

AGENDA

FY 2007-08 Joint Budget Committee Hearing

Department of Natural Resources

(Only covers Oil and Gas Conservation Commission, Colorado Geological Survey,
Colorado Water Conservation Board, Division of Water Resources, and the
State Board of Land Commissioners)

Wednesday, November 29, 2006

9:00 a.m. - 12:00 noon

9:00 **General Introductions and Overviews**

9:00 - 9:15 **Common Hearing Questions for all Departments**

Performance Measures

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

Implementing Legislation Concerning Illegal Immigration: H.B. 06S-1023 and H.B. 06S-1009

5. Provide a list of programs in your department that are subject to the provisions of the two bills.
6. How has your department implemented the provisions of the two bills? What problems have been encountered in implementing them?
7. Provide an estimate of the costs your department will incur in FY 2006-07 to implement the bills. Are any additional costs anticipated in FY 2007-08? If so, please elaborate.
8. Provide a summary of anticipated savings in FY 2006-07 in your department as a result of not providing services to individuals who are in the country illegally. Are any additional savings anticipated in FY 2007-08? If so, please elaborate.

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Proposal to Eliminate "Cash Funds Exempt" in the Long Bill

Background. Joint Budget Committee staff has proposed eliminating the current "Cash Funds Exempt" column in the Long Bill and replacing it with a new column entitled "Transfers" effective with the FY 2008-09 Long Bill. The Joint Budget Committee has not formally voted on this issue. For details of the proposed change, please read the Joint Budget Committee staff memo from November 15, 2006, entitled "Proposed Long Bill Format Change." To help departments understand the new format, our staff has prepared an example of the Department of Revenue FY 2006-07 Long Bill in the proposed new format. This memo, and the example from the Department of Revenue, can be downloaded from the JBC web page at the following Internet address: http://www.state.co.us/gov_dir/leg_dir/jbc/PLBFC11-15-06.pdf

9. Please provide the Joint Budget Committee with a summary of any potential concerns that your department may have regarding the proposed change to the Long Bill format. Please highlight potential issues such as: implementation challenges, workload issues, and other related concerns.

9:15 - 9:30 Oil Shale (Multiple Agencies, including the Oil and Gas Conservation Commission and the Colorado Geological Survey)

A few department decision items project potential future workload associated with oil shale activity in the state. Some of these decision items are part of this hearing agenda's area (OGCC, Colorado Geological Survey), including Decision Item #3 and #7. Please note: other oil shale related decision items (#1 in the Division of Reclamation, Mining, and Safety, #5 in the EDO) will be discussed at the Department's other briefing and hearing on December 6th (briefing) and 14th (hearing).

10. Regarding Decision Item #7, does the Department believe the statutes clearly lay out which division in the Department of Natural Resources will be responsible for the regulation of oil share? Does the Department believe clarification would be beneficial? If so, in what way? If not, why not?

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11. Please provide an analysis of where state revenues associated with oil shale funds will flow. Would these moneys all be federal mineral lease revenues to the state?
12. What revenues are estimated to be generated to the State through oil shale operations and through what specific fund?
13. Regarding Decision Item #2 (Oil shale permit technical assistance by OGCC), please discuss why the Department is requesting funding from the Oil and Gas Conservation and Environmental Response Fund, which is funded from current operators, to pay for oil shale permit workload that is associated with a new venture? Should a special permit fee be charged for this area instead?

9:30 - 9:45 Colorado Geological Survey

Decision Item #7 (Emerging issues)

The Colorado Geological Survey is requesting \$390,229 cash funds and 2.0 FTE to address "current and emerging" geological issues. However, embodied within this request is an acknowledgment that staff salaries may have increased more than the annual salary increases provided by the General Assembly through the state's salary survey process. This process is a statewide system which is funded using a uniform methodology.

The staff salary increases, along with other items such as software licenses which have increased, have resulted in a reported \$610,898 shortfall, part of which has been managed by not filling vacant positions. Funding for these vacant positions is now requested as part of Decision Item #7.

14. Please quantify and explain each of the individual components which led to the historical shortfall portion of the request.
15. How many positions have been held vacant? How long have these positions been vacant?

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9:45 - 10:30 Oil and Gas Conservation Commission

Last year, the Joint Budget Committee recommended and the General Assembly funded, significant increases for the OGCC. However, given recent drilling activity, the demands have increased even further than were anticipated last year. As such, additional funding is requested for FY 2007-08 to address permitting and other areas which have experienced particular workload increases.

Funding needs for the Oil and Gas Conservation Commission.

16. Does the OGCC have the necessary resources to balance its focus on environmental and regulatory protection during this significant increase in workload?

Well inspections.

17. Please discuss the Commission's process for inspecting wells. Does Colorado have enough inspectors? Please discuss the wells per inspector ratio in Colorado versus other (western) states. How do we compare to Utah or New Mexico? Does Wyoming have standards or expectations with regard to number of inspectors per well?
18. What is the age of the wells that are being inspected this year? What was the age of the wells? Does it have an impact on the inspection process?
19. Is there a difference between oil well inspection and gas well inspections? What does the footprint look like? Are the wells close together?

Mill Levy for Oil and Gas Conservation and Environmental Response Fund.

20. What source of funding does the Commission anticipate using for its future substantial workload and project needs?
21. Please discuss the potential \$1.0 million or more mill levy increase necessary because of the lack of severance tax dollars available for the regulation of oil and gas activities.

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22. Please discuss the mill levies imposed by the Oil and Gas Conservation Commission. How much is this mill levy? Who pays it? What is the impact upon operators of a mill levy increase?
23. Please discuss the unofficial Attorney General's Office advisory to the OGCC on raising the mill levy.

**** 10:30 - 10:45 Break ****

10:45 - 11:30 State Board of Land Commissioners

State Land Board Operations and Budget Requests

24. The actions of the State Land Board may be perceived to be overly structured and therefore less conducive to moving rapidly like a commercial enterprise may be poised to do. Please describe the State Land Board's protocols for its decision making process and public input. How do these requirements affect the State Land Board's ability to maximize its opportunities?
25. Does the State Land Board possess a comprehensive inventory of its lands? What is the best way to access this information?
26. What is the State Land Board's latitude in developing the properties that the State Land Board is responsible for? Can they own, develop, and manage the properties?
27. What is total value of State Land Board holdings? What is the water component of the State Land Board holdings?
28. What is the total land and mineral holdings held by the State Land Board? Why does New Mexico have so much more land?
29. Regarding Decision Item #17 (funding for a new district office), where does the State

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Land Board want to put the new district office?

30. What is the basic strategy for the state in its investments? To build a balance to provide long term money?
31. Does the State Board of Land Commissioners have an opinion on how much of the proceeds should be spent on K-12 versus invested in the Public School "Permanent" Fund?

S.B. 05-196 Investment and Development Fund

The JBC sponsored and the General Assembly passed S.B. 05-196 which created the Investment and Development Fund. This bill created management flexibility and continuously appropriated \$1.0 million a year for the State Land Board, with a cumulative impact of \$5.0 million from FY 2005-06 to FY 2009-10. The Investment and Development Fund investments thus far are currently projected to generate years from now \$21.2 million in net value increases and annual revenue increases which range from \$122,873 in FY 2006-07 to \$685,598 in FY 2009-10 (for a total of \$1,778,031 in revenues over the five-year Investment and Development Fund authorization period).

32. Please provide a report on the earnings estimated as a result of the Investment and Development Fund. Has the \$1.0 million investment annual appropriation provided a good return?
33. What is the State Board of Land Commissioner's goals for the Investment and Development Fund -- annual revenues or net increases in property values? How will the investment decisions translate into "reasonable and consistent" income (for the Public School "Permanent" Fund)?
34. What other areas of flexibility would aid the State Land Board in accomplishing its constitutional and statutory goals for optimizing revenues for K-12? Are there further changes that would be useful now that S.B. 05-196's Investment and Development Fund is being implemented?
35. What has the State Land Board done to go after the "low hanging fruit"?

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Lowry Range Property

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

36. The State Land Board has received responses to its Request for Proposal (RFP) for development of the Lowry Range from four respondents (the fourth is the conservation plan only).
37. Please provide the JBC with information on the Lowry Range RFPs. Please discuss the potential benefit to the State Land Board that have been estimated through the State Land Board's analysis of the Lowry Range RFPs.

11:30 - 11:45 Division of Water Resources "State Engineer"

Decision Item #3

38. Please discuss Decision Item #3 (ground water personnel in Water Divisions 1, 5, 6).
39. For Water Division 5 (Colorado River), why are there increased costs in moving from agricultural to urban? Should such a workload impact be funded with General Fund or should there be a fee associated with this growth?

11:45 - 12:00 Severance Tax Trust Fund (Operational Account)

The Severance Tax Trust Fund was created to hold severance moneys in a perpetual trust. In the 2006 Session, the General Assembly authorized around \$148 million in obligations from the Operational Account for FY 2005-06 through FY 2010-11. Despite substantial revenue

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increases in recent years, the severance tax base remains a volatile revenue base and is currently not sufficient to support workload-related increases for the Oil and Gas Conservation Commission, causing a need for a potential mill levy increase for oil and gas funds.

40. Please respond to the staff analysis on the Severance Tax Trust Fund and the Operational Account (pages 60 -73).
41. Given recent legislative activity spending from this fund in the 2006 session, should this fund still be considered a "perpetual trust" or should the statutory definition be changed?
42. Should the Severance Tax Trust Fund (of which there is the Operational Account and the Perpetual Base Account) be used as part of the State's TABOR reserve to increase its liquidity? If so, how much would be appropriate?