COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2013-14 STAFF FIGURE SETTING

DEPARTMENT OF NATURAL RESOURCES

(Division of Reclamation, Mining, and Safety; Colorado Geological Survey; Oil and Gas Conservation Commission; State Board of Land Commissioners)

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

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DEPARTMENT OF NATURAL RESOURCES

(Division of Reclamation, Mining, and Safety; Colorado Geological Survey; Oil and Gas Conservation Commission; State Board of Land Commissioners)

Department Overview

The Department is responsible for developing, protecting and enhancing Colorado's natural resources for the use and enjoyment of the State's present and future residents and visitors. This document addresses three of the Department's divisions:

- **Division of Reclamation, Mining, and Safety:** Responsible for helping to develop Colorado's mining industry in an environmentally protective manner and ensuring that mined land is reclaimed to a beneficial use.

- **Oil and Gas Conservation Commission:** Responsible for promoting the exploration, development, and conservation of Colorado's oil and gas resources in a responsible manner.

- **State Board of Land Commissioners:** Manages properties in the Public School Trust, as well as eight smaller trusts, to raise money for the benefit of K-12 education and other trust beneficiaries.

Please note that in prior years this document has also addressed the Colorado Geological Survey (CGS). However, H.B. 12-1355 transferred the CGS to the School of Mines, effective January 31, 2013. Although H.B. 13-1057 retains the Colorado Avalanche Information Center (CAIC, formerly a part of the CGS) within the Department of Natural Resources, the CAIC is now part of the Executive Director's Office and is therefore addressed in a separate document. Budget Amendment 8A recognizes the changes made under H.B. 12-1355 and H.B. 13-1057 and officially eliminates the request for the Colorado Geological Survey as a division within the Department of Natural Resources. Thus, this document does not include analysis of the CGS or the CAIC budgets for FY 2013-14.

DEPARTMENT REQUEST AND RECOMMENDATION SUMMARY

Executive Request

For the divisions covered in this document, the Department's request reflects:

- **Division of Reclamation, Mining, and Safety (DRMS):** The DRMS request is largely a continuation budget, with one decision item (R-5) requesting a temporary reallocation of funds to support the development of an electronic permitting system.

- **Oil and Gas Conservation Commission (OGCC):** The OGCC request includes one decision item (R-1) requesting a total of $571,702 cash funds (from the Oil and Gas Conservation and Environmental Response Fund) and 5.0 additional FTE to enhance the regulation of oil and gas activity. The request also includes one budget amendment (BA-7A), linked to a request in the Department of Public Health and Environment, to address air emissions from oil and gas activity.

- **State Board of Land Commissioners (SLB):** The SLB request includes two decision items: R-2 requests a total of $82,382 cash funds (from the State Land Board Trust Administration Fund) to support 1.0 new FTE and associated operating expenses to improve the SLB's management of oil and gas activity on state trust lands; and R-7 requests a total of $399,881 cash funds (also from the State Land Board Trust Administration Fund) to support 2.0 new FTE, additional contract expenses, and associated operating expenses, to further diversify the SLB's revenue sources.

Committees of Reference SMART Act Recommendations

House Agriculture, Livestock, and Natural Resources Committee
Received January 29, 2013
Recommendations

With respect to the Department of Natural Resources divisions included in this document, the House Agriculture, Livestock, and Natural Resources Committee recommended that the Joint Budget Committee:

- Ask the Oil and Gas Conservation Commission (OGCC) to provide a prioritized inspection schedule for oil and gas wells to ensure that environmental and other problems are identified and resolved in the most timely and efficient manner; and
- Consider supporting additional OGCC inspection FTE (above the 5.0 FTE requested by the Department), based on the best available science and the necessity of such prioritization and FTE.

Senate Agriculture, Natural Resources, and Energy Committee
Received January 25, 2013
Recommendations

With respect to the decision items associated with divisions included in this document, the Senate Agriculture, Natural Resources, and Energy Committee recommended that the Joint Budget Committee:

- Approve the request for 5.0 additional FTE for the OGCC to address the workload associated with the continued growth of in oil and gas development in Colorado (decision item R-1);
- Approve the State Land Board's request for $82,832 cash funds and 1.0 FTE to improve the State Land Board's oil and gas leasing oversight activities (decision item R-2);
- Approve the one-time reallocation of approximately $100,000 cash funds from the Operational Account of the Severance Tax Trust Fund to support develop an electronic

permitting system for the Division of Reclamation, Mining, and Safety Minerals Program (decision item R-5); and

- Not approve the request for $399,881 cash funds and 2.0 FTE for the State Land Board to establish additional lines of business and diversify sources of trust income. The Senate Committee recommends that the State Land Board use existing personnel and resources for this purpose.

Similar to the House Committee, the Senate Committee also recommended that the Joint Budget Committee: (1) ask the OGCC to provide a prioritized inspection schedule for oil and gas wells; and (2) consider authorizing additional inspection-related FTE above the 5.0 requested by the Department.

Staff Recommendation

The staff recommendation *for the divisions included in this packet* is summarized in the table below, followed by brief description of each item listed.

Department of Natural Resources
(Division of Reclamation, Mining, and Safety, Colorado Geological Survey, Oil and Gas Conservation Commission, and State Board of Land Commissioners)

	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2012-13 Appropriation:						
HB 12-1335 (Long Bill)	$26,493,194	$0	$21,019,105	$1,113,714	$4,360,375	216.0
TOTAL	**$26,493,194**	**0**	**$21,019,105**	**$1,113,714**	**$4,360,375**	**216.0**
FY 2013-14 Requested Appropriation:						
FY 2012-13 Appropriation	$26,493,194	$0	$21,019,105	$1,113,714	$4,360,375	216.0
R-1 OGCC Field Inspectors	522,869	0	522,869	0	0	5.0
R-2 SLB Minerals Coordinator	57,815	0	57,815	0	0	1.0
R-5 DRMS E-Permitting	0	0	0	0	0	0.0
R-7 SLB Strat. Business Initiatives	278,109	0	278,109	0	0	2.0
BA-7A Air Fugitives Inventory	12,000	0	12,000	0	0	0.0
BA-8B HB 12-1355 and HB 13-1057	(4,815,633)	0	(2,984,865)	(858,714)	(972,054)	(34.1)
Base Indirect Costs Adjustments	149,395	0	116,834	0	32,561	0.0
Base Annualization FY 13 DI #1	(26,815)	0	(26,815)	0	0	0.0
TOTAL	**$22,670,934**	**$0**	**$18,995,052**	**$255,000**	**$3,420,882**	**189.9**
Increase/(Decrease)	($3,822,260)	$0	($2,024,053)	($858,714)	($939,493)	(26.1)
Percentage Change	(14.4%)	0.0%	(9.6%)	(77.1%)	(21.5%)	(12.1%)
FY 2013-14 Executive Request:	**$22,774,901**	**$0**	**$19,099,019**	**$255,000**	**$3,420,882**	**189.9**
Request Above/(Below) Recommendation	$103,967	$0	$103,967	$0	$0	0.0

Issue Descriptions

R-1 OGCC Field Inspectors: The recommendation includes a total of $522,869 cash funds from the Oil and Gas Conservation and Environmental Response Fund and 5.0 FTE to allow the Department to add 3.0 field inspectors, 1.0 environmental protection specialist, and 1.0 professional engineer based on an increasing workload for the Oil and Gas Conservation Commission. The recommendation for this decision item also includes $3,208 cash funds for the Vehicle Lease Payments line item in the Executive Director's Office.

R-2 SLB Minerals Field Coordinator: The recommendation includes a total of $57,815 cash funds from State Land Board Trust Administration Fund and 1.0 FTE to address an increasing workload associated with oil and gas development on State Land Board lands.

R-5 DRMS E-Permitting: The recommendation temporarily reallocates approximately $100,000 cash funds from the Operational Account of the Severance Tax Trust Fund from the Inactive Mines, Abandoned Mine Safety line item to the Minerals, Program Costs line item to support the development of a new electronic permitting system for the Division of Reclamation, Mining, and Safety. The recommendation also reallocates 0.2 FTE from the Abandoned Mine Safety line item to the Inactive Mines, Program Costs line item to support federally funded projects under that line item.

R-7 SLB Strat. Business Initiatives: The recommendation includes a total of $278,109 cash funds from State Land Board Trust Administration Fund and 2.0 FTE to support the State Land Board's efforts to diversify the trust revenue sources by creating or expanding new lines of business on State Land Board lands, including additional emphasis on recreation, solid minerals, renewable energy, and ecosystem services.

BA-7A Air Fugitives Inventory: The Department is requesting $12,000 cash funds from the Oil and Gas Conservation and Environmental Response Fund for the Department's portion of a joint effort with the Department of Public Health and Environment (CDPHE). Staff's recommendation for this budget amendment is pending the Committee's decision regarding the (much larger) portion of the request related to the Department of Public Health and Environment (CDPHE).

BA-8B HB 12-1355 and HB 13-1057: Pursuant to H.B. 12-1355 and H.B. 13-1057, the recommendation eliminates the Colorado Geological Survey as a division within the Department of Natural Resources. House Bill 12-1355 transferred the functions of the Colorado Geological Survey to the Colorado School of Mines, effective January 31, 2013. House Bill 13-1057 retains the Colorado Avalanche Information Center (CAIC, formerly a part of the Colorado Geological Survey) within the Department of Natural Resources but moved the CAIC to the Executive Director's Office.

Base Indirect Costs Adjustments: The recommendation reflects the Department's requested adjustments to indirect cost recoveries from the divisions covered in the document.

Base Annualization FY 13 DI #1: The recommendation eliminates one-time appropriations for operating expenses associated with the addition of 5.0 new FTE through FY 2012-13 decision item R-1.

(2) Division of Reclamation, Mining, and Safety

This division is charged with helping to develop Colorado's mining industry in an environmentally protective manner and ensuring that mined land is reclaimed to a beneficial use. The division manages issues related to the consequences of mining practices that occurred prior to federal and state reclamation legislation. Often, there are no legally responsible parties identified to fund and administer such clean-up projects. Pursuant to Section 39-29-109.3 (1) (c), C.R.S., the General Assembly may appropriate up to 25 percent of the moneys in the Operational Account of the Severance Tax Trust Fund for programs in the Division of Reclamation, Mining, and Safety.

DIVISION REQUEST AND RECOMMENDATION SUMMARY

The following table summarizes the staff recommendation for the Division of Reclamation, Mining, and Safety. For this division, staff's recommendation matches the Department's request for each line item.

Division of Reclamation, Mining, and Safety	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2012-13 Appropriation:						
HB 12-1335 (Long Bill)	$7,667,742	$0	$4,335,315	$30,000	$3,302,427	68.9
TOTAL	**$7,667,742**	**$0**	**$4,335,315**	**$30,000**	**$3,302,427**	**68.9**
FY 2013-14 Recommended Appropriation:						
FY 2012-13 Appropriation	$7,667,742	$0	$4,335,315	$30,000	$3,302,427	68.9
R-5 DRMS E-Permitting	0	0	0	0	0	0.0
Base Indirect Costs Adjustments	79,257	0	63,627	0	15,630	0.0
TOTAL	**$7,746,999**	**$0**	**$4,398,942**	**$30,000**	**$3,318,057**	**68.9**
Increase/(Decrease)	$79,257	$0	$63,627	$0	$15,630	0.0
Percentage Change	1.0%	0.0%	1.5%	0.0%	0.5%	0.0%
FY 2013-14 Executive Request:	**$7,746,999**	**$0**	**$4,398,942**	**$30,000**	**$3,318,057**	**68.9**
Request Above/(Below) Recommendation	$0	$0	$0	$0	$0	0.0

Issue Descriptions

R-5 DRMS E-Permitting: The recommendation includes a temporary reallocation of approximately $100,000 cash funds from the Operational Account of the Severance Tax Trust Fund from the Inactive Mines, Abandoned Mine Safety line item to the Minerals, Program Costs line item to support the development of a new electronic permitting system for the Division of Reclamation, Mining, and Safety. The recommendation also reallocates 0.2 FTE from the Abandoned Mine Safety line item to the Inactive Mines, Program Costs line item to support federally funded projects under that line item.

Base Indirect Cost Adjustments: The recommendation reflects the Department's requested adjustments to indirect cost recoveries from the Division of Reclamation, Mining, and Safety.

INITIATIVE AFFECTING MULTIPLE LINE ITEMS IN THIS DIVISION

➔ Request R-5 – DRMS E-Permitting System

- The Department requests a temporary (one-year) reallocation of $99,850 cash funds from the Operational Account of the Severance Tax Trust Fund from the Inactive Mines, Abandoned Mine Safety line item to the Minerals, Program Costs line item to support the completion of an electronic permitting system. The request would also temporarily reallocate 0.2 FTE from the Abandoned Mine Safety line item to the Inactive Mines, Program Costs line item.
- Staff recommends approval of the decision item and the requested adjustments to each line item.

Request: The Department proposes a one-year reallocation of $99,850 cash funds from the Operational Account of the Severance Tax Trust Fund to support the development of an electronic permitting system for the Division of Reclamation, Mining, and Safety. The request would eliminate the Inactive Mines, Abandoned Mine Safety line item (which safeguards abandoned mine openings) for one year and reallocate those funds to the Minerals, Program Costs line item to support system development. The request also reallocates 0.2 FTE associated with the state funds in the Abandoned Mine Safety line item to the Inactive Mines, Program Costs line item to assist with federally funded projects supported by that line item in FY 2013-14. Although the proposal would only eliminate the Abandoned Mine Safety funding for one year, the Department is requesting that the funds be *available* for two fiscal years to accommodate the project.

Recommendation: Staff recommends approving the decision item and the requested adjustments to each line item. Staff also recommends approving the request to make the funds available for two years (FY 2013-14 and FY 2014-15) to facilitate the completion and piloting of the system. The electronic permitting system should benefit the Division of Reclamation, Mining, and Safety as well as the permitted industries, and the temporary nature of the proposal will minimize the impact to the State's long-term work to safeguard abandoned mine openings. Staff recommends that the Committee approve the following Long Bill footnote to clarify that the General

Assembly intends for the funds to be available for two fiscal years (FY 2013-14 and FY 2014-15).

XX Department of Natural Resources, Division of Reclamation, Mining, and Safety, Minerals, Program Costs -- It is the intent of the General Assembly that $99,850 of the cash funds appropriation to this line item from the Operational Account of the Severance Tax Trust Fund remain available until the completion of the electronic permitting system for the Division of Reclamation, Mining, and Safety or the close of FY 2014-15, whichever comes first. At project completion or the end of the two-year period, any unexpended amount shall revert to the Operational Account of the Severance Tax Trust Fund, from which this appropriation was made.

Staff's recommendation aligns with the Senate Agriculture, Natural Resources, and Energy Committee's recommendation to support the requested reallocation.

Analysis: When analyzing the proposal, staff considered four basic questions focused on: (1) the importance of the proposed system; (2) the feasibility of the proposed budget to support system development; (3) the proposal's impact on public safety by delaying mine safeguarding projects; and (4) whether another fund source would be preferable. Each question is discussed below.

(1) How would the proposed electronic permitting system benefit the Department and the permitted industries (why is the system needed)?

The Division of Reclamation, Mining, and Safety does not have a system to accept electronic documentation and only accepts permit applications, revisions, and annual reports in paper form. The current system results in inefficiencies for both applicants and the Department. Applicants must incur costs and delays preparing and mailing paper copies when the original documents are created in an electronic format, with further costs and delays if documents are incomplete. Once the Department receives the paper copies, program staff must then hand enter relevant data from paper submittals into the Department's systems and scan paper documents into an imaged filing system. The Department also reports inefficiencies in handling incomplete application packets and in handling cash fees.

By contrast, the Department argues that an electronic permitting system will improve customer service and responsiveness and the efficiency of program staff. For example, the completed system would "flag" required fields in submissions and would not allow for the submission of incomplete documents, saving time for both applicants and the Department and allowing industry operators to move forward with new or revised mining operations. In addition, by linking data in the electronic forms to current databases, the system will avoid the need for redundant data entry by the Department, increasing efficiency and reducing the opportunity for error. The system would also eliminate the ongoing need to scan and file paper documents. To the extent that the new system frees up staff time, the Department intends to use the time to improve the permitting, inspection, and bonding process.

The Department intends to continue to accept paper documents until all mine operators receive adequate training on the new system and the new permitting system proves to be viable for all applicants. The request includes funds to set up work stations in the Division of Reclamation, Mining, and Safety's Durango and Grand Junction field offices where staff can walk mine operators through the new process. The request also includes funds to allow program staff to hold meetings with mine operators around the state to demonstrate the new system and answer questions.

(2) Is system development feasible within the proposed budget?

Rather than creating an entirely new system, the Department plans to modify the Oil and Gas Conservation Commission's (OGCC) "eForm" system to match the Division of Reclamation, Mining, and Safety's specifications and processes. The OGCC system has been well-received by the industry, and the Department and the Office of Information Technology agree that modifying the OGCC system to meet the DRMS's needs is feasible within the proposed budget with a potential subsidy (estimated at up to $11,500) from the Minerals Program base budget. Office of Information Technology staff already supported by DRMS revenues would manage the project; external contractors would most likely do the actual programming.

The following table shows the Department's and the Office of Information Technology's estimated project costs.

R-5 - DRMS E-Permitting System Cost Estimates				
	Low Estimate		**High Estimate**	
	Hours	**Cost**	**Hours**	**Cost**
Programming Year 1 (assumed $74.00 per hour)	1,022	$75,628	1,132	$83,768
Programming Year 2 (assumed $74.00 per hour)	200	14,800	240	17,760
Total Programming Costs Over Two Years	1,222	$90,428	1,372	$101,528
Stakeholder Meetings (4 traveling staff for 5 meetings)		3,780		3,780
Work Stations for 2 field offices		6,060		6,060
Total Project Cost Over Two Years		$100,268		$111,368
Amount Required from Minerals Program Base Budget		*$418*		*$11,518*

(3) How would the proposal impact the State's efforts to safeguard abandoned mine openings (a public safety issue)?

As outlined above, the proposal would eliminate approximately $100,000 in state funding to safeguard abandoned mine openings in FY 2013-14. According to the Department, each project costs an average of approximately $10,000. Thus, the proposal would delay funding of approximately ten projects by one year. However, the proposal does <u>not</u> affect the approximately $4.0 million in federal funds that the Department expects to spend in FY 2013-14 to support these projects.

Using state and federal funds, the Department addresses between 350 and 400 projects per year. Thus, the ten delayed projects represent less than 3.0 percent of the anticipated number of projects for FY 2013-14. In addition, the Department prioritizes projects based on public safety impact and would not delay projects thought to be particularly significant to public safety, such as projects on public lands or in proximity to population centers or recreational destinations. Finally, according to the Department, the original (estimated) inventory included more than 23,000 Abandoned Mine Safety projects. As of October 2012, the Department had completed 8,630 projects and estimates that more than 14,370 projects remain. The proposal would delay less than 0.1 percent of the estimated number of projects awaiting work.

The Department argues and staff agrees that the proposal presents a relatively minimal impact to public safety and to the State's long term effort to safeguard mine openings. A longer-term reallocation would undermine the State's efforts to a greater extent but the impact of the one-year proposal appears to be minimal.

(4) Would another fund source or funding mechanism be preferable?

During the Joint Budget Committee Staff Briefing and the Department's hearing for FY 2013-14, the Committee explored the potential to support the requested system without impacting abandoned mine safety projects. The Department proposed the requested reallocation because: (1) overall Operational Account revenues remain low, requiring proportional reductions to "Tier 2" programs, and the proposal avoids requesting *additional* Operational Account funding; and (2) the proposal avoids the need to impose additional fees to support a relatively low cost project for one year. Staff agrees with the Department's rationale.

- First, given the proportional reductions absorbed by Tier 2 programs in FY 2012-13 and projected for FY 2013-14, staff supports the goal of avoiding additional Operational Account spending for this project.
- Second, supporting the project through additional fees would require statutory change and create additional challenges for both the Department and the industry operators paying any such fees. Given the relatively low impact on the State's long term efforts with respect to safeguarding abandoned mine openings, staff agrees that the proposed reallocation is a preferable strategy.

Staff recommends approving decision item R-5 as requested. While the General Assembly could support the proposed project through either additional Operational Account funds, additional fees on the industry, or the General Fund, staff agrees that the Department's proposal is a responsible reallocation and reprioritization of the Department's existing resources and should have minimal impact on either public safety or the effort to safeguard Colorado's inventory of abandoned mines. The following table shows the impact of the Department's request and staff's recommendation on each affected line item.

R-5 - DRMS E-Permitting System Request and Staff Recommendation		
	FY 2013-14 Impact	
Line Item	**Cash Funds**	**FTE**
Inactive Mines, Program Costs	$0	0.2
Inactive Mines, Abandoned Mine Safety (Eliminate Line)	(99,850)	(0.2)
Minerals, Program Costs	99,850	0.0
Total	$0	0.0

(A) COAL LAND RECLAMATION

Program Costs

This program is administered pursuant to a cooperative agreement with the U.S. Office of Surface Mining, which is part of the U.S. Department of the Interior. It is a regulatory program charged with reviewing and issuing coal mining and reclamation permits. Program staff monitor and inspect coal mining operations and enforce permit provisions and mining regulations. Federal regulations require the State to conduct the Coal Land Reclamation Program for the State to receive federal funds to safeguard Colorado's inactive mines. In recent years, the line item has supported 22.0 FTE and associated operating expenses. The program is funded with a mix of federal funds and cash funds from the Operational Account of the Severance Tax Trust Fund. The federal funding requires a state match, with federal funding accounting for approximately 79 percent of the appropriation and state severance tax funding making up roughly 21 percent of the appropriation in recent years.

Request: The Department requests continuation level funding according to OSPB's common policies, with no change from the FY 2012-13 appropriation. The Department projects that the workload for the coal regulatory program in FY 2013-14 will be consistent with prior years.

Recommendation: Staff recommends continuation level funding, calculated according to the JBC's common policies. Staff requests permission to adjust the proportion of funding from the severance tax and federal funds, if necessary based on the impact of the JBC's common policies, in order to maintain the required match for the anticipated federal grant.

Indirect Cost Assessment

This line item reflects the amount of indirect cost assessments made against cash and federal funding sources within the Coal Land Reclamation Program. The Department uses the funds collected here to offset General Fund that would otherwise be required in the Executive Director's Office.

Request: The Department's request reflects the statewide and departmental indirect cost plan.

Recommendation: Staff recommends the request but also recommends that the Committee allow staff to adjust the appropriation as necessary based on the Committee's decisions regarding the use of indirect costs in the Executive Director's Office.

(B) INACTIVE MINES

Program Costs

This line item provides funding to safeguard mine openings, to inspect and monitor mine sites, and to reclaim abandoned mines. The program was instituted under the provisions of the federal Surface Mining Control and Reclamation Act (SMCRA) of 1977. Only mines abandoned prior to 1977 are eligible for the program. According to the Department, more than 14,370 eligible abandoned mines remain in Colorado. The Department can also use this federal money for thirty-eight coal mine fires pending safeguarding and for coal mine subsidence issues impacting residential housing.

Pursuant to Section 39-29-109.3 (1) (c), C.R.S., $500,000 is transferred annually from the Operational Account of the Severance Tax Trust Fund to the Abandoned Mine Reclamation Fund for this program. Pursuant to Section 34-34-102, C.R.S., moneys appropriated from the Abandoned Mine Reclamation Fund remain available for expenditure for three years. According to the Department, the severance tax funds were intended, in part, to address post-mining environmental issues that are not eligible for federal funding. The appropriation from the Abandoned Mine Reclamation Fund primarily supports contracts for site work but includes funding for 0.4 FTE and associated operating expenses to oversee the work.

In addition to money from the Abandoned Mine Reclamation Fund, the Department receives federal grants to support the program. To receive the federal grants, the Department must maintain a federally-approved coal mining regulatory program, but there are no matching requirements for the federal grants. The Long Bill reflects the federal administrative and oversight costs, but not the multi-year grants for site work amounting to about $11.6 million per year.

Request: As discussed above, with request R-5 (E-Permitting System), the Department is requesting a temporary increase of 0.2 FTE to utilize the FTE appropriation proposed for elimination from the Abandoned Mine Safety line item. For the base, the Department requests continuation funding according to OSPB's common policies, with no change from the FY 2012-13 appropriation aside from the increase of 0.2 FTE.

Recommendation: Staff recommends the request, including the temporary increase of 0.2 FTE associated with decision item R-5 (discussed above). The following table summarizes the components of staff's recommendation.

Program Costs					
	Total Funds	**General Fund**	**Cash Funds**	**Federal Funds**	**FTE**
FY 2012-13 Appropriation:					

Program Costs	Total Funds	General Fund	Cash Funds	Federal Funds	FTE
HB 12-1335 (Long Bill)	$1,636,925	$0	$519,247	$1,117,678	16.4
TOTAL	**$1,636,925**	**$0**	**$519,247**	**$1,117,678**	**16.4**
FY 2013-14 Recommended Appropriation:					
FY 2012-13 Appropriation	$1,636,925	$0.00	$519,247	$1,117,678	16.4
R-5 DRMS E-Permitting	0	0	0	0	0.2
TOTAL	**$1,636,925**	**$0**	**$519,247**	**$1,117,678**	**16.6**
Increase/(Decrease)	$0	$0	$0	$0	0.2
Percentage Change	0.0%	0.0%	0.0%	0.0%	1.2%
FY 2013-14 Executive Request:	**$1,636,925**	**$0**	**$519,247**	**$1,117,678**	**16.6**
Request Above/(Below) Recommendation	$0	$0	$0	$0	0.0

Mine Site Reclamation

This line item supports the construction of hydro-geologic controls at abandoned mine sites. Examples of hydro-geologic controls include diversion ditches, mine waste removal, mine waste consolidation, stream diversion, and re-vegetation. Some of these moneys are granted to local entities as a match to receive federal Clean Water Act moneys from the U.S. Environmental Protection Agency.

Acid mine drainage and metal leaching continue for many years -- and sometimes effectively in perpetuity -- after mining operations cease in a given location. Mining companies active today are required to include the cost of water treatment when applying for mining permits. The Division also includes required water treatment costs when determining the financial warranties necessary to approve individual permits. However, mining operations that ended prior to adoption of the federal Clean Water Act of 1972 are remediated through the Mining Non-Point Source Program, which is administered by the Inactive Mines Program.

An assessment conducted in 1980 found that approximately 1,300 miles of Colorado's streams were adversely impacted by heavy metals and acidic drainage from both inactive and abandoned mines. In 2006, the JBC approved a request for $280,000 annually from the Operational Account of the Severance Tax Trust Fund to accelerate water quality improvement projects. The Department requested the additional funds to expand matching funds for water quality improvement projects at abandoned mines and to hire a projects coordinator. In addition to the money from the Operational Account of the Severance Tax Trust Fund, the Department receives $30,000 from the Department of Public Health and Environment to cover a portion of the program's costs.

Request: The Department requests continuation level funding according to OSPB’s common policies, with no change from the FY 2012-13 appropriation.

Recommendation: Staff recommends the request.

Reclamation of Forfeited Mine Sites

The General Assembly created this line item in FY 2007-08 to provide funding that could be rolled forward up to three years to reclaim mine sites that were forfeited due to mine operator bankruptcy or death, or insufficient bonds when the mining permit was revoked. The Department has identified 35 such sites forfeited between 1977 and 1993. Mines forfeited prior to 1977 qualify for federal funding from the Office of Surface Mining and also receive some Severance Tax funds through the Program Costs and Mine Site Reclamation line items. Mines established after 1993 have individually calculated bond requirements based on size, type of disturbance, on-site structures, surrounding environmental impacts, and construction costs. According to the Department, the bonds from forfeited mines established after 1993 have generally been adequate to address necessary reclamation work. Between 1977 and 1993 mine operators were required to post bonds but the bonds were capped in statute by mine type and were frequently inadequate to fund the required reclamation. Risks associated with un-reclaimed sites include water contamination, unstable soils, volatile gases and explosives, and open pits. Sites treated under this line item are not eligible for federal funds that can be used for pre-1977 mines.

Request: The Department requests continuation level funding of $171,000. The request continues a reduction of $171,000 from FY 2008-09 levels. The General Assembly first enacted the reduction in FY 2009-10 and has continued the reduction since that time.

Recommendation: Staff recommends the request.

Abandoned Mine Safety

This line item supports efforts to safeguard the more than 23,000 mine openings in Colorado abandoned prior to bonding requirements implemented in 1977, including a high number in the Central City and Blackhawk area. This line item complements significant federal funding (an estimated $4.0 million to be spent in FY 2013-14) which supports the majority of such efforts on an annual basis. The funds pay for basic measures like capping and fencing. The other line items in the Inactive Mines section pay for more extensive reclamation of sites requiring additional measures. The source of funding is the Operational Account of the Severance Tax Trust Fund.

Request: As discussed above, with request R-5 (E-Permitting System), the Department requests a one-year elimination of this line item and the transfer of the associated funds ($99,850) to the Minerals, Program Costs line item to support the development of an electronic permitting system. The request also transfers the 0.2 state-funded FTE from the Abandoned Mine Safety line item to the Inactive Mines, Program Costs line item. The request anticipates restoration of funding and FTE to the Abandoned Mine Safety line item in FY 2014-15.

Recommendation: Staff recommends the request, including the temporary reduction of $99,850 and 0.2 FTE from this line item associated with decision item R-5 (discussed above). The following table summarizes the components of staff's recommendation.

Abandoned Mine Safety	Total Funds	General Fund	Cash Funds	FTE
FY 2012-13 Appropriation:				
HB 12-1335 (Long Bill)	$99,850	$0	$99,850	0.2
TOTAL	**$99,850**	**$0**	**$99,850**	**0.2**
FY 2013-14 Recommended Appropriation:				
FY 2012-13 Appropriation	$99,850	$0	$99,850	0.2
R-5 DRMS E-Permitting	(99,850)	0	(99,850)	(0.2)
TOTAL	**$0**	**$0**	**$0**	**0.0**
Increase/(Decrease)	($99,850)	$0	($99,850)	(0.2)
Percentage Change	(100.0%)	0.0%	(100.0%)	(100.0%)
FY 2013-14 Executive Request:	**$0**	**$0**	**$0**	**0.0**
Request Above/(Below) Recommendation	$0	$0	$0	0.0

Indirect Cost Assessment

This line item reflects the amount of indirect cost assessments made against cash and federal funding sources within the Inactive Mines subdivision. The Department uses the funds collected here to offset General Fund that would otherwise be required in the Executive Director's Office.

Request: The Department's request reflects the statewide and departmental indirect cost plan.

Recommendation: Staff recommends the request but also recommends that the Committee allow staff to adjust the appropriation as necessary based on the Committee's decisions regarding the use of indirect costs in the Executive Director's Office.

(C) MINERALS

Program Costs

This program issues and enforces mining and reclamation permits for all non-coal mines in Colorado on state, federal, and private lands. The types of minerals regulated under this program include metals (such as gold, silver, and molybdenum) and construction materials (such as sand, gravel, marble, and flagstone). The line item also pays for the operating costs of the Mined Land Reclamation Board. In addition, the Minerals Program regulates oil shale development but coordinates extensively with the Colorado Oil and Gas Conservation Commission in reviewing permits and conducting inspections for oil shale operations. The Minerals Program also oversees uranium and vanadium mining.

The sources of funds for the program include fees deposited in the Mined Land Reclamation Fund and revenues from the Operational Account of the Severance Tax Trust Fund. The majority of the fees charged are set in statute but some are set by rule pursuant to Section 34-32-127, C.R.S.

Request: As discussed above, with request R-5 (E-Permitting System), the Department is requesting a one-year increase of $99,850 cash funds from the Operational Account of the Severance Tax Trust Fund (reallocated from the Inactive Mines, Abandoned Mine Safety line item) to support the development of an electronic permitting system. For the base, the Department requests continuation funding according OSPB's common policies with no other changes from the FY 2012-13 appropriation.

Recommendation: Staff recommends the request, including the temporary increase of $99,850 cash funds associated with decision item R-5 (discussed above). The following table summarizes the components of staff's recommendation.

Program Costs	Total Funds	General Fund	Cash Funds	FTE
FY 2012-13 Appropriation:				
HB 12-1335 (Long Bill)	$2,157,524	$0	$2,157,524	24.1
TOTAL	**$2,157,524**	**$0**	**$2,157,524**	**24.1**
FY 2013-14 Recommended Appropriation:				
FY 2012-13 Appropriation	$2,157,524	$0	$2,157,524	24.1
R-5 DRMS E-Permitting	99,850	0	99,850	0.0
TOTAL	**$2,257,374**	**$0**	**$2,257,374**	**24.1**
Increase/(Decrease)	$99,850	$0	$99,850	0.0
Percentage Change	4.6%	0.0%	4.6%	0.0%
FY 2013-14 Executive Request:	**$2,257,374**	**$0**	**$2,257,374**	**24.1**
Request Above/(Below) Recommendation	$0	$0	$0	0.0

Indirect Cost Assessment

This line item reflects the amount of indirect cost assessments made against cash and federal funding sources within the Minerals subdivision. The Department uses the funds collected here to offset General Fund that would otherwise be required in the Executive Director's Office.

Request: The Department's request reflects the statewide and departmental indirect cost plan.

Recommendation: Staff recommends the request but also recommends that the Committee allow staff to adjust the appropriation as necessary based on the Committee's decisions regarding the use of indirect costs in the Executive Director's Office.

(D) MINES PROGRAM

Colorado and Federal Mine Safety Program

This program regulates active mines for safety, inspects tourist mines, performs safety audits, administers certification programs for mining employees, provides training in mine rescue/safety, and regulates underground diesel equipment and mining explosives. Federal moneys are provided by the Mine Safety and Health Administration, which is part of the U.S. Department of Labor. The primary source of state funding is the Operational Account of the Severance Tax Trust Fund, but the program also earns a small amount of fee revenue.

Request: The Department requests continuation level funding calculated pursuant to OSPB's common policies, with no change from the FY 2012-13 appropriation.

Recommendation: Staff recommends the request.

Blaster Certification Program
This program provides certifications required for certain mine positions, including foreman, fire boss, mine electrician, shot-firer, hoistman, blaster, and electrician, pursuant to Section 34-22-105, C.R.S. The source of cash funds is the Operational Account of the Severance Tax Trust Fund.

Request: The Department requests continuation level funding calculated pursuant to OSPB's common policies, with no change from the FY 2012-13 appropriation.

Recommendation: Staff recommends the request.

Indirect Cost Assessment
This line item reflects the amount of indirect cost assessments made against cash and federal funding sources within the Mines Program subdivision. The Department uses the funds collected here to offset General Fund that would otherwise be required in the Executive Director's Office.

Request: The Department's request reflects the statewide and departmental indirect cost plan.

Recommendation: Staff recommends the request but also recommends that the Committee allow staff to adjust the appropriation as necessary based on the Committee's decisions regarding the use of indirect costs in the Executive Director's Office.

(E) EMERGENCY RESPONSE COSTS

This appropriation provides funds for the Department of Natural Resources to respond to environmental emergencies at mining sites. While these sites have financial warranties, it often takes time to go through the required regulatory procedures needed to liquidate the bonds and other warranty instruments for abandoned mine sites. By providing an immediately available source of funds, the Division is able to avoid increased remediation costs that may be incurred by a delay in responding to environmental emergencies. For a large-scale disaster, there are procedures for the Governor and/or the JBC to make money available, but even those procedures take time. Also, the Department can use this money for smaller scale emergencies. The Department has used the full $25,000 appropriation in each of the past three years (FY 2009-10 through FY 2011-12). No FTE are associated with this line item, since contractors perform the environmental remediation work.

Request: The Department requests continuation level funding of $25,000 cash funds.

Recommendation: Staff recommends the requested continuation level funding.

(3) Geological Survey

As discussed above, this document does not address any recommendations associated with the Geological Survey (CGS) in FY 2013-14. The implementation of H.B. 12-1355 has transferred the CGS from the Department of Natural Resources to the Colorado School of Mines, and another analyst will present recommendations regarding the CGS with the Department of Higher Education. The enactment of H.B. 13-1057 retained the Colorado Avalanche Information Center (CAIC, formerly part of the CGS) within the Department of Natural Resources. However, pursuant to that legislation the CAIC will now be located within the Executive Director's Office. Recommendations regarding the CAIC in FY 2013-14 are addressed in a separate document.

The following table reflects the elimination of the Colorado Geological Survey as a separate division within the Department of Natural Resources pursuant to H.B. 12-1355 and H.B. 13-1057, as reflected in Budget Amendment 8B.

Geological Survey

	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2012-13 Appropriation:						
HB 12-1335 (Long Bill)	$4,805,429	$0	$2,990,746	$858,714	$955,969	34.1
TOTAL	**$4,805,429**	**$0**	**$2,990,746**	**$858,714**	**$955,969**	**34.1**
FY 2013-14 Recommended Appropriation:						
FY 2012-13 Appropriation	$4,805,429	$0	$2,990,746	$858,714	$955,969	34.1
BA-8B: Changes Due to HB 12-1355 and HB 13-1057	(4,815,633)	0	(2,984,865)	(858,714)	(972,054)	(34.1)
Base Indirect Costs Adjustments	10,204	0	(5,881)	0	16,085	0.0
TOTAL	**$0**	**$0**	**$0**	**$0**	**$0**	**(0.0)**
Increase/(Decrease)	($4,805,429)	$0	($2,990,746)	($858,714)	($955,969)	(34.1)
Percentage Change	(100.0%)	0.0%	(100.0%)	(100.0%)	(100.0%)	(100.0%)
FY 2013-14 Executive Request:	**$0**	**$0**	**$0**	**$0**	**$0**	**0.0**
Request Above/(Below) Recommendation	$0	$0	$0	$0	$0	0.0

(4) Oil and Gas Conservation Commission

The Oil and Gas Conservation Commission is charged with promoting the responsible exploration, development, and conservation of Colorado's oil and natural gas resources. To achieve these goals, the Commission promulgates regulations governing oil and gas development, issues permits, enforces laws and regulations, maintains a financial surety program to ensure proper reclamation of well sites, and provides information to the public and industry pertaining to oil and gas production. The Commission also has the authority to regulate oil and gas operations to protect public health and prevent significant adverse environmental impacts.

In addition to enforcement, the OGCC responds to complaints and inquiries, responds to oil and gas spills and other environmental emergencies at production sites, manages plugging and reclamation work at abandoned well sites, and performs baseline water quality studies.

DIVISION REQUEST AND RECOMMENDATION SUMMARY

The following table summarizes the staff recommendation for the Oil and Gas Conservation Commission. Staff's recommendation for the line items in this division matches the Department's request. However, please note that the recommendation for budget amendment BA-7A is pending a Committee decision regarding the request for that item in the Department of Public Health and Environment.

Oil and Gas Conservation Commission	Total Funds	General Fund	Cash Funds	Federal Funds	FTE
FY 2012-13 Appropriation:					
HB 12-1335 (Long Bill)	$9,045,502	$0	$8,943,523	$101,979	76.0
TOTAL	**$9,045,502**	**$0**	**$8,943,523**	**$101,979**	**76.0**
FY 2013-14 Recommended Appropriation:					
FY 2012-13 Appropriation	$9,045,502	$0	$8,943,523	$101,979	76.0
R-1 OGCC Field Inspectors	522,869	0	522,869	0	5.0
BA-7A: Air Fugitives Inventory	Pending				
Base Indirect Costs Adjustments	37,502	0	36,656	846	0.0
Base Annualization FY 13 DI #1	(26,815)	0	(26,815)	0	0.0
TOTAL	**$9,579,058**	**$0**	**$9,476,233**	**$102,825**	**81.0**
Increase/(Decrease)	$533,556	$0	$532,710	$846	5.0
Percentage Change	5.9%	0.0%	6.0%	0.8%	6.6%
FY 2013-14 Executive Request:	**$9,591,058**	**$0**	**$9,488,233**	**$102,825**	**81.0**
Request Above/(Below) Recommendation	$12,000	$0	$12,000	$0	0.0

Issue Descriptions

R-1 OGCC Field Inspectors: The recommendation includes a total of $522,869 cash funds from the Oil and Gas Conservation and Environmental Response Fund and 5.0 FTE to allow the Department to add 3.0 field inspectors, 1.0 environmental protection specialist, and 1.0 professional engineer based on an increasing workload for the Oil and Gas Conservation

Commission. The recommendation for this decision item also includes $3,208 cash funds for the Vehicle Lease Payments line item in the Executive Director's Office.

BA-7A Air Fugitives Inventory: The Department is requesting $12,000 cash funds from the Oil and Gas Conservation and Environmental Response Fund for the Department's portion of a joint effort with the Department of Public Health and Environment (CDPHE). Staff's recommendation for this budget amendment is pending the Committee's decision regarding the (much larger) portion of the request related to the Department of Public Health and Environment (CDPHE).

Base Indirect Costs Adjustments: The recommendation reflects the Department's requested adjustments to indirect cost recoveries from the Oil and Gas Conservation Commission.

Base Annualization FY 13 DI #1: The recommendation eliminates one-time appropriations for operating expenses associated with the addition of 5.0 new FTE through FY 2012-13 decision item R-1.

LINE ITEM DETAIL

Program Costs
This line item supports the majority of the OGCC's operations and is funded by a mix of cash funds from: (1) the Operational Account of the Severance Tax Trust Fund and (2) a statewide mill levy on the value of oil and gas production that is transferred into the Oil and Gas Conservation and Environmental Response Fund.

Request: The Department's request for this line item includes one decision item and one budget amendment. With decision item R-1 (discussed below), the Department requests a total increase of $522,870 cash funds (from the Oil and Gas Conservation and Environmental Response Fund) and 5.0 FTE for this line item, including 3.0 field inspectors, 1.0 environmental protection specialist, and 1.0 professional engineer. With budget amendment 7A (discussed briefly below), the Department requests a total of $12,000 cash funds (also from the Oil and Gas Conservation and Environmental Response Fund) to support the Department's portion of a joint effort with the Department of Public Health and Environment related to air emissions from oil and gas activities. For the base, the Department requests a continuation budget in accordance with OSPB's common policies, including the elimination of one-time appropriations associated with a decision item in FY 2012-13.

Recommendation: Staff recommends the request for this line item, a total appropriation of $6,976,436 cash funds, including $3,212,032 from the Operational Account of the Severance Tax Trust Fund and $3,764,404 from the Oil and Gas Conservation and Environmental Response Fund. Staff's recommendation includes the following components:

- A total of $522,870 cash funds from the Oil and Gas Conservation and Environmental Response Fund and 5.0 FTE associated with decision item R-1. The recommendation for decision item R-5 also includes $3,208 cash funds (also from the Oil and Gas Conservation and Environmental Response Fund) for the Vehicle Lease Payments line item in the Executive Director's Office. The recommendation denies funding for other centrally appropriated line items in the Executive Director's Office, pursuant to the Joint Budget Committee's common policy to deny such funding associated with new FTE.

- Staff's recommendation regarding budget amendment 7A is pending a Committee decision regarding the CDPHE component of this budget amendment. This budget amendment includes $1.1 million General Fund for CDPHE and $12,000 cash funds for the Department of Natural Resources. Given the relative size of the CDPHE portion of the request, staff recommends that the Committee make the decision regarding the budget amendment during figure setting for CDPHE and allow staff to reflect the Committee's decision in the budget for the Department of Natural Resources.

- For the base, staff recommends continuation funding pursuant to the Committee's common policies, including the elimination of one-time appropriations associated with FY 2012-13 decision item R-1.

The following table shows the components of staff's recommendation for this line item.

Program Costs				
	Total Funds	**General Fund**	**Cash Funds**	**FTE**
FY 2012-13 Appropriation:				
HB 12-1335 (Long Bill)	$6,468,382	$0	$6,468,382	74.0
TOTAL	**$6,468,382**	**0**	**$6,468,382**	**74.0**
FY 2013-14 Recommended Appropriation:				
FY 2012-13 Appropriation	$6,468,382	$0	$6,468,382	74.0
R-1 OGCC Field Inspectors	522,869	0	522,869	5.0
BA-7A Air Fugitives Inventory	12,000	0	12,000	0.0
Base Annualization FY 13 DI #1	(26,815)	0	(26,815)	0.0
TOTAL	**$6,976,436**	**$0**	**$6,976,436**	**79.0**
Increase/(Decrease)	$508,054	$0	$508,054	5.0
Percentage Change	7.9%	0.0%	7.9%	6.8%
FY 2013-14 Executive Request:	**$6,976,436**	**$0**	**$6,976,436**	**79.0**
Request Above/(Below) Recommendation	$0	$0	$0	0.0

➔ Request R-1 – Additional Field, Environmental, Engineering FTE

- The Department requests a total increase of $571,702 cash funds from the Oil and Gas Conservation and Environmental Response Fund and 5.0 FTE to support additional field inspection, environmental, and engineering staff. The request includes: (1) $522,869 cash funds and 5.0 FTE for the OGCC, Program Costs line item; and (2) $48,833 for several centrally-appropriated line items in the Executive Director's Office.

- Staff recommends a total increase of $526,078 cash funds and 5.0 FTE, including: $522,870 and 5.0 FTE for the OGCC, Program Costs line item and $3,208 for the Vehicle Lease Payments line item in the Executive Director's Office.

Request: In response to increasing workload, the Department is requesting an increase of $571,702 cash funds from the Oil and Gas Conservation and Environmental Response Fund and 5.0 FTE (including three field inspectors, one environmental specialist, and one professional engineer) for the OGCC in FY 2013-14. The request includes $522,869 for the Program Costs line item, including: $373,530 for personal services associated with the new FTE; $74,340 for operating expenses associated with the new FTE; and $75,000 to provide a stable fund source for contract services that the OGCC has previously paid for with vacancy savings. The request also includes a total of $48,833 for a variety of centrally-appropriated line items in the Executive Director's Office.

Recommendation: Staff recommends a total increase of $526,078 cash funds and 5.0 FTE, including: $522,870 and 5.0 FTE for the OGCC, Program Costs line item and $3,208 for the Vehicle Lease Payments line item in the Executive Director's Office. The recommendation includes the following components.

- $373,530 for personal services associated with the new FTE. As requested by the Department, staff recommends deviating from the common policy and funding the new FTE above the range minimum salary for each position based on the Department's evidence that hiring qualified applicants for these positions requires salaries above the range minimum.

- $74,340 in operating expenses associated with the new FTE, including items such as office furniture, vehicle mileage, computers, cell phones, safety equipment as necessary for specific positions, etc.

- $75,000 to provide a stable fund source for contract services. The OGCC has used contract staff effectively to manage fluctuations in agency workload, and staff recommends providing a limited amount of revenue specifically to help provide that flexibility.

- Pursuant to the Committee's common policies, staff does <u>not</u> recommend funding the requested increases to centrally-appropriated line items other than Vehicle Lease Payments (Health, Life, and Dental, etc.). Thus, staff's total recommendation is $45,625 below the request.

The following table compares the Department's request and the staff recommendation for FY 2013-14 as well as the FY 2014-15 impact of staff's recommendation for each relevant line item.

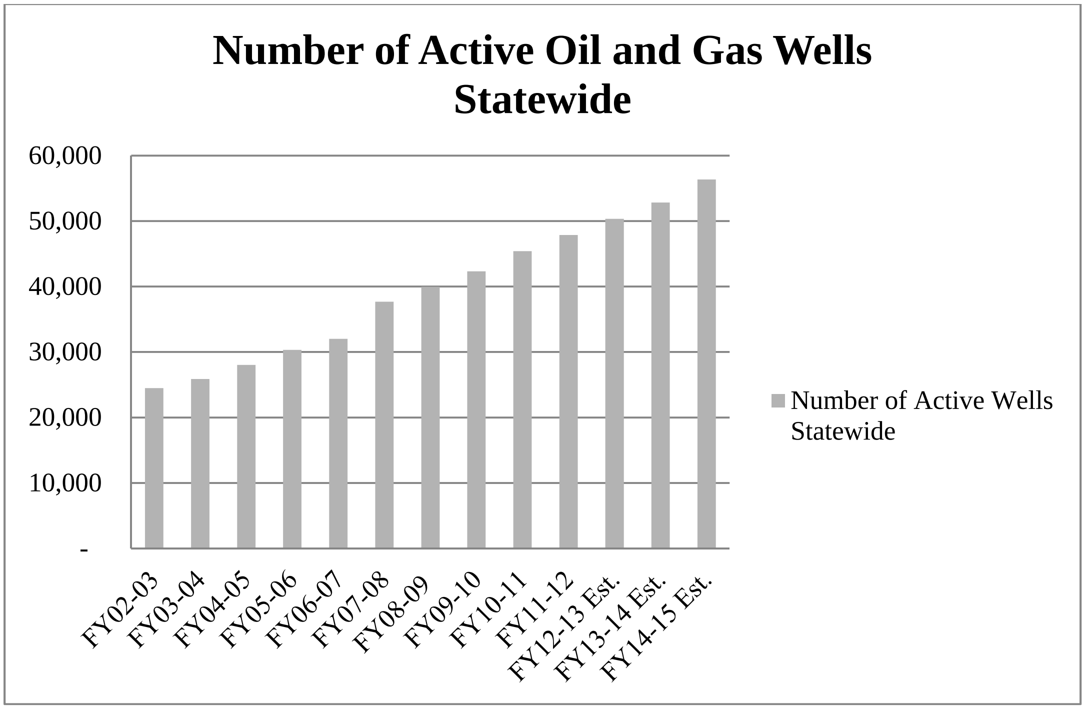
Decision Item R-1 -Additional Field, Environmental, Engineering FTE						
	FY 2013-14 Request		FY 2013-14 Staff Rec.		FY 2014-15 Impact	
Line Item/Cost Component	**CF**	**FTE**	**CF**	**FTE**	**CF**	**FTE**
Oil and Gas Conservation Commission, Program Costs						
Salaries	$334,704	5.0	$334,704	5.0	$334,704	5.0
PERA	33,973		33,973		33,973	
Medicare	4,853		4,853		4,853	
Subtotal, Personal Services	$373,530	5.0	$373,530	5.0	$373,530	5.0
Operating Expenses	74,340		74,340		40,765	
Contract Services	75,000		75,000		75,000	
Subtotal, OGCC Program Costs line item	**$522,870**	**5.0**	**$522,870**	**5.0**	**$489,295**	**5.0**
Executive Director's Office Line Items						
Health, Life, and Dental	$22,105		$0		$22,105	
Short Term Disability	593		0		593	
Amortization Equalization Disbursement	12,049		0		13,388	
Supplemental Amortization Equalization Disbursement	10,878		0		12,551	
Vehicle Lease Payments	3,208		3,208		19,248	
Subtotal, Executive Director's Office Line Items	**$48,833**		**$3,208**		**$67,885**	
Total, Decision Item R-1	**$571,703**	**5.0**	**$526,078**	**5.0**	**$557,180**	**5.0**

Staff's recommendation aligns with the recommendations from both of the relevant committees of reference to support the Department's request for 5.0 additional FTE. The committees of reference also recommended that the JBC consider adding additional FTE (above the requested level). Staff has included a discussion at the end of the analysis of decision item R-1 outlining some illustrative options for the JBC's consideration.

Analysis: The Department's request builds on recent actions to increase the number of FTE at the OGCC. During the 2012 Session, the General Assembly approved a total of 7.0 new FTE for the OGCC, including two local government liaisons (approved through a FY 2011-12 supplemental), two field inspectors, a hearings officer, an environmental specialist focused on data analysis, and an engineering position (all approved through a FY 2012-13 decision item). The OGCC has now filled all seven new positions authorized during the 2012 Session. The Department sites ongoing increases in the agency's workload as the justification for the request for additional staff and resources in FY 2013-14.

OGCC Workload

The Department points to the number of active wells in Colorado as the most important workload indicator for the requested positions. In recent years, the industry has added approximately 2,800 wells in Colorado each year, and the Department expects the number of active wells statewide to exceed 50,000 in FY 2012-13 (see chart below).



In addition to the statewide increase in wells, however, the Department cites three additional factors (that often interact with the raw number of wells) that make current patterns of oil and gas development particularly work-intensive for the OGCC.

- **Geographic location** affects the complexity of development projects and the level of public concern to which the OGCC must respond. The focus of much of the current oil and gas development in Colorado has shifted from the Western Slope to the Front Range. A combination of low natural gas prices, high oil prices, and better prospects for oil production on the Front Range has driven new development to the Front Range. However, the focus on the Front Range has brought oil and gas development close to increasingly urbanized and populated areas, creating additional workload for the OGCC as staff has to manage and regulate development while responding to and addressing the local conflicts and public complaints that accompany oil and gas installations near residential areas. The OGCC cites the demands of managing development in the "urban interface" as a major change in the agency's workload and a driver of the FY 2013-14 request.

- **Technological changes**, including advances in hydraulic fracturing (also known as fracking) and horizontal drilling, have facilitated the current expansion in oil and gas development, particularly along the Front Range. These changes, which are key to the development of new areas such as the Niobrara, also create increasingly complex permitting and regulatory work for the OGCC. The increasing use of hydraulic fracturing, especially in proximity to residential development, has spurred local opposition in communities along the Front Range, requiring additional OGCC efforts in terms of public outreach, regulation, and complaint response. While horizontal drilling does not appear to create the same public concern on its own (and in fact reduces surface environmental impacts while increasing the efficiency of production), horizontal drilling can complicate the OGCC's work for permitting, engineering, and inspection. In a particularly striking example, the spread of horizontal drilling in longstanding production areas (such as Weld County) requires the industry and the OGCC to manage directional wells travelling among large numbers of existing vertical wells without interfering with or damaging the existing infrastructure. As shown in the following table, the OGCC has seen a striking increase in the number of horizontal wells permitted and drilled since 2009.

Horizontal Well Permits Issued and Wells Drilled per Calendar Year				
	2009	**2010**	**2011**	**2012**
Horizontal Well Permits Issued	147	333	901	950
Horizontal Wells Drilled	28	128	284	490

- **Changes in rules and regulations** may increase the OGCC's workload in several ways. Some rule changes require additional oversight and inspection by the OGCC. Others may require the industry to submit new information or data, increasing preparatory time for the industry and processing/analysis time for the OGCC. For example, a rule recently adopted by the OGCC will require additional groundwater sampling, requiring the industry to collect and submit such samples and requiring the OGCC staff to process the samples. In other cases, rule changes may enable additional development. For example, a September 2011 rule change removing restrictions on well density in the Greater Wattenberg Area allowed for directional drilling in areas where density had been maximized under the old rules with vertical wells, enabling increased production but also creating additional workload for the OGCC.

FY 2013-14 Request
In response to the current workload, the Department is requesting 5.0 additional FTE, including three field inspectors, one environmental specialist, and one professional engineer. Below is a brief discussion of the specific workload indicators that the Department uses as justification for the various positions.

3.0 FTE Field Inspectors (2.0 for Front Range and 1.0 for West Slope)
The OGCC field inspection unit inspects oil and gas wells statewide, conducts reclamation inspections of plugged wells, responds to public complaints, and ensures that exploration and production wastes are disposed of properly. Inspections cover equipment, stormwater, dust, and noise mitigation measures, and producers' control of noxious weeds. The General Assembly approved two additional inspectors (one for the Front Range and one for the West Slope) for FY 2012-13.

FY 2013-14, the OGCC intends to add at least one of the two requested Front Range inspectors to the Wattenberg field in Weld County to increase the rate of inspections in urban interface areas and allow continued timely response to complaints. The OGCC argues that the West Slope requires an additional inspector to maintain inspection frequencies. Although the rate of development has decreased on the West Slope, the OGCC believes that the distance and time required to travel between wells requires an additional inspector to maintain inspection frequency.

The OGCC's goal is to inspect each active well, on average, at least once every three years. In prior years, the Department has assumed that each inspector would inspect an average of 1,000 wells per year, which would require an average of 3,000 wells per inspector to meet the goal of a three year cycle for each well. However, the OGCC reports that <u>the increase in development in urban interface areas, and the resulting increases in workload to respond to public complaints and other issues, has reduced the overall number of inspections statewide from 17,088 in FY 2010-11 to 11,287 in FY 2011-12 (to an average of 806 per inspector).</u>

Based on the inspection rate in FY 2011-12, the OGCC now estimates that inspecting the average well every three years will require a ratio of 2,500 wells per inspector (down from the 3,000 wells per inspector assumed in the FY 2012-13 request). As shown in the following table, the request would decrease the ratio of wells per inspector FTE from an estimated 3,147 in FY 2012-13 to 2,781 in FY 2013-14, although the Department anticipates an increase to 2,966 in FY 2014-15 without additional staff in that year.

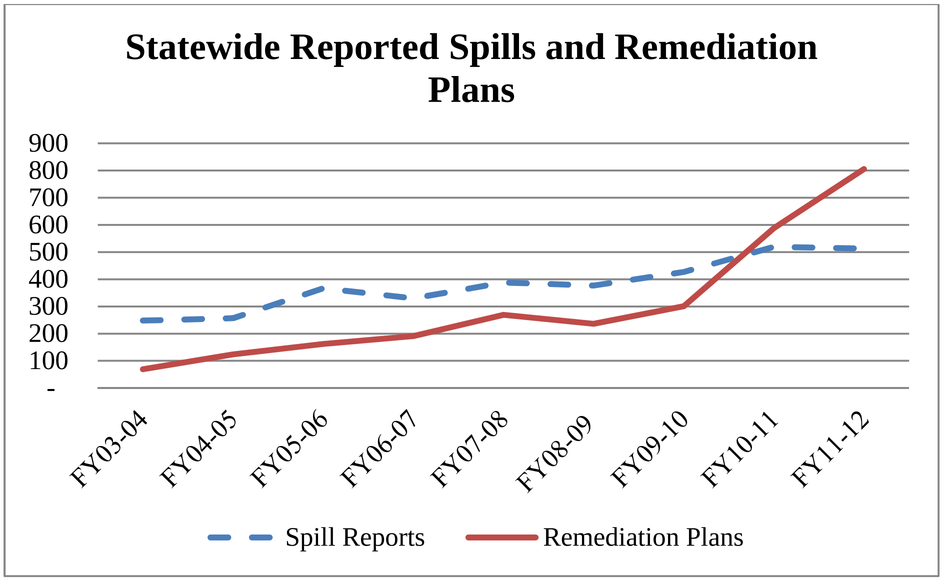
Oil and Gas Conservation Commission Workload Measures

	FY07-08	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13 Est.	FY13-14 Est.	FY14-15 Est.
Number of Active Wells Statewide	37,686	39,944	42,324	45,401	47,860	50,350	52,840	56,358
Inspector FTE	9.0	14.0	14.0	14.0	14.0	16.0	19.0	19.0
Wells/Inspector	4,187	2,853	3,023	3,243	3,419	3,147	2,781	2,966

1.0 FTE Environmental Protection Specialist II in Northeast Colorado

The OGCC environmental program: responds to reported spills; reviews industry remediation plans for spills and other impacts; reviews applications for exploration and production waste facilities; reviews industry reuse/recycling plans; and monitors remediation activities after spills and releases. With rapidly expanding development in Northeast Colorado, including the Niobrara formation, encroaching upon populated areas, the OGCC argues that additional environmental staff is necessary to ensure regulatory compliance and adequate spill and remediation response. Statewide, the OGCC has seen increases in both reported spills and required remediation plans (see chart on the following page).

Spill reports and remediation plans represent long-term workload for the environmental program, because remediation plans may require years of follow-up monitoring and compliance activities.



The environmental program currently has 2.0 FTE in Northeast Colorado, with the two positions splitting a total of 16 counties, including Weld County. The requested position would work from a home-based office in either Weld or Larimer County and assist with the currently high volume of complaints and spills in Weld County (where the number of reported spills has increased from 89 in CY 2006 to 166 in CY 2011) as well as impacts of historical development in Morgan, Washington, and Local counties. According to the OGCC, recent visits by environmental staff suggest that a large percentage of the inactive and low-producing wells in Morgan, Washington, and Logan counties are out of compliance with OGCC regulations but the agency does not currently have sufficient staff to address these issues.

For FY 2012-13, the General Assembly approved the Department's request for 1.0 environmental protection specialist. The position approved for FY 2012-13 is focused on the analysis of water quality and other data sets submitted to the OGCC and is based at the Denver office. The position requested for FY 2013-14 is a field-based position intended to help keep pace with the growing workload in the field.

1.0 FTE Professional Engineer
The OGCC engineering program reviews permit applications and development plans to ensure adequate engineering to protect public health, safety, and groundwater quality, and neighboring wells. The OGCC reports significant increases in the time required for engineering reviews because of increases in horizontal drilling and the resulting increase in complexity of development (discussed above).

The OGCC is concerned that a lack of additional engineering staff will result in either increases in permit processing times (a priority for the industry) or falling behind in the review of various reports submitted by the industry.

Based on the ongoing workload for the OGCC, staff recommends approving the requested 5.0 additional FTE and associated funding.

Higher Starting Salaries
For each FTE, the Department is requesting starting salaries above the range minimum (29.0 percent above for the field inspector positions, and 25.0 percent for both the environmental specialist and the engineer). The OGCC faces competition with the oil and gas industry for qualified personnel for each of the requested positions. The Department reports that the requested salaries are based on the amounts required to attract qualified staff to the most recent openings for each type of position.

Based on the evidence presented by the Department, including the discussion at the FY 2013-14 hearing with the Committee, staff recommends that the Committee deviate from common policy and approve the requested salary levels for each position. Based on the OGCC's prior experience, staff suspects that the agency will be unable to fill the recommended positions at the range minimum for each position. If the General Assembly wants the agency to hire the additional 5.0 FTE, then staff recommends approving the requested salary amounts.

Contract Environmental Support Services
The OGCC uses contract support to manage temporary fluctuations in workload. For example, in prior years, the agency has used significant contract support to assist with permit processing in lieu of adding FTE. As the permitting workload has decreased in recent years (due to a variety of factors, including a shift to two-year permits), the agency has shifted its use of contract services to the environmental and engineering programs. In recent years, the agency has used vacancy savings resulting from turnover and delays in hiring to fund contract support services. The OGCC is concerned about the agency's ability to predictably fund an adequate level of contract support from vacancy savings going forward.

For FY 2013-14, the Department is requesting $75,000 cash funds to provide a stable source of funding for contract services to support the environmental program in the evaluation and management of documents generated by the spill, assessment, remediation, and complaint processes. At an average hourly rate of $53.46, the request would provide reliable funding for 1,400 hours of contract services per year. For comparison purposes, the OGCC spent approximately $463,000 on contract services in FY 2011-12.

Staff recommends approving the request for $75,000 specifically to support contract services. As discussed above, the agency has effectively used vacancy savings in prior years, and staff expects that mechanism to continue to fund the majority of contract services for the OGCC. However, given the agency's effective use of contract services to avoid the need for temporary increases in permanent FTE to adjust to fluctuations in workload, staff recommends approving the request for a (relatively small) stable fund source for these services.

Centrally-Appropriated Line Items
The Department's request includes a total of $48,833 cash funds for centrally-appropriated line items in the Executive Director's Office, including: Health, Life, and Dental ($22,105); Short Term Disability ($593); Amortization Equalization Disbursement ($12,049); Supplemental Amortization Equalization Disbursement ($10,878); and Vehicle Lease Payments ($3,208) for four new vehicles for a portion of the year.

Staff recommends approving the request for $3,208 for Vehicle Lease Payments to provide vehicles for each field inspector and for the environmental protection specialist. Pursuant to the Committee's common policy, staff recommends denying the other requests for centrally-appropriated line items associated with the new FTE in FY 2013-14.

Request/Recommendation Impact on Mill Levy
The Oil and Gas Conservation and Environmental Response Fund is supported by a mill levy on oil and gas production statewide. The mill levy is set by the OGCC, with a statutory maximum level of 1.7 mills. The Department estimates that the existing mill levy of 0.7 mills will support the requested increase through at least FY 2014-15 by using an existing fund balance and projected revenues. Depending on price conditions and the need for emergency response funding, continuing operations beyond FY 2014-15 could require an increase in the mill levy.

New Regulations Approved by the OGCC
The OGCC has adopted two new/revised regulations that the Department's analysis has indicated could require additional resources. The first new rule requires additional water sampling prior to and following drilling new oil and gas wells. The second new rule revised a variety of existing rules affecting oil and gas development in proximity to occupied buildings. The OGCC estimates that the combination of the rules would require an additional 5.4 FTE in FY 2013-14. <u>The Department has not submitted any request for additional FTE associated with the newly adopted rules.</u>

Options to Add Additional FTE (Above the Request)
The House and Senate Agriculture Committees recommended that the Committee *consider* adding additional inspection-related FTE above the request. The discussion at the Department's hearings with the JBC and with the committees of reference focused on increasing inspection frequency and potentially increasing the "depth" of inspections. The Department has also emphasized that increasing the size of the inspection program requires other additional staff to respond to the increased number of inspections, including environmental staff, hearings staff, engineers, etc.

At staff's request, the Department provided illustrative estimates of the funding and FTE necessary over and above the request/recommendation to support four basic scenarios. The Department is not requesting any of the additional FTE, and staff is not recommending additional FTE (above the request) at this time. Staff and the Department sought to provide useful context for potential discussions of further increases in FTE.

Please note that the Department's estimates are based on the best available information but that some of the changes (particularly major changes in FTE) would fundamentally change the operations of the OGCC field inspection program. The Department has attempted to incorporate potential economies of scale in the analysis of necessary resources and staff but the actual impacts of major changes in staffing patterns are uncertain.

Brief summaries of estimates for each scenario are below, and the detailed data appear in a table on pages 32 and 33.

1. *New Rules:* As mentioned above, the Department estimates that the full implementation of recent rules adopted by the OGCC regarding additional groundwater sampling and setbacks from occupied buildings would require approximately $550,000 and 5.4 additional FTE in FY 2013-14 and FY 2014-15 and could require an increase of 0.05 mills in the statewide mill levy (from the current level of 0.7 mills to 0.75).

2. *2,500 Wells per Inspector:* As discussed above, the Department estimates that a ratio of 2,500 wells per inspector is necessary to maintain the Department's goal of a 3-year inspection cycle (meaning that each well is visited, on average, every three years). With anticipated growth in the number of active wells, the Department estimates a need for approximately $400,000 and 4.0 FTE (2.0 field inspectors and 2.0 other staff) in FY 2013-14. Maintaining that ratio in FY 2014-15 would require approximately $990,000 and 10.0 FTE above the FY 2013-14 request ($590,000 and 6.0 FTE above the estimate for FY 2013-14). This scenario could require mill levy increases of 0.04 mills in FY 2013-14 and 0.08 mills in FY 2014-15.

3. *2,000 Wells per Inspector:* Based on current data, a ratio of 2,000 wells per inspector would create a 2.4 year inspection cycle. The Department estimates that this scenario would require $1.6 million and 16.0 FTE (7.0 field inspectors and 9.0 other staff) above the request in FY 2013-14. Maintaining that ratio in FY 2014-15 would require approximately $2.2 million and 22.0 FTE above the FY 2013-14 request ($580,000 and 6.0 FTE above the estimate for FY 2013-14). This scenario could require mill levy increases of 0.15 mills in FY 2013-14 and 0.19 mills in FY 2014-15.

4. *1,000 Wells per Inspector:* Based on current data, a ratio of 1,000 wells per inspector would allow wells to be visited approximately once per year. The Department estimates that this scenario would require $6.6 million and 68.0 FTE (34.0 field inspectors and 34.0 other staff) above the request in FY 2013-14. Maintaining that ratio in FY 2014-15 would require approximately $7.2 million and 74.0 FTE above the FY 2013-14 request ($590,000 and 6.0 FTE above the estimate for FY 2013-14). This scenario could require the mill levy to roughly double from the current 0.7 mills to 1.35 mills in FY 2013-14, with a slight dip (to 1.32 mills) possible in FY 2014-15.

Analysis of Illustrative Options to Provide Additional FTE to the Oil and Gas Conservation Commission (Provided by Department)													
FY 2013-14 Impact Based on Newly Adopted Rules and an Estimated 52,840 Active Wells in FY 2013-14													
		Option 1: New Rules FTE (from Regulatory Analysis)			Option 2: 2,500 wells per inspector (3 year rotation)			Option 3: 2,000 wells per inspector (2.4 year rotation)			Option 4: 1,000 wells per inspector (roughly 1 year rotation)		
	Cost/FTE	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)
Total Field Inspectors Required		22.0			21.0			26.0			53.0		
FY 2013-14 Request		19.0			19.0			19.0			19.0		
Add'l Field Inspectors needed	*$90,174*	**3.0**	$270,522		**2.0**	$180,348		**7.0**	$631,218		**34.0**	$3,065,916	
EPS FTE	*$107,418*	2.0	$214,836		1.0	$107,418		4.0	$429,672		14.0	$1,503,852	
Engineer FTE	*$112,844*	0.0	$0		1.0	$112,844		3.0	$338,532		10.0	$1,128,440	
Hearings Staff	*$88,481*	0.0	$0		0.0	$0		1.0	$88,481		3.0	$265,443	
Inspection Supervisor	*$97,674*	0.0	$0		0.0	$0		1.0	$97,674		7.0	$683,718	
OIT/ or IT contractor	*$74/hour*	0.4	$61,568		0.0	$0		0.0	$0		0.0	$0	
Total Additional FTE and Cost in FY 2013-14 (Above FY 2013-14 Request)		5.4	$546,926	0.05	4.0	$400,610	0.04	16.0	$1,585,577	0.15	68.0	$6,647,369	0.65

FY 2014-15 Impact Based on Newly Adopted Rules and an Estimated 56,358 Active Wells in FY 2014-15													
		Option 1: New Rules FTE (from Regulatory Analysis)			Option 2: 2,500 wells per inspector (3 year rotation)			Option 3: 2,000 wells per inspector (2.4 year rotation)			Option 4: 1,000 wells per inspector (roughly 1 year rotation)		
	Cost/FTE	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)	FTE	Cost	Potential Levy Rate Increase (above 0.7 mills)
Total Field Inspectors Required		22.0			23.0			28.0			56.0		
FY 2013-14 Request		19.0			19.0			19.0			19.0		
Add'l Field Inspectors needed	*$90,174*	**3.0**	$270,522		**4.0**	$360,696		**9.0**	$811,566		**37.0**	$3,336,438	
EPS FTE	*$107,418*	2.0	$214,836		2.0	$214,836		5.0	$537,090		15.0	$1,611,270	
Engineer FTE	*$112,844*	0.0	$0		2.0	$225,688		4.0	$451,376		11.0	$1,241,284	
Hearings Staff	*$88,481*	0.0	$0		1.0	$88,481		2.0	$176,962		4.0	$353,924	
Inspection Supervisor	*$97,674*	0.0	$0		1.0	$97,674		2.0	$195,348		7.0	$683,718	
OIT/ or IT contractor	*$74/hour*	0.4	$61,568		0.0	$0		0.0	$0		0.0	$0	
Total Additional FTE and Cost in FY 2014-15 (Above FY 2013-14 Request)		5.4	$546,926	0.05	10.0	$987,375	0.08	22.0	$2,172,342	0.19	74.0	$7,226,634	0.62

➔ Request BA – 7A – Two Year Air Fugitives Inventory and Compliance Project

- The Department requests an increase of $12,000 cash funds from the Oil and Gas Conservation and Environmental Response Fund as part of a joint budget amendment with the Colorado Department of Public Health and Environment (CDPHE). The CDPHE component of the request includes a total of $1,059,776 General Fund in FY 2013-14.
- Staff's recommendation for this budget amendment is pending the Committee's action regarding the CDPHE component of the request. Given the Department of Natural Resources' relatively small share of the total request, staff recommends that the Committee take action on the CDPHE request and allow staff to reflect that decision in the OGCC budget.

Request: With budget amendment 7A, the Department requests a total of $12,000 cash funds from the Oil and Gas Conservation and Environmental Response Fund as part of a joint effort with the CDPHE to improve the regulation of fugitive air emissions from oil and gas development activities. The Department's share of the request would support the purchase of a new server to allow for data storage associated with the proposal. The CDPHE portion of the request includes $1.1 million General Fund in FY 2013-14.

Recommendation: Staff's recommendation for this budget amendment is pending the Committee's decision regarding the CDPHE portion of the request. Staff recommends that the Committee allow staff to reflect that decision in the OGCC budget for FY 2013-14.

Analysis: Given the Department's relatively insignificant share of the total request, staff has not analyzed this request in this document.

Underground Injection Program

This program manages the Underground Injection Control Program, including regulation of the underground injection of oil and gas production wastes as well as the injection of liquids underground to enhance fuel recovery, under authority delegated to the OGCC by the U.S. Environmental Protection Agency (EPA). The program includes the inspection and permitting of sites where underground injections occur. Federal funds from the Environmental Protection Agency support this program.

Request: The Department requests continuation level funding calculated according to OSPB's common policies, with no change from the FY 2012-13 appropriation.

Recommendation: Staff recommends the request.

Plugging and Reclaiming Abandoned Wells

This line item provides funding to plug and reclaim abandoned oil and gas well sites where there is no known operator responsible for reclamation. The source of funds is the Oil and Gas Conservation and Environmental Response Fund.

Request: The Department requests continuation level funding calculated according to OSPB's common policies, with no change from the FY 2012-13 appropriation of $445,000 cash funds. The General Assembly increased the appropriation from $220,000 in FY 2010-11 to $445,000 in FY 2011-12 to respond to an increasing workload for the program. The request sustains the increased appropriation of $445,000.

Recommendation: Staff recommends the request.

Environmental Assistance and Complaint Resolution

This line item funds environmental assistance projects such as baseline water quality studies, studies on the beneficial reuse of production wastes, remediation projects, and studies to better understand air emissions from oil and gas activities. Funding is also used for water, soil, and air sampling in response to citizen complaints, reported spills, and field investigations. The source of funds is the mill levy deposited in the Oil and Gas Conservation and Environmental Response Fund established in Section 34-60-122 (5), C.R.S.

Request: The Department requests continuation level funding calculated according to OSPB's common policies, with no change from the FY 2012-13 appropriation.

Recommendation: Staff recommends the request. This line provides funding for on-going studies and emergent issues with a direct link to protecting public safety.

Emergency Response

This line item is intended to be used -- if and when necessary -- for emergency responses. Prior to 2006, there were a number of emergency funding requests both during the session and during the interim. The line was created out of concern that emergency funding would be necessary during a time when the JBC was not meeting during the interim and a response would have to wait for an interim supplemental. A request for information associated with the line item requires the Department to submit a report detailing expenditures under the line item each year.

The JBC approved the creation of this line item in 2006 with an appropriation of $1,500,000 from the Oil and Gas Conservation and Environmental Response Fund. The General Assembly reduced the appropriation to $1,000,000 in FY 2011-12 and appropriated some of those funds to the Plugging and Reclaiming Abandoned Wells line item discussed above in response to an increasing workload for that program.

Request: The Department requests a continuation appropriation of $1.0 million cash funds from the Oil and Gas Conservation and Environmental Response Fund, continuing the level of funding provided in FY 2012-13.

Recommendation: Staff recommends the request. The Department appears to be using the appropriation as intended and has not abused the spending authority.

Special Environmental Protection and Mitigation Studies

The General Assembly created this line item in FY 2006-07 with an appropriation of $500,000 cash funds from the Oil and Gas Conservation and Environmental Response Fund. A footnote attached to the line item explains the purpose as follows:

44 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.

Request: The Department requests continuation level funding of $325,000. The General Assembly reduced funding for this line item from $500,000 in FY 2008-09 to $325,000 in FY 2009-10, and the request continues the reduced funding level for FY 2013-14.

Recommendation: Staff recommends the request.

Indirect Cost Assessment

This line item reflects the amount of indirect cost assessments made against cash and federal funding sources within the OGCC. The Department uses the funds collected here to offset General Fund that would otherwise be required in the Executive Director's Office.

Request: The Department's request reflects the statewide and departmental indirect cost plan.

Recommendation: Staff recommends the request but also recommends that the Committee allow staff to adjust the appropriation as necessary based on the Committee's decisions regarding the use of indirect costs in the Executive Director's Office.

(5) State Board of Land Commissioners

The second largest landholder in Colorado after the federal government, the State Land Board is responsible for managing State lands granted in Colorado's enabling clause when granted statehood in 1876. Additionally, in 1996 a constitutional change was implemented (Amendment 16), designating 300,000 acres to the Stewardship Trust for preservation of long-term benefits. The State Land Board manages approximately 3.0 million acres of state trust land assets and approximately 3,000 surface leases. The revenue generated supports eight beneficiaries, the largest of which is the public school system. The school trust accounts for approximately 96 percent of the land managed by the State Land Board and approximately 98 percent of revenues.

DIVISION REQUEST AND RECOMMENDATION SUMMARY

The following table summarizes the staff recommendation for the State Land Board. Staff's recommendation for this division is below the Department's request because of recommended modifications to two decision items affecting the division: R-2 (Minerals Field Coordinator) and R-7 (Strategic Business Initiatives), discussed below.

State Board of Land Commissioners	Total Funds	General Fund	Cash Funds	Reappropriated Funds	FTE
FY 2012-13 Appropriation:					
HB 12-1335 (Long Bill)	$4,974,521	$0	$4,749,521	$225,000	37.0
TOTAL	**$4,974,521**	**0**	**$4,749,521**	**$225,000**	**37.0**
FY 2013-14 Recommended Appropriation:					
FY 2012-13 Appropriation	$4,974,521	$0	$4,749,521	$225,000	37.0
R-2 SLB Minerals Coordinator	57,815	0	57,815	0	1.0
R-7 SLB Strat. Business Initiatives	278,109	0	278,109	0	2.0
Base Indirect Costs Adjustments	22,432	0	22,432	0	0.0
TOTAL	**$5,332,877**	**0**	**$5,107,877**	**$225,000**	**40.0**
Increase/(Decrease)	$358,356	0	$358,356	$0	3.0
Percentage Change	7.2%	0.0%	7.5%	0.0%	8.1%
FY 2013-14 Executive Request:	**$5,436,844**	**0**	**$5,211,844**	**$225,000**	**40.0**
Request Above/(Below) Recommendation	$103,967	0	$103,967	$0	0.0

Issue Descriptions

R-2 SLB Minerals Field Coordinator: The recommendation includes a total of $57,815 cash funds from State Land Board Trust Administration Fund and 1.0 FTE to address an increasing workload associated with oil and gas development on State Land Board lands.

R-7 SLB Strat. Business Initiatives: The recommendation includes a total of $278,109 cash funds from State Land Board Trust Administration Fund and 2.0 FTE to support the State Land Board's efforts to diversify the trust revenue sources by creating or expanding new lines of business on State Land Board lands, including additional emphasis on recreation, solid minerals, renewable energy, and ecosystem services.

Base Indirect Costs Adjustments: The recommendation reflects the Department's requested adjustments to indirect cost recoveries from the State Land Board.

LINE ITEM DETAIL

Program Costs
This line item supports the division's administrative and operating costs. The appropriation includes $75,000 cash funds from the State Board of Land Commissioners Land and Water Management Fund established in Section 36-1-148 (1), C.R.S. This fund is to be used for the

management and improvement of state-owned lands and waters under the control of the Land Board. Expenditures from this fund are capped in statute at $75,000. This fund receives revenues from fees collected for the issuance of leases, patents, certificates of purchase, rights of way documents, and recording assignments for the making of township plats. The remainder of the appropriation is from the State Land Board Trust Administration Cash Fund which is supported by revenues earned on school trust lands.

Request: The Department's FY 2013-14 request includes two decision items requesting a total of $439,891 cash funds and 3.0 FTE: R-2 (Minerals Field Coordinator, including $69,346 cash funds and 1.0 FTE) and R-7 (Strategic Business Initiatives, including $370,545 cash funds and 2.0 FTE). Both decision items are discussed in detail below. For the base, the Department requests a continuation appropriation calculated according to OSPB's common policies with no change from the FY 2012-13 appropriation.

Recommendation: Staff recommends a total appropriation of $4,236,885 cash funds and 40.0 FTE. The request is $103,967 below the Department's request because of staff recommended modifications to two decision items (R-2 and R-7, both of which are discussed in detail below). The following table shows the components of staff's recommendation for this line item.

Program Costs				
	Total Funds	**General Fund**	**Cash Funds**	**FTE**
FY 2012-13 Appropriation:				
HB 12-1335 (Long Bill)	$3,796,994	$0	$3,796,994	37.0
TOTAL	**$3,796,994**	**$0**	**$3,796,994**	**37.0**
FY 2013-14 Recommended Appropriation:				
FY 2012-13 Appropriation	$3,796,994	$0	$3,796,994	37.0
R-2 SLB Minerals Coordinator	57,815	0	57,815	1.0
R-7 SLB Strat. Business Initiatives	278,109	0	278,109	2.0
TOTAL	**$4,132,918**	**0**	**$4,132,918**	**40.0**
Increase/(Decrease)	$335,924	0	$335,924	3.0
Percentage Change	8.8%	0.0%	8.8%	8.1%
FY 2013-14 Executive Request:	**$4,236,885**	**0**	**$4,236,885**	**40.0**
Request Above/(Below) Recommendation	$103,967	0	$103,967	0.0

➔ Request R-2 – Minerals Field Coordinator

- The Department requests a total of $82,382 cash funds and 1.0 FTE to add a minerals field coordinator position to address an increasing workload associated with oil and gas development on State Land Board lands.

- Staff recommends a total increase of $59,419 cash funds and 1.0 FTE, including $57,815 and 1.0 FTE for the State Land Board, Program Costs line item and $1,604 for the Vehicle Lease Payments line item in the Executive Director's Office.

Request: The Department requests a total increase of $82,382 cash funds from the State Land Board Trust Administration Fund and 1.0 FTE to hire a field coordinator to improve management and oversight of oil and gas development on State Trust Lands. The request includes $69,346 and 1.0 FTE for the State Land Board, Program Costs line item; $1,604 for Vehicle Lease Payments in the Executive Director's Office; and $11,432 for other centrally-appropriated line items in the Executive Director's Office. The request responds to an ongoing increase in oil and gas development and the associated workload for the State Land Board staff. The proposed position would assist in siting, approving, and monitoring development and reclamation activities, including compliance with stipulations established by the State Land Board.

Recommendation: Staff recommends a total of $59,419 cash funds from the State Land Board Trust Administration Fund and 1.0 FTE, including $57,815 and 1.0 FTE for the State Land Board, Program Costs line item and $1,604 for the Vehicle Lease Payments line item in the Executive Director's Office. Staff's recommendation is $22,963 below the request because of two Committee common policies: (1) staff recommends funding the position at the range minimum salary for a General Professional III position (a reduction of $11,531 from the request); and (2) staff recommends denying the requested increases to centrally-appropriated line items in the Executive Director's Office other than Vehicle Lease Payments (a reduction of $11,432 from the request). The following table compares the components of the request and staff's recommendation for decision item R-2.

Decision Item R-2 - SLB Minerals Field Coordinator						
	FY 2013-14 Request		**FY 2013-14 Staff Rec.**		**FY 2014-15 Impact**	
	CF	**FTE**	**CF**	**FTE**	**CF**	**FTE**
State Land Board, Program Costs line item						
Salary/Personal Services	$57,072	1.0	$46,740	1.0	$46,740	1.0
PERA	5,793		4,744		4,744	
Medicare	828		678		678	
Subtotal, Personal Services	$63,693		$52,162		$52,162	
Operating Expenses	5,653		5,653		950	
Subtotal, SLB Program Costs Line Item	**$69,346**	**1.0**	**$57,815**	**1.0**	**$53,112**	**1.0**
Executive Director's Office Line Items						
Health, Life, and Dental	$4,421		$0		$4,421	
Short Term Disability	101		0		83	
Amortization Equalization Disbursement	2,055		0		1,870	
Supplemental Amortization Equalization Disbursement	1,855		0		1,753	
Vehicle Lease Payments	1,604		1,604		1,604	
Leased Space	3,000		0		3,000	
Subtotal, Executive Director's Office Line Items	**$13,036**		**$1,604**		**$12,731**	
Total, Decision Item R-2	**$82,382**	**1.0**	**$59,419**	**1.0**	**$65,843**	**1.0**

Staff's recommendation aligns with the Senate Agriculture, Natural Resources, and Energy Committee's recommendation to support the Department's request.

Analysis: Oil and gas development on school trust lands has driven record-high levels of revenue for the past several years. Particularly with current interest and leasing activity associated with the Niobrara formation, these revenues will almost certainly continue to dominate trust income for the foreseeable future. The increased rate of development has also increased the SLB's workload, as the agency has to plan for, auction, issue, and oversee widespread development activities.

The Department attributes the growth in SLB workload to three factors:

- **The Niobrara and Mississippian oil and gas plays** have increased the number of oil and gas leases auctioned by the SLB and the number of wells permitted and drilled on trust lands. Although the SLB does not currently have data tracking the number of active wells on trust lands, the acreage under lease indicates an increase in agency workload for leasing and monitoring activities. As shown in the following table, the acreage of state trust lands under lease for oil and gas development has more than doubled from FY 2007-08 to FY 2011-12. The pace of leasing also appears to be accelerating in FY 2011-12 and FY 2012-13, relative to the preceding years. Through two of four planned auctions in FY 2012-13, the SLB has already issued 378 leases for a total of over 190,000 acres in the current year.

State Land Board Oil and Gas Leasing Activity	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13*
Number of Leases Issued Each Year	319	342	243	263	681	378
Total (Cumulative) active leases	1,431	1,773	2,016	2,279	2,960	3,338
O& G Acreage Leased Each Year	189,172	158,930	124,334	119,111	323,724	190,432
Total (Cumulative) Acreage Leased	714,061	872,990	997,324	1,116,436	1,440,160	1,630,592

*FY 2012-13 data is as of November 20, 2012 and includes two of four planned auctions for the year.

- **Approval and monitoring of lease stipulations** designed to minimize the surface impacts of development and preserve the long term value of SLB property requires additional coordination with lessees and additional monitoring and oversight by the SLB staff. The SLB developed specific lease stipulations in partnership with Colorado Parks and Wildlife and the Colorado Natural Heritage Program. More than half of new leases issued in the past three years have included such stipulations; starting in FY 2012-13, *all* SLB oil and gas leases will include the stipulations. State Land Board staff must work with lessees regarding stipulations for a lease, and then monitor the operator's compliance with lease requirements going forward. The long-term and ongoing nature of this monitoring has been problematic for the existing SLB staff. Current field employees have taken on the work but have had to delay other tasks (such as inspections of agriculture leases that both ensure proper stewardship and allow for competitive bidding of leases rather than simple extensions of existing leases).

- **The State Land Board Commissioners have directed SLB staff to develop and enforce Best Management Practices (BMPs) regarding the reclamation of development projects on trust lands and to develop comprehensive development plans for more areas.** Similar to the lease stipulations discussed above, the SLB seeks to use BMPs to minimize the long term impact to (and protect the long term value of) trust lands, requiring additional work from the SLB staff. The development of comprehensive development plans at multiple SLB properties (including the Lowry Range) has generated record bonus revenues for the SLB, and SLB staff intends to move forward with more comprehensive plans in the future.

According to the Department, the requested position would provide a field contact for oil and gas operators, increase monitoring of compliance with BMPs and lease stipulations, and allow the existing field staff to better manage the existing workload and pursue other income opportunities for trust lands.

Based on the increasing oil and gas workload and particularly the impact on the existing field staff's other responsibilities, staff recommends approving the requested position. As discussed above, staff's recommendation is below the request because staff recommends funding the position at the range minimum and recommends denying requested increases to a variety of centrally-appropriated line items. Both changes are pursuant to Committee common policies related to new FTE.

➔ Request R-7 – Strategic Business Initiatives

- The Department requests a total increase of $399,881 cash funds and 2.0 FTE to develop new sources of revenue from state trust lands. The request includes $370,545 and 2.0 FTE for the State Land Board, Program Costs line item and $29,336 for a variety of centrally-appropriated line items in the Executive Director's Office.
- Staff recommends a total increase of $281,317 cash funds and 2.0 FTE, including $278,109 and 2.0 FTE for the State Land Board, Program Costs line item and $3,208 for the Vehicle Lease Payments line item in the Executive Director's Office.

Request: The Department requests a total increase of $399,881 cash funds and 2.0 FTE to develop new sources of revenue from state trust lands. The request includes $370,545 and 2.0 FTE for the State Land Board, Program Costs line item, including: (1) $190,545 for personal services and operating expenses associated with the new FTE and (2) $180,000 for contract services. The request also includes $3,208 for Vehicle Lease Payments in the Executive Director's Office and $26,128 for a variety of other centrally-appropriated line items in the Executive Director's Office.

The request focuses on four potential sources of revenue: 1) recreation leases (expanding the existing recreation program); 2) solid minerals; 3) renewable energy; and 4) ecosystem services payments. The request is designed to increase overall trust revenues, diversify revenue sources, and provide additional sustainable/ongoing revenues.

Recommendation: Staff recommends a total of $281,317 cash funds from the State Land Board Trust Administration Fund and 2.0 FTE, including $278,109 and 2.0 FTE for the State Land Board, Program Costs line item and $3,208 for the Vehicle Lease Payments line item in the Executive Director's Office. Within the increase for the Program Costs line item, staff's recommendation includes $158,109 for personal services and operating expenses associated with the new FTE and $120,000 for contract services.

Staff's total recommendation is $118,564 below the request because: (1) staff recommends funding the two new positions at the range minimum salary for General Professional V positions pursuant to Committee common policy (a reduction of $32,436 from the request); (2) staff recommends denying the requested increases to centrally-appropriated line items in the Executive Director's Office other than Vehicle Lease Payments pursuant to Committee common policy (a reduction of $26,128 from the request); and (3) staff recommends a total of $120,000 for contract services based on updated information from the Department (a reduction of $60,000 below the request). The following table compares the components of the request and staff's recommendation for decision item R-7.

Decision Item R-7 - SLB Strategic Business Initiatives	**FY 2013-14 Request**		**FY 2013-14 Staff Rec.**		**FY 2014-15 Impact**	
	CF	**FTE**	**CF**	**FTE**	**CF**	**FTE**
State Land Board Program Costs Line Item						
Salary/Personal Services	$160,608	2.0	$131,544	2.0	$131,544	2.0
PERA	16,302		13,352		13,352	
Medicare	2,329		1,907		1,907	
Subtotal, Personal Services	$179,239		$146,803		$146,803	
Operating Expenses	11,306		11,306		1,900	
Contract Services	180,000		120,000		120,000	
Subtotal, SLB Program Costs Line Item	**$370,545**	**2.0**	**$278,109**	**2.0**	**$268,703**	**2.0**
Executive Director's Office Line Items						
Health, Life, and Dental	$8,842		$0		$8,842	
Short Term Disability	284		0		233	
Amortization Equalization Disbursement	5,782		0		5,262	
Supplemental Amortization Equalization Disbursement	5,220		0		4,933	
Vehicle Lease Payments	3,208		3,208		3,208	
Leased Space	6,000		0		6,000	

Decision Item R-7 - SLB Strategic Business Initiatives	**FY 2013-14 Request**		**FY 2013-14 Staff Rec.**		**FY 2014-15 Impact**	
	CF	**FTE**	**CF**	**FTE**	**CF**	**FTE**
Subtotal, Executive Director's Office Line Items	**$29,336**		**$3,208**		**$28,478**	
Total, Decision Item R-7	**$399,881**	**2.0**	**$281,317**	**2.0**	**$297,181**	**2.0**

Staff notes that the recommendation does not align with the Senate Agriculture, Natural Resources, and Energy Committee's recommendation that the JBC not fund decision item R-7 and that the State Land Board "use existing personnel and resources for this purpose."

Analysis: State Land Board revenues, particularly for the school trust, have grown substantially in recent years. Total revenues increased from $69.5 million in FY 2007-08 to $144.7 million in FY 2011-12. As shown in the table on the following page, however, the increase over that period has been driven by oil and gas revenues, and especially by bonus payments (one-time revenues received as payment for mineral rights). Mineral bonuses made up only $5.9 million (8.6 percent) of total revenues in FY 2007-08 but increased to $78.4 million (54.2 percent) of the total in FY 2011-12.

Looking at a longer period, over the past ten years mineral revenues have grown from approximately 54 percent of trust revenues ($16.6 million out of $30.3 million in total revenues for all trusts) in FY 2001-02 to 89.7 percent ($131.0 million out of in $146.3 million) in FY 2011-12. Over that period, surface and commercial rentals, which are generally consistent and recurring, have decreased from nearly 40 percent of total trust revenues in FY 2001-02 to less than 10.0 percent in FY 2011-12.

Oil and gas revenues will continue to dominate State Land Board revenues for the foreseeable future, including additional bonus payments for new leases and increases in royalty payments as the leases sold in recent years go into production. However, in an effort to pursue a more diversified and proactive investment strategy, the SLB is moving forward with a plan to reorganize the agency around "lines of business" emphasizing both the growth of existing revenue streams (such as minerals, agriculture, recreation, and commercial income) and the development of new revenue streams.

In addition, the SLB hopes to shift to a more proactive model with staff actively seeking revenue opportunities (through development and marketing of resources) rather than largely reacting to leasing requests from the industry in question. The effort to reorganize SLB operations is based in part on the SLB's agency-specific strategic plan, finalized in 2011, which called for the implementation of a "diversified portfolio that produces reasonable and consistent revenues over time."

Overview of School Trust Revenues	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
MINERAL REVENUES					
Bonus Payments	$5,974,830	$3,806,001	$14,880,486	$62,649,071	$78,406,236
Oil Royalties	11,198,480	11,469,022	12,736,608	17,477,758	27,333,665
Gas Royalties	20,802,776	19,509,292	13,958,154	15,349,324	16,623,000
Oil and Gas Rentals	1,423,166	1,413,777	1,419,804	1,378,609	2,227,112
Total Oil and Gas	**$39,399,252**	**$36,198,092**	**$42,995,052**	**$96,854,762**	**$124,590,013**
Coal Royalties	14,449,406	22,967,504	6,967,519	7,787,310	3,363,070
Coal Rentals	60,753	62,673	60,753	58,833	66,832
Total Coal	**$14,510,159**	**$23,030,177**	**$7,028,272**	**$7,846,143**	**$3,429,902**
Other Mineral Revenues	1,219,639	1,118,494	1,291,147	2,526,362	2,068,444
Total Minerals	**$55,129,050**	**$60,346,763**	**$51,314,471**	**$107,227,267**	**$130,088,359**
SURFACE REVENUES					
Grazing Rental	$6,038,500	$5,923,763	$6,162,561	$5,918,593	$6,233,904
Agricultural Rental	1,862,145	1,831,096	1,872,776	1,824,406	2,164,524
Recreation	895,125	879,960	923,439	869,112	873,190
Other Surface Revenues	2,736,487	1,546,139	2,016,564	1,593,405	1,989,191
Total Surface Revenues	**$11,532,257**	**$10,180,958**	**$10,975,340**	**$10,205,516**	**$11,260,809**
COMMERCIAL REVENUES					
Commercial	**$2,411,066**	**$2,768,181**	**$3,389,085**	**$2,414,414**	**$2,565,975**
RENEWABLE ENERGY					
Renewable Energy	**$103,431**	**$342,976**	**$469,211**	**$417,506**	**$564,983**
OTHER REVENUE SOURCES					
Land Sales	$4,085	$3,250	$4,095	$53,824	$22,552
Interest Income	315,960	381,501	209,720	239,273	235,324
TOTAL SCHOOL TRUST	**$69,495,849**	**$74,023,629**	**$66,361,922**	**$120,557,800**	**$144,738,002**

Components of the reorganization completed to date include: (1) realigning SLB programs; (2) shifting staff internally to respond to changes in workload, largely associated with increased oil and gas development and resulting submissions of royalty reports and other related documentation; and (3) consolidation and simplification of reporting required of lessees.

For FY 2012-13, the General Assembly approved two relevant SLB decision items: (1) the creation of a new asset management system (funded at $750,000 cash funds per year for two years); and an additional $120,000 cash funds to allow the SLB to contract for additional water expertise to expand water-related trust revenues. Through FY 2012-13, the SLB also plans to complete: additional consolidation of administrative functions and acquisition of a new geographic information system (GIS) to inform SLB operations. Finally, the State Land Board has undertaken two "LEAN" reviews of organizational processes and is moving forward with recommendations produced by those reviews.

The Department proposes decision item R-7 as a component of the State Land Board's ongoing efforts to both diversify revenue sources and become more proactive in seeking additional revenues and revenue sources. Since submitting the proposal on November 1, the State Land Board has progressed in planning for the work proposed under R-7 and completed business plans for recreation and ecosystem services and has nearly completed a business plan for renewable energy.

Based on the business plans for each line of business, the State Land Board now intends to focus the requested FTE (permanent staff) on two lines of business: 1.0 FTE would focus largely on increasing recreation revenues and 1.0 FTE would focus largely on solid minerals. Those two lines of business appear to be the "ripest" for proactive work by dedicated permanent staff. In contrast, ecosystem services and renewable energy appear to have significant revenue potential but warrant further study and analysis which the Department is proposing to do through contract services rather than permanent staff.

- **Recreation:** The SLB currently leases approximately 650,000 acres (roughly one-fourth of SLB surface ownership) for recreation purposes. The majority of this acreage (450,000 acres) is leased to Colorado Parks and Wildlife for the Public Access Program, providing public access to hunting, fishing, and other wildlife-related activities. As shown in the overview table on page 43, <u>total recreation revenues have hovered around $900,000 per year in recent years. The SLB believes that an increased focus on recreation leases could more than double that amount (to approximately $2.2 million per year) by FY 2017-18</u>. Likely strategies include both prioritizing and marketing additional recreation leases and reworking existing leases to generate additional revenues, as the market permits. The Department intends to focus 1.0 new FTE specifically on the growth of recreation revenues through additional leases, updated leases, and the development of new recreation lease markets for trust lands. According to State Land Board staff, recreation is particularly attractive because many recreation leases are compatible with other uses and can therefore "layer" with existing recreational or other uses to generate additional revenues from the same parcels of land. **Staff recommends approving 1.0 FTE and the associated funds to focus on expansion of the State Land Board's recreation program.**

- **Solid Minerals:** The SLB leases trust lands for the production of a variety of minerals other than oil and gas, including coal, limestone, gravel, metals, and other minerals. The SLB reports that both the number of leases and the associated royalties for solid minerals other than coal and limestone have decreased by more than 40.0 percent over the past five years, largely as a result of declines in demand for construction materials. While the number of leases has declined, the SLB also reports receiving more than 45 solid mineral lease applications (including 42 uranium applications) over the past five years, with very few of those applications ever being presented to the Commissioners because of a lack of staff expertise and/or a lack of time to fully investigate the prospective leases. Assuming some of those applications would have been viable, the SLB has foregone potential revenues. The SLB has identified opportunities for gold, "frack sand", metallurgical coal, uranium/thorium, coal gasification, and rare earth leases on trust lands. <u>The SLB believes that a proactive approach to solid mineral leasing could double non-coal, non-limestone solid minerals from approximately $430,000 to approximately $860,000 by FY 2017-18</u>. Based on the number of solid mineral lease applications received without proactive outreach, the Department intends to focus 1.0 new FTE specifically on solid mineral development. **Based on the apparent unmet demand for solid mineral leasing opportunities, staff recommends approving 1.0 FTE and the associated funds to focus on the expansion of the solid minerals program.**

- **Renewable Energy:** The SLB currently leases approximately 13,700 acres for renewable energy projects, generating approximately $565,000 in FY 2011-12. The SLB's goal is to double current renewable energy revenues (to approximately $1.1 million per year) by FY 2017-18. On a per acre basis, the existing renewable energy leases perform well and should represent sustainable sources of revenue into the future. The existing leases are all utility-scale wind energy projects and all leasing has been reactive to industry proposals rather than actively sought by the SLB. The SLB intends to pursue wind, solar, and geothermal energy opportunities. According to the Department, the Colorado Energy Office estimates that approximately 500,000 acres of trust lands provide promising wind and/or solar resources. The SLB estimates that approximately 20,000 acres hold promise for geothermal energy. At current lease rates for wind energy, doubling annual revenues would require leasing approximately 14,000 additional acres (2.8 percent of the area estimated to be promising for wind/solar development). The Department proposes to use a portion of the requested contract services funds for renewable energy. The Department requested a total of $180,000 for contract services, approximately half ($90,000) of which would be for renewable energy. However, based on updated information from the State Land Board's business planning process, s**taff recommends approval of $60,000 cash funds to support contract services to explore additional renewable energy leasing opportunities on state trust lands in FY 2013-14.** Renewable energy projects appear to have significant revenue potential on state trust lands. However, staff and the Department agree that further study and analysis would be beneficial prior to adding permanent staff dedicated to this effort.

- **Ecosystem Services:** Ecosystem services markets allow landowners to be paid for the provision of ecosystem services on their land. The most established markets include: wetland mitigation programs for impacts to wetlands from other development (transportation, construction, oil and gas, etc.); and similar wildlife habitat mitigation programs focused on habitat for endangered species. Additional potential opportunities include stream mitigation, payments for watershed services (protecting healthy watersheds to provide water supplies and quality), carbon sequestration, and others. The SLB does not have a functioning "line of business" focused on ecosystem services but does have one wetland mitigation project in Park County that the agency expects to generate net income of $1.6 million after five years. The SLB commissioned a study (by the Sonoran Institute)[1] of the ecosystem service potential of state trust lands which found potential for multiple types of projects. Based on that study and the current experience with the wetland mitigation project in Park County, the SLB believes that the requested funding would enable the creation of at least three additional ecosystem services projects over the next five years, with a net gain of $4.8 million. **Staff recommends approval of $60,000 for contract services to further explore the revenue potential of ecosystem services payments for state trust lands and to move forward with additional projects as possible. Given the relatively undeveloped nature of most ecosystem services markets, staff does not recommend providing permanent FTE dedicated to ecosystem services at this time.**

[1] Report available at: http://www.sonoraninstitute.org/analysis-of-ecosystem-services-potential-on-colorado-state-trust-lands.html

Staff recommends funding the request for 2.0 additional FTE and contract services with the modifications outlined above. Staff does not believe that the State Land Board has sufficient existing staff to effectively implement the proposed program. However, in light of the Senate Agriculture, Natural Resources, and Energy Committee's recommendation not to fund this decision item and to implement the program within existing resources, the Committee may wish to consider funding all or part of the request from the State Land Board's Investment and Development Fund.

Statute (Section 36-1-116 (1) (b) (II) (D), C.R.S.) makes $5.0 million per year available to the State Land Board through the Investment and Development Fund. Section 36-1-153 (2), C.R.S., authorizes the State Land Board to use the fund to "hire staff, contract for services, make purchases, and take such other actions as the state board deems appropriate to provide for the development of additional value-added benefit for the state's trust lands, including both portfolio enhancement and additional income." Thus, statute would allow the State Land Board to use Investment and Development Fund revenues to support the proposed program.

Staff offers four options for the Committee's consideration.

1. *Staff Recommendation:* Approve the request with the modifications discussed above and appropriate the funds in the Long Bill. Staff believes that these expenses are appropriate for the Long Bill and that this option is the most transparent means of supporting the proposal.

2. *Deny the request but direct the Department to implement the program using Investment and Development Fund.* As designed, the funds are effectively off-budget and at the discretion of the State Board of Land Commissioners to implement projects to generate additional revenue. While the agency generally focuses these funds on specific projects rather than ongoing expenses, the Department *could* implement the request from those funds. Because Investment and Development Fund expenditures are outside of the Long Bill, this option would sacrifice some transparency in the State Land Board budget.

3. *Approve 2.0 FTE and associated funds for appropriation in the Long Bill but direct the Department to support any contract services from the Investment and Development Fund.* Staff would argue that the research and other work anticipated for contract services under this proposal would be a more appropriate use of the Investment and Development Fund than the ongoing support of permanent staff associated with recreation programs and solid minerals. If the Committee wishes to reduce the increase in appropriations under decision item R-7, supporting the contract services from the Investment and Development Fund may be a promising strategy.

4. *Deny the request entirely and clarify an intent that the Department not proceed with the project.* Doing so would eliminate the increase to the State Land Board's budget but would not advance the State Land Board's goal of increased revenue diversification and sustainability.

Staff strongly concurs with the State Land Board's goal of diversifying revenues, particularly given the long term commitment of the agency's revenues through certificates of participation in the Building Excellent Schools Today (BEST) program. Thus, staff is recommending the proposal with the modifications discussed above. Please note, however, that significant diversification will remain difficult. Based on the SLB's assumptions in the decision item write-up, the agency anticipates a cumulative net gain of $7.4 million through FY 2017-18 and $9.0 million through FY 2018-19 as a result of decision item R-7. If accurate, those revenues would help diversify the existing revenue stream but would still represent only a fraction of current income from oil and gas development.

Public Access Program Damage and Enhancement Costs

The General Assembly created this line item in the FY 2010-11 Long Bill to reflect expenditures associated with the Public Access Program, a collaborative effort with the Division of Wildlife. Under the Public Access Program, the Division of Wildlife leases approximately 550,000 acres from the State Land Board for public access hunting and fishing. The program generates $900,000 per year for the Land Board, and the Land Board spends approximately 25 percent of that funding on access improvements, damage repairs, and property enhancement for public access properties. The funds are classified as reappropriated funds in the State Land Board's budget.

Request: The Department requests continuation level funding of $225,000, equal to the FY 2012-13 appropriation.

Recommendation: Staff recommends the request.

Asset Management System Upgrade

The General Assembly created this line item in FY 2012-13 to support the development of a new asset management system for the State Land Board. The Department's proposal in FY 2012-13 included $750,000 per year for two years (FY 2012-13 and FY 2013-14) to support system development.

Request: The Department requests continuation level funding of $750,000 per year in FY 2013-14, as anticipated in the FY 2012-13 request and appropriation. The request represents the second and final year of funding for system development.

Recommendation: Staff recommends the request to continue funding for the project as anticipated in the FY 2012-13 budget.

Indirect Cost Assessment

This line item reflects the amount of indirect cost assessments made against cash funding sources within the State Land Board. The Department uses the funds collected here to offset General Fund that would otherwise be required in the Executive Director's Office.

Request: The Department's request reflects the statewide and departmental indirect cost plan.

Recommendation: Staff recommends the request but also recommends that the Committee allow staff to adjust the appropriation as necessary based on the Committee's decisions regarding the use of indirect costs in the Executive Director's Office.

Long Bill Footnotes and Requests for Information

LONG BILL FOOTNOTES

As discussed above, staff recommends the creation of the following new footnote:

XX Department of Natural Resources, Division of Reclamation, Mining, and Safety, Minerals, Program Costs -- It is the intent of the General Assembly that $99,850 of the cash funds appropriation to this line item from the Operational Account of the Severance Tax Trust Fund remain available until the completion of the electronic permitting system for the Division of Reclamation, Mining, and Safety or the close of FY 2014-15, whichever comes first. At project completion or the end of the two-year period, any unexpended amount shall revert to the Operational Account of the Severance Tax Trust Fund, from which this appropriation was made.

Comment: As discussed above, the proposed footnote clarifies the General Assembly's intent that the funds appropriated for the development of an electronic permitting system be available for two fiscal years (FY 2013-14 and FY 2014-15).

Staff recommends that the following footnotes be **continued** with modifications shown in struck type and small caps:

41 Department of Natural Resources, Division of Reclamation, Mining, and Safety, Inactive Mines, Mine Site Reclamation -- It is the intent of the General Assembly that these funds shall remain available until completion of the project or the close of ~~FY 2014-15~~ FY 2015-16, whichever comes first. At project completion or the end of the three-year period, any unexpended balances shall revert to the Operation Account of the Severance Tax Trust Fund from which they were appropriated.

Comment: This footnote provides roll-forward authority at the end of the fiscal year.

42 Department of Natural Resources, Division of Reclamation, Mining, and Safety, Inactive Mines, Reclamation of Forfeited Mine Sites -- It is the intent of the General Assembly that the appropriation to this line item remain available until the completion of the project or the close of ~~FY 2014-15~~ FY 2015-16, whichever comes first. At project completion or the end of the three-year period, any unexpended amount shall revert to the Operational Account of the Severance Tax Trust Fund, from which this appropriation was made.

Comment: This footnote provides roll-forward authority at the end of the fiscal year.

43 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.

Comment: This footnote sets forth the purpose, conditions, and limitations of the line item. The JBC created the Emergency Response line item in FY 2006-07, with an appropriation of $1.5 million from the Oil and Gas Conservation and Environmental Response Fund. The appropriation is to be used -- if and when necessary -- for emergency responses. 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 an interim supplemental, delaying the Department's ability to respond adequately).

44 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.

Comment: This footnote sets forth the purpose, conditions, and limitations of the line item.

REQUESTS FOR INFORMATION

Staff recommends **continuation** of the following requests for information:

2 Department of Natural Resources, Oil and Gas Conservation Commission, Emergency Response -- 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.

3 Department of Natural Resources, Oil and Gas Conservation Commission, Special Environmental Protection and Mitigation 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.

Appendix A: Number Pages

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation
DEPARTMENT OF NATURAL RESOURCES					
Mike King, Executive Director					
(2) DIVISION OF RECLAMATION, MINING, AND SAFETY					
Primary Functions: Provides regulation and enforcement related to the development and reclamation of mining sites. Primary sources of cash funds are fees on metal and aggregate mining operations and the severance tax.					
(A) Coal Land Reclamation					
Program Costs	2,134,008	2,395,648	2,126,557	2,126,557	2,126,557
FTE	20.0	18.7	22.0	22.0	22.0
Cash Funds	447,548	555,666	449,087	449,087	449,087
Federal Funds	1,686,460	1,839,982	1,677,470	1,677,470	1,677,470
Indirect Cost Assessment	158,332	217,185	134,192	145,144	145,144
Cash Funds	25,999	28,575	28,181	30,480	30,480
Federal Funds	132,333	188,610	106,011	114,664	114,664
SUBTOTAL - (A) Coal Land Reclamation	2,292,340	2,612,833	2,260,749	2,271,701	2,271,701
FTE	20.0	18.7	22.0	22.0	22.0
Cash Funds	473,547	584,241	477,268	479,567	479,567
Federal Funds	1,818,793	2,028,592	1,783,481	1,792,134	1,792,134
(B) Inactive Mines					
Program Costs	1,639,179	1,540,929	1,636,925	1,636,925	1,636,925 *
FTE	7.2	7.8	16.4	16.6	16.6
Cash Funds	670,502	501,276	519,247	519,247	519,247
Federal Funds	968,677	1,039,653	1,117,678	1,117,678	1,117,678

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation	
Mine Site Reclamation	399,121	496,450	409,993	409,993	409,993	
FTE	0.5	0.3	1.2	1.2	1.2	
Cash Funds	399,121	496,450	379,993	379,993	379,993	
Reappropriated Funds	0	0	30,000	30,000	30,000	
Reclamation of Forfeited Mine Sites	236,571	78,657	171,000	171,000	171,000	
Cash Funds	236,571	78,657	171,000	171,000	171,000	
Abandoned Mine Safety	98,463	99,596	99,850	0	0	*
FTE	0.1	0.1	0.2	0.0	0.0	
Cash Funds	98,463	99,596	99,850	0	0	
Indirect Cost Assessment	127,268	214,354	133,696	185,626	185,626	
Cash Funds	12,995	12,026	14,633	59,504	59,504	
Federal Funds	114,273	202,328	119,063	126,122	126,122	
SUBTOTAL - (B) Inactive Mines	2,500,602	2,429,986	2,451,464	2,403,544	2,403,544	
FTE	7.8	8.2	17.8	17.8	17.8	
Cash Funds	1,417,652	1,188,005	1,184,723	1,129,744	1,129,744	
Reappropriated Funds	0	0	30,000	30,000	30,000	
Federal Funds	1,082,950	1,241,981	1,236,741	1,243,800	1,243,800	
(C) Minerals						
Program Costs	2,170,170	2,135,806	2,157,524	2,257,374	2,257,374	*
FTE	20.8	20.4	24.1	24.1	24.1	
Cash Funds	2,170,170	2,135,806	2,157,524	2,257,374	2,257,374	

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation
Indirect Cost Assessment	112,421	121,219	127,188	144,147	144,147
Cash Funds	112,421	121,219	127,188	144,147	144,147
SUBTOTAL - (C) Minerals	2,282,591	2,257,025	2,284,712	2,401,521	2,401,521
FTE	20.8	20.4	24.1	24.1	24.1
Cash Funds	2,282,591	2,257,025	2,284,712	2,401,521	2,401,521
(D) Mines Program					
Colorado and Federal Mine Safety Program	441,380	477,004	513,045	513,045	513,045
FTE	4.0	3.4	4.0	4.0	4.0
Cash Funds	318,632	314,785	324,324	324,324	324,324
Federal Funds	122,748	162,219	188,721	188,721	188,721
Blaster Certification Program	107,916	118,435	108,353	108,353	108,353
FTE	1.0	0.9	1.0	1.0	1.0
Cash Funds	22,512	24,723	22,606	22,606	22,606
Federal Funds	85,404	93,712	85,747	85,747	85,747
Indirect Cost Assessment	24,808	35,146	24,419	23,835	23,835
Cash Funds	15,802	17,668	16,682	16,180	16,180
Federal Funds	9,006	17,478	7,737	7,655	7,655
SUBTOTAL - (D) Mines Program	574,104	630,585	645,817	645,233	645,233
FTE	5.0	4.3	5.0	5.0	5.0
Cash Funds	356,946	357,176	363,612	363,110	363,110
Federal Funds	217,158	273,409	282,205	282,123	282,123

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation
(E) Emergency Response Costs					
Emergency Response Costs	25,000	25,000	25,000	25,000	25,000
Cash Funds	25,000	25,000	25,000	25,000	25,000
SUBTOTAL - (E) Emergency Response Costs	25,000	25,000	25,000	25,000	25,000
FTE	0.0	0.0	0.0	0.0	0.0
Cash Funds	25,000	25,000	25,000	25,000	25,000
TOTAL - (2) Division of Reclamation, Mining, and Safety	7,674,637	7,955,429	7,667,742	7,746,999	7,746,999
FTE	53.6	51.6	68.9	68.9	68.9
Cash Funds	4,555,736	4,411,447	4,335,315	4,398,942	4,398,942
Reappropriated Funds	0	0	30,000	30,000	30,000
Federal Funds	3,118,901	3,543,982	3,302,427	3,318,057	3,318,057

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation

(3) GEOLOGICAL SURVEY

Primary functions: Provides geologic information to the public and government agencies. Cash funds are from severance tax revenues, fees for geological services provided, and grants. Reappropriated funds are from transfers from other state agencies for geological services. The enactment of H.B. 12-1355 transferred most functions of the Geological Survey to the Colorado School of Mines, effective January 31, 2013. The enactment of H.B. 13-1057 retained the Colorado Avalanche Information Center (formerly part of the Geological Survey) within the Department of Natural Resources but moved that function to the Executive Director's Office. As a result of those two bills, the Geological Survey is no longer a division of the Department of Natural Resources, and there is no request or recommendation for FY 2013-14.

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation	
Environmental Geology and Geological Hazards Program	1,523,479	1,379,957	2,511,978	0	0	*
FTE	9.0	7.9	16.2	0.0	0.0	
Cash Funds	1,199,136	895,850	1,464,341	0	0	
Reappropriated Funds	324,343	199,296	448,881	0	0	
Federal Funds	0	284,811	598,756	0	0	
Colorado Avalanche Information Center	671,333	687,480	708,770	0	0	*
FTE	7.7	8.4	8.4	0.0	0.0	
Cash Funds	276,796	275,825	280,750	0	0	
Reappropriated Funds	377,504	398,518	409,833	0	0	
Federal Funds	17,033	13,137	18,187	0	0	
Mineral Resources and Mapping	1,173,755	1,082,194	1,440,260	0	0	*
FTE	9.3	10.5	9.5	0.0	0.0	
Cash Funds	997,866	977,659	1,117,949	0	0	
Federal Funds	175,889	104,535	322,311	0	0	
Indirect Cost Assessment	180,208	158,082	144,421	0	0	*
Cash Funds	115,940	110,548	127,706	0	0	
Federal Funds	64,268	47,534	16,715	0	0	

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation
TOTAL - (3) Geological Survey	3,548,775	3,307,713	4,805,429	0	0
FTE	26.0	26.8	34.1	0.0	0.0
Cash Funds	2,589,738	2,259,882	2,990,746	0	0
Reappropriated Funds	701,847	597,814	858,714	0	0
Federal Funds	257,190	450,017	955,969	0	0

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation	

(4) OIL AND GAS CONSERVATION COMMISSION

Primary functions: Promoting and regulating responsible development of oil and gas natural resources. Cash funds are from the Oil and Gas Conservation and Environmental Response Fund and the severance tax.

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation	
Program Costs	5,868,020	5,866,959	6,468,382	6,976,436	6,976,436	*
FTE	63.2	63.4	74.0	79.0	79.0	
Cash Funds	5,868,020	5,866,959	6,468,382	6,976,436	6,976,436	
Underground Injection Program	92,111	96,559	96,559	96,559	96,559	
FTE	2.0	2.0	2.0	2.0	2.0	
Federal Funds	92,111	96,559	96,559	96,559	96,559	
Plugging and Reclaiming Abandoned Wells	216,768	286,235	445,000	445,000	445,000	
Cash Funds	216,768	286,235	445,000	445,000	445,000	
Environmental Assistance and Complaint Resolution	312,033	311,312	312,033	312,033	312,033	
Cash Funds	312,033	311,312	312,033	312,033	312,033	
Emergency Response	17,236	264,817	1,000,000	1,000,000	1,000,000	
Cash Funds	17,236	264,817	1,000,000	1,000,000	1,000,000	
Special Environmental Protection and Mitigation Studies	173,184	119,756	325,000	325,000	325,000	
Cash Funds	173,184	119,756	325,000	325,000	325,000	
Indirect Cost Assessment	413,153	456,220	398,528	436,030	436,030	
Cash Funds	405,977	456,220	393,108	429,764	429,764	
Federal Funds	7,176	0	5,420	6,266	6,266	

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation
TOTAL - (4) Oil and Gas Conservation Commission	7,092,505	7,401,858	9,045,502	9,591,058	9,591,058
FTE	65.2	65.4	76.0	81.0	81.0
Cash Funds	6,993,218	7,305,299	8,943,523	9,488,233	9,488,233
Federal Funds	99,287	96,559	101,979	102,825	102,825

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation	

(5) STATE BOARD OF LAND COMMISSIONERS

Primary Functions: Manages around 2.8 million surface acres and 4.0 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). Cash funds are from the Trust Administration Fund. Reappropriated funds are from the Division of Parks and Wildlife.

	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Appropriation	FY 2013-14 Request	FY 2013-14 Recomendation	
Program Costs	3,736,332	3,624,726	3,796,994	4,236,885	4,132,918	*
FTE	36.4	36.8	37.0	40.0	40.0	
Cash Funds	3,736,332	3,624,726	3,796,994	4,236,885	4,132,918	
Public Access Program Damage and Enhancement Costs	224,599	209,145	225,000	225,000	225,000	
Reappropriated Funds	224,599	209,145	225,000	225,000	225,000	
Asset Management System Upgrade	0	0	750,000	750,000	750,000	
Cash Funds	0	0	750,000	750,000	750,000	
Indirect Cost Assessment	177,993	189,581	202,527	224,959	224,959	
Cash Funds	177,993	189,581	202,527	224,959	224,959	
TOTAL - (5) State Board of Land Commissioners	4,138,924	4,023,452	4,974,521	5,436,844	5,332,877	
FTE	36.4	36.8	37.0	40.0	40.0	
Cash Funds	3,914,325	3,814,307	4,749,521	5,211,844	5,107,877	
Reappropriated Funds	224,599	209,145	225,000	225,000	225,000	
TOTAL - Department of Natural Resources	22,454,841	22,688,452	26,493,194	22,774,901	22,670,934	
FTE	181.2	180.6	216.0	189.9	189.9	
Cash Funds	18,053,017	17,790,935	21,019,105	19,099,019	18,995,052	
Reappropriated Funds	926,446	806,959	1,113,714	255,000	255,000	
Federal Funds	3,475,378	4,090,558	4,360,375	3,420,882	3,420,882	