY 2006-07	One-time replenishment of Litigation Fund in the annual Water Projects bill; funds related to Colorado River litigation.
HB 06-1317 (Madden)	State Energy Planning Information	Vetoed	Vetoed
HB 06-1322 (Buescher)	Clean Energy Development Fund	\$2,635,000 in FY 2006-07; \$2,500,000 in FY 2007-08 and FY 2008-09	\$2,000,000 a year for three years starting in FY 2006-07 for the Colorado Renewable Energy Authority; \$500,000 a year for three years for the Department of Agriculture, Agriculture Value-added Development Board beginning in FY 2006-07; \$135,000 for FY 2006-07 only (formerly S.B. 06-214).
HB 06-1393 (Curry)	Dept/Ag. Soil Conservation.	\$450,000 a year in FY 2005-06 to FY 2010-11	Treasurer to transfer \$450,000 a year for soil conservation at the end of each year into a fund for continuous appropriation to the Department of Agriculture. The first Department of Ag. expenditure from this source.
HB 06-1400 (Buescher)	Water roundtables	\$931,318 in FY 2006-07; \$1,260,098 est. in FY 2007-08 on	Water roundtables; follow-up to H.B. 05-1177. Includes money for the Governor's Office and for DNR.

Overview of Severance Tax Legislation: Impact to Operational Account (Only)

Bill/Plan	Area	Operational Account Impact	Description
SB 06-179 (Isgar)	Trust for Water Projects	\$10 million in FY 2006-07 to FY 2009-10	Flat \$10 million a year from the Operational Account only.
SB 06-183 (Isgar)	Colorado Water Institute	\$500,000 in FY 2006-07 (only)	\$500,000 in FY 2006-07 only.
SB 06-193 (Wiens)	Develop Underground Water Storage	\$146,000 in FY 2006-07 (only)	\$146,000 in FY 2006-07 only.
SB 06-229 (Fitz-Gerald)	National Deep Underground Science and Engineering Laboratory	\$0 in FY 2006-07 but contingent \$20 million cumulative in FY 2007-08 through 2011-12	\$1,000,000 in FY 2007-08, \$5,000,000 in FY 2008-09, FY 2009-10, FY 2010-11 and \$4,000,000 in FY 2011-12 - conditional upon the National Science Foundation awarding DUSEL to the Henderson Mine near Empire.

Severance Tax -- September 2006 Forecast

November 15, 2006

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	
Actual Revenues	41,697,000	74,703,000	57,481,000	32,600,000	125,100,000	152,000,000	234,258,000						
Annual Dollar Change	8,197,000	33,006,000	(17,222,000)	(24,881,000)	92,500,000	26,900,000	82,258,000						
% Change	24.5%	79.2%	-23.1%	-43.3%	283.7%	21.5%	54.1%						
Leg. Council Forecast								161,284,000	207,118,000	161,979,000	175,182,000	162,766,000	
Annual Dollar Change								(72,974,000)	45,834,000	(45,139,000)	13,203,000	(12,416,000)	
% Change								-31.2%	28.4%	-21.8%	8.2%	-7.1%	
OSPB Forecast								176,500,000	192,200,000	164,700,000	176,700,000	168,100,000	
Annual Dollar Change								(57,758,000)	15,700,000	(27,500,000)	12,000,000	(8,600,000)	
% Change								-24.7%	8.9%	-14.3%	7.3%	-4.9%	
<i>Forecast Difference:</i>													
<i>OSPB to LCS</i>								15,216,000	(14,918,000)	2,721,000	1,518,000	5,334,000	
% Change								9.4%	-7.2%	1.7%	0.9%	3.3%	
<i>Interest \$ in funds receiving STAX per LCS</i>							8,579,000	12,923,000	11,084,000	12,749,000	11,458,000	12,346,000	12,485,000
OSPB Forecast:													
Operational Account	10,424,250	18,675,750	14,370,250	8,150,000	29,923,659	38,000,000	58,564,500	41,354,000	44,862,750	38,310,500	41,088,500	38,903,750	
Perpetual Account	10,424,250	18,675,750	14,370,250	8,150,000	29,923,659	38,000,000	58,564,500	41,354,000	44,862,750	38,310,500	41,088,500	38,903,750	
Local Affairs	20,848,500	37,351,500	28,740,500	16,300,000	62,550,000	76,000,000	117,129,000	82,708,000	89,725,500	76,621,000	82,177,000	77,807,500	
LCS Forecast:													
Operational Account	10,424,250	18,675,750	14,370,250	8,150,000	29,923,659	38,000,000	58,564,500	37,550,000	48,592,250	37,630,250	40,709,000	37,570,250	
Perpetual Account	10,424,250	18,675,750	14,370,250	8,150,000	29,923,659	38,000,000	58,564,500	37,550,000	48,592,250	37,630,250	40,709,000	37,570,250	
Local Affairs	20,848,500	37,351,500	28,740,500	16,300,000	62,550,000	76,000,000	117,129,000	75,100,000	97,184,500	75,260,500	81,418,000	75,140,500	

Severance Tax -- September 2006 Forecast

November 15, 2006

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
LCS Severance Tax Forecast:												
Change to Prior QTR	N/A	N/A	N/A	N/A	0	0	2,530,000	(10,131,000)	12,990,000	6,089,000	7,325,000	5,643,000
OSPB Severance Tax Forecast:												
Change to Prior QTR					0	0	33,958,000	(3,100,000)	38,300,000	(400,000)	19,700,000	11,100,000
<i>Please note, however, that revenue figures include interest earnings which may not necessarily be divided up among the programs according to the statutory allocation.</i>												
Legislative Revenue Forecast												
Operational Account Beginning Balance	N/A	N/A	N/A	N/A	643,003	18,149,884	25,399,591	50,851,611	39,653,204	35,844,748	23,346,041	36,904,226
December 31, 2005 Payback to Op. Account from GF					0	0	7,900,000	0	0	0	0	0
Legislative Revenue Forecast					<u>29,923,659</u>	<u>36,555,003</u>	<u>56,568,852</u>	<u>37,550,000</u>	<u>48,592,250</u>	<u>37,630,250</u>	<u>40,709,000</u>	<u>37,570,250</u>
Total Available Operational Moneys					30,566,662	54,704,887	89,868,443	88,401,611	88,245,454	73,474,998	64,055,041	74,474,476
OSPB Revenue Forecast												
Operational Account Beginning Balance	N/A	N/A	N/A	N/A	643,003	18,149,884	25,399,591	52,847,259	45,452,852	37,914,896	26,096,439	40,034,124
December 31, 2005 Payback to Op. Account from GF						0	7,900,000	0	0	0	0	0
OSPB Revenue Forecast					<u>29,923,659</u>	<u>36,555,003</u>	<u>58,564,500</u>	<u>41,354,000</u>	<u>44,862,750</u>	<u>38,310,500</u>	<u>41,088,500</u>	<u>38,903,750</u>
Total Available Operational Moneys					30,566,662	54,704,887	91,864,091	94,201,259	90,315,602	76,225,396	67,184,939	78,937,874
DNR Expenditures												
(a) Geo Survey	N/A	2,061,999	1,843,747	918,003	1,983,289	2,028,490	2,099,875	2,329,618	2,663,431	2,743,334	2,825,634	2,910,403
(b) OGCC	N/A	1,226,364	2,139,326	2,119,508	1,395,526	912,863	1,463,687	2,160,935	2,397,629	2,469,558	2,543,645	2,619,954
(c) Minerals & Geology	N/A	755,771	2,165,890	2,738,548	2,298,330	2,635,116	2,747,033	3,601,026	4,289,298	4,065,717	4,187,689	4,313,319
(d) CWCB	<u>N/A</u>	<u>585,000</u>	<u>627,963</u>	<u>614,330</u>	<u>621,087</u>	<u>628,827</u>	<u>856,489</u>	<u>1,121,194</u>	<u>1,640,250</u>	<u>1,640,250</u>	<u>883,750</u>	<u>883,750</u>
Subtotal	N/A	4,619,483	6,776,926	6,390,389	6,298,232	6,205,296	7,167,084	9,212,773	10,990,608	10,918,859	10,440,717	10,727,426

Severance Tax -- September 2006 Forecast

November 15, 2006

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
<u>Other State Expenditures/Adjustments</u>												
HB 00-1429 (Species Conservation)		5,000,000										
HB 01-1107 (Energy Assistance Program)		10,000,000										
HB 02-1391 transfer to GF			20,200,000									
Emergency Fire Fighting			4,000,000									
Transfer to GF (SB 03-191)				6,877,394								
Transfer to GF (SB 03-271)					4,600,000							
HB 04-1402 (State Engineer's Office)					1,518,546							
SB 05-226 (Kansas Settlement) and roll-forwards						15,500,000	1,109,947	3,073,316				
SB 05-201 (Governor's LEAP Proposal)						7,600,000						
HB 05-1254 (Water Efficiency Program)							1,580,000					
HB 05-1177 (Interbasin Compacts)							209,801					
SB 05-190 (Abandoned Mines)							500,000					
HB 06-1200 (LEAP)							24,000,000	11,000,000	12,000,000	13,000,000		
HB 06-1311 Species Conservation (Curry)							4,000,000	8,800,000	0	0	0	0
SB 06-179 (Severance Trust for Water Projects) Isgar/Penry							0	10,000,000	10,000,000	10,000,000	10,000,000	0
HB 06-1317 (Madden) State Energy Planning Information - VETOED 6/2/06							0	0	0	0	0	0
SB 06-229 (Fitz-Gerald/Plant) National Deep Underground Science and Engin. Laboratory							0	0	1,000,000	5,000,000	5,000,000	5,000,000
HB 06-1322 (Buescher/Tapia) Clean Energy Development Fund							0	2,635,000	2,500,000	2,500,000	0	0
HB 06-1400 (Buescher/Isgar) - Next phase of roundtables/ HB 05-1177							0	931,318	1,260,098	1,260,098	1,260,098	1,260,098
HB 06-1313 Litigation Account (CWCB Water Project Bill)							0	2,000,000	0	0	0	0
HB 06-1393 (Curry) Soil Conservation/Ag Programs							450,000	450,000	450,000	450,000	450,000	450,000
SB 06-183 (Isgar) CO Water Resources Research Institute							0	500,000	0	0	0	0
SB 06-193 (Wiens) Dev. Underground Water Storage							0	146,000	0	0	0	0
Subtotal							28,450,000	36,462,318	27,210,098	32,210,098	16,710,098	6,710,098
<i>2007 Session Initiatives:</i>												
CWCB Water Efficiency Grants									1,700,000	0	0	0
Non-federal land forest inventory									2,000,000	0	0	0
Endangered Species - Platte River Agreement									<u>10,500,000</u>	<u>7,000,000</u>	<u>0</u>	<u>0</u>
Subtotal									14,200,000	7,000,000	0	0
Subtotal DNR/ST Impacts		19,619,483	30,976,926	13,267,783	12,416,778	29,305,296	39,016,832	48,748,407	52,400,706	50,128,957	27,150,815	17,437,524

Severance Tax -- September 2006 Forecast

November 15, 2006

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	
Ending LCS Forecast Operational Account Balance		19,211,422	4,008,410	0	18,149,884	25,399,591	50,851,611	39,653,204	35,844,748	23,346,041	36,904,226	57,036,951	
<i>Legislative Forecast</i>													
H.B. 02-1041/HB06-1200 Reserve		9,238,966	13,553,852	12,780,778	12,596,464	12,410,592	26,753,770	29,950,658	34,981,216	21,837,718	20,881,435	21,454,853	
Ending LCS Forecast Operational Account Balance		<u>19,211,422</u>	<u>4,008,410</u>	<u>0</u>	<u>18,149,884</u>	<u>25,399,591</u>	<u>50,851,611</u>	<u>39,653,204</u>	<u>35,844,748</u>	<u>23,346,041</u>	<u>36,904,226</u>	<u>57,036,951</u>	
Variance to Statutory Reserve Requirement		9,972,456	(9,545,442)	(12,780,778)	5,553,420	12,988,999	24,097,841	9,702,546	863,532	1,508,323	16,022,791	35,582,099	
<i>Executive Forecast</i>													
H.B. 02-1041/HB06-1200 Reserve		9,238,966	13,553,852	12,780,778	12,596,464	12,410,592	26,753,770	29,950,658	34,981,216	21,837,718	20,881,435	21,454,853	
Ending Reserve with Executive Forecast		<u>19,211,422</u>	<u>4,008,410</u>	<u>0</u>	<u>18,149,884</u>	<u>25,399,591</u>	<u>52,847,259</u>	<u>45,452,852</u>	<u>37,914,896</u>	<u>26,096,439</u>	<u>40,034,124</u>	<u>61,500,349</u>	
Variance to Statutory Reserve Requirement		9,972,456	(9,545,442)	(12,780,778)	5,553,420	12,988,999	26,093,489	15,502,194	2,933,680	4,258,721	19,152,689	40,045,497	
<i>DNR Operational Account Allowable Expenditures under (Section 39-29-109 (1) (II) (c) (I), C.R.S. - per S.B. 96-170)</i>													
Under LCS Forecast					<u>30,566,662</u>	<u>54,704,887</u>	<u>89,868,443</u>	<u>88,401,611</u>	<u>88,245,454</u>	<u>73,474,998</u>	<u>64,055,041</u>	<u>74,474,476</u>	
(a) Geo Survey	20.0%	N/A	N/A	N/A	N/A	6,113,332	10,940,977	17,973,689	17,680,322	17,649,091	14,695,000	12,811,008	14,894,895
(b) OGCC	45.0%	N/A	N/A	N/A	N/A	13,754,998	24,617,199	40,440,799	39,780,725	39,710,454	33,063,749	28,824,768	33,513,514
(c) Minerals & Geology	30.0%	N/A	N/A	N/A	N/A	9,169,999	16,411,466	26,960,533	26,520,483	26,473,636	22,042,499	19,216,512	22,342,343
(d) CWCB	5.0%	N/A	N/A	N/A	N/A	1,528,333	2,735,244	4,493,422	4,420,081	4,412,273	3,673,750	3,202,752	3,723,724
Subtotal	100.0%	N/A	N/A	N/A	N/A	30,566,662	54,704,887	89,868,443	88,401,611	88,245,454	73,474,998	64,055,041	74,474,476
					0	0	0	0	0	0	0	0	0
<i>Percentage of DNR Op Account Long Bill (Only) Expenditures Compared to Authorized Expenditure Cap</i>													
(a) Geo Survey	20.0%	N/A	N/A	N/A	N/A	32.4%	18.5%	11.7%	13.2%	15.1%	18.7%	22.1%	19.5%
(b) OGCC	45.0%	N/A	N/A	N/A	N/A	10.1%	3.7%	3.6%	5.4%	6.0%	7.5%	8.8%	7.8%
(c) Minerals & Geology	30.0%	N/A	N/A	N/A	N/A	25.1%	16.1%	12.0%	13.6%	16.2%	18.4%	21.8%	19.3%
(d) CWCB	5.0%	N/A	N/A	N/A	N/A	40.6%	23.0%	23.7%	25.4%	37.2%	44.6%	27.6%	23.7%
Subtotal	100.0%	N/A	N/A	N/A	N/A	20.6%	11.3%	8.8%	10.4%	12.5%	14.9%	16.3%	14.4%
Check						20.6%	11.3%	8.8%	10.4%	12.5%	14.9%	16.3%	14.4%

Includes special legislation expenditures under the cap from FY 2005-06 on.

	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2006-07 through FY 2010-11 (only)</u>
<i>Comparison of Forecasts</i>							
September 2005 LCS Forecast	239,000,000	224,800,000	145,300,000	127,600,000	132,100,000	129,200,000	759,000,000
September 2006 LCS Forecast	<u>234,258,000</u>	<u>161,284,000</u>	<u>207,118,000</u>	<u>161,979,000</u>	<u>175,182,000</u>	<u>162,766,000</u>	<u>868,329,000</u>
Forecast Difference	(4,742,000)	(63,516,000)	61,818,000	34,379,000	43,082,000	33,566,000	109,329,000 Total Increase
Percent Forecast Difference	-2.0%	-28.3%	42.5%	26.9%	32.6%	26.0%	14.4% Percent Increase
December 2005 LCS Forecast	242,242,000	229,985,000	148,255,000	130,034,000	127,356,000	123,488,000	759,118,000
September 2006 LCS Forecast	<u>234,258,000</u>	<u>161,284,000</u>	<u>207,118,000</u>	<u>161,979,000</u>	<u>175,182,000</u>	<u>162,766,000</u>	<u>868,329,000</u>
Forecast Difference	(7,984,000)	(68,701,000)	58,863,000	31,945,000	47,826,000	39,278,000	109,211,000 Total Increase
Percent Forecast Difference	-3.3%	-29.9%	39.7%	24.6%	37.6%	31.8%	14.4% Percent Increase
March 2006 LCS Forecast	241,800,000	217,300,000	157,500,000	139,400,000	140,100,000	137,600,000	791,900,000
September 2006 LCS Forecast	<u>234,258,000</u>	<u>161,284,000</u>	<u>207,118,000</u>	<u>161,979,000</u>	<u>175,182,000</u>	<u>162,766,000</u>	<u>868,329,000</u>
Forecast Difference	(7,542,000)	(56,016,000)	49,618,000	22,579,000	35,082,000	25,166,000	76,429,000 Total Increase
Percent Forecast Difference	-3.1%	-25.8%	31.5%	16.2%	25.0%	18.3%	9.7% Percent Increase
June 2006 LCS Forecast	231,728,000	171,415,000	194,128,000	155,890,000	167,857,000	157,123,000	846,413,000
September 2006 LCS Forecast	<u>234,258,000</u>	<u>161,284,000</u>	<u>207,118,000</u>	<u>161,979,000</u>	<u>175,182,000</u>	<u>162,766,000</u>	<u>868,329,000</u>
Forecast Difference	2,530,000	(10,131,000)	12,990,000	6,089,000	7,325,000	5,643,000	21,916,000 Total Increase
Percent Forecast Difference	1.1%	-5.9%	6.7%	3.9%	4.4%	3.6%	2.6% Percent Increase

FY 2007-08 Joint Budget Committee Staff Budget Briefing
DEPARTMENT OF NATURAL RESOURCES
Severance Tax and H.B. 06-1322¹

ISSUE:

One of the 2006 session bills which authorized the expenditure of funds from the Operational Account of the Severance Tax Trust Fund was H.B. 06-1322. H.B. 06-1322 included a provision for a three-year commitment of \$6.0 million in state appropriations to be made (from the Operational Account of the Severance Tax Trust Fund) directly to the Colorado Renewable Energy Authority. Making appropriations directly to the Authority raises an issue under Article V, Section 34 of the Colorado Constitution, which prohibits making appropriations to entities or persons not under the absolute control of the state unless a public policy purpose is established. Additionally, such moneys cannot be appropriated for next year in the FY 2007-08 Long Bill as such an appropriation would not fit under the title.

SUMMARY:

- House Bill 06-1322 authorizes a cumulative \$7,635,000 from the Operational Account of the Severance Tax Trust Fund over a three-year period, FY 2006-07 to FY 2008-09.
- The bill requires that the General Assembly appropriate \$2,000,000 annually from the Operational Account of the Severance Tax Trust Fund to the Colorado Renewable Energy Authority for three years.
- Making appropriations directly to the Authority raises an issue under Article V, Section 34 of the Colorado Constitution, which prohibits making appropriations to entities or persons not under the absolute control of the state, unless there is a public policy purpose. Appropriations for next year (FY 2007-08) and the year after cannot be included in the Long Bill as such an appropriation would not fit under the title of the bill.

RECOMMENDATION:

Funding in FY 2007-08 (and FY 2008-09) for the Colorado Renewable Energy Authority cannot be included in the FY 2007-08 Long Bill. Thus, if the JBC or the General Assembly wish to continue the funding for this program, as required by statute, there are two options:

- Adopt legislation during the 2007 regular session to direct the funding for the Colorado Renewable Energy Authority through a state department (e.g., the Governor's Office, Office

¹ Joint Budget Committee staff would like to acknowledge the assistance of the Office of Legislative Legal Services in this issue brief.

of Energy Conservation) to be distributed to the Authority in future years so long as specified conditions are met; or

- Adopt specific appropriation bills, other than the Long Bill, at the 2007 and 2008 Sessions to provide the appropriation to the Colorado Renewable Energy Authority.

DISCUSSION:

House Bill 06-1322 authorizes a cumulative \$7,635,000 from the Operational Account of the Severance Tax Trust Fund over a three-year period, FY 2006-07 to FY 2008-09. The bill requires that the General Assembly appropriate \$2,000,000 annually from the Operational Account of the Severance Tax Trust Fund to the Colorado Renewable Energy Authority for three years.

The Appropriation is Directly to an Authority

House Bill 06-1322 included a provision that requires state appropriations to be made (from the Operational Account of the Severance Tax Trust Fund) directly to the Colorado Renewable Energy Authority. Statutorily created as a political subdivision of the state, the Authority is a special-purpose authority that is not an agency of state government and is not subject to the administrative direction of any state department or agency. Making appropriations directly to the Authority raises an issue under Article V, Section 34 of the Colorado Constitution, which prohibits making appropriations to entities or persons not under the absolute control of the state.

There is, however, a "public purpose" exception to this provision. See *In re House Bill 91S-1005*, 814 P.2d 875 (Colo. 1991). It is not known at this time whether the purpose for which the Authority is to use appropriated moneys received pursuant to House Bill 06-1322 would qualify under the "public purpose" exception. This question might be avoided if the General Assembly were to use the approach taken in some prior legislation: That is, rather than making an appropriation directly to an entity or person not under the absolute control of the state, the General Assembly has previously appropriated moneys to a state agency or department, which was then responsible for distributing the money through a grant or award to an entity or person not under the control of the state in order to avoid any possible constitutional challenge.

FY 2007-08 Funding Difficulty

Inclusion of an appropriation to the Authority in the FY 2007-08 Long Bill also gives rise to an issue pursuant to Article V, Section 21 of the Colorado Constitution, which requires the subject matter of a bill to be "clearly expressed in its title". The title for a Long Bill generally reads: "Concerning the provision for payment of the expenses of the executive, legislative, and judicial departments of the state of Colorado, and of its agencies and institutions, ..." Since the Colorado Renewable Energy Authority is not an agency of state government, inclusion of an appropriation to the Authority could give rise to a potential constitutional challenge that the appropriation does not fall within the title of the Long Bill. If such a challenge was successful, the appropriation to the Authority would be

found to be null and void pursuant to Article V, Section 21. ("[I]f any subject shall be embraced in any act which shall not be expressed in the title, such act shall be void only as to so much thereof as shall not be so expressed." *Id.*)

Furthermore, inclusion of an appropriation to the Authority in the Long Bill raises some practical concerns about how such an appropriation would appear in the Long Bill since appropriations are usually grouped on a department-by-department basis. The issue of appropriating moneys directly to an entity not part of state government was discussed in the May 2, 2006 JBC Staff Note for Senate Appropriations.

Potential Solutions

It may be advisable that the FY 2007-08 Long Bill cannot include the \$2,000,000 appropriation to the Colorado Renewable Energy Authority, as required by H.B. 06-1322. If funding continuation is desired by the General Assembly, making such an appropriation in separate legislation may at least avoid any potential challenge to the Long Bill under Article V, Section 21. A statutory change would be necessary to make the appropriation to a state agency or department, rather than to the Authority, in order to eliminate the risk of a possible challenge under Article V, Section 34.

Thus, if the JBC or the General Assembly wish to continue the funding for this program, as required by statute, there are two options:

- Adopt legislation during the 2007 regular session to direct the funding for the Colorado Renewable Energy Authority through a state department (e.g., the Governor's Office, Office of Energy Conservation) to be distributed to the Authority in future years so long as specified conditions are met; or
- Adopt specific appropriation bills, other than the Long Bill, at the 2007 and 2008 Sessions to provide the appropriation to the Colorado Renewable Energy Authority.