Attached for your consideration is a draft of the Water Plan Implementation Funding bill (LLS NO. 19-0918), which was requested by Governor Hickenlooper in his November 1 budget submittal and approved for drafting by the Joint Budget Committee on January 31, 2019. The Governor requested that this bill be categorized as a Long Bill Package bill.

**BILL SUMMARY:** The bill creates the Water Plan Implementation Cash Fund (Fund) and transfers $30.0 million General Fund into the Fund. The transfer is split between two accounts within the Fund, the Water Plan Grant Program account and the Compact Compliance account, with the accounts receiving $10.0 million and $20.0 million General Fund respectively.

Page 6, lines 11 through 27, and page 7 of the bill draft detail the Water Plan Grant (WPG) Program’s requirements, specifying eligibility, project types, and factors that the Colorado Water Conservation Board (CWCB) must consider when awarding grants. The language in this subsection was taken from the Program’s existing guidelines and is intended to create in statute a formal grant program. The Program has been annually authorized through appropriations in the CWCB Water Projects bills the last two fiscal years. The five project categories established are: water storage and supply; conservation and land use; engagement and innovation activities; agricultural; and environmental and recreation. The bill directs the CWCB to evaluate each eligible project on four primary criteria, including conformity with Section 9.4 of the State Water Plan.

Page 8 and page 9, lines 1 through 13 of the bill draft detail the constraints on expenditures from the Compact Compliance account. Money in this account can only be used to ensure compliance with the Colorado River Compact through the management of “demand on the use of water.” These expenditures fall into two categories: stakeholder outreach and technical analysis and demand management program implementation. The bill sets an upper limit on the amount of money that can be spent on stakeholder outreach and technical analysis. The bill also establishes specific criteria that must be met before any additional money in the account can be expended. These criteria include the formal adoption of the Colorado River Basin Drought Contingency Plans1 (DCPs) and the Upper Colorado River Commissions’ approval of a demand management program.

Section 5 (starting on page 11, line 21) of the bill appropriates the $10.0 million transferred into the Water Plan Grant Program account evenly between the following four project categories: water storage and supply; conservation and land use; agricultural; and environmental and recreation. This appropriation comes with a three-year roll-forward spending authority provision to accommodate the Program’s reimbursement schedules and project timelines. Section 5 also appropriates $1.7 million from the Compact Compliance account for stakeholder outreach and technical analysis.

---

**Staff Recommendation:** Staff recommends that this bill not be a Long Bill Package bill because of its significant policy implications and impacts. Given these policy considerations, if the Committee decides to approve this bill, staff recommends that the Committee set aside the $30 million General Fund for this bill for balancing purpose and introduce it as a non-Package bill. Staff also recommends the inclusion of language requiring the demand management program be codified prior to any expenditures from the Compact Compliance account, other than expenditures for stakeholder outreach and technical analysis.

**Staff Analysis:** This bill codifies the Water Plan Grant Program and establishes the financing framework necessary to implement that program. It also creates the financing framework for addressing Colorado River Compact compliance through a demand management program.

**Water Plan Grant Program**
The appropriation of $10.0 million for the Water Plan Grant Program is justified. In FY 2017-18 and FY 2018-19, the WPG Program was appropriated $9.0 million and $7.0 million, respectively. In FY 2017-18, $8.8 million was awarded across all categories after receiving application for a total of $13.3 million in funding. The CWCB anticipates awarding most of its FY 2018-19 appropriation and anticipates growing demand for water project funding. Given the Water Plan Grant Program’s popularity and the demand from applicants, it is likely that the full $10.0 million appropriated could be awarded in FY 2019-20.

WPG Program grants require the applicant to provide at least 50.0 percent matching funds, with in-kind matches not to exceed half of that match. Funding provided by the CWCB cannot exceed 75.0 percent of total project funding. The Department reports that during FY 2017-18 this matching requirement leveraged over $40 million in total project funds. The WPG Program currently operates two grant cycles per year.

**Upper Basin Demand Management Program**
The appropriation of $1.7 million for stakeholder outreach and technical analysis is justified. The CWCB has provided staff with a spending plan for this appropriation that identifies categories of expenditures: initial issue identification, establishing workgroups, conducting public workshops, and feasibility studies. This work is essential for establishing the demand management program.

<table>
<thead>
<tr>
<th>Estimated Expenditures by Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial issue identification</td>
<td>$98,250</td>
</tr>
<tr>
<td>Technical workgroups</td>
<td>1,048,950</td>
</tr>
<tr>
<td>Public Workshops</td>
<td>50,000</td>
</tr>
<tr>
<td>Feasibility Studies</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,697,200</strong></td>
</tr>
</tbody>
</table>

The CWCB anticipates holding 20 statewide meetings and three (3) out of state meetings to engage stakeholders in identifying and prioritizing the primary legal, technical, and policy issues related to a Colorado River demand management program. Stakeholders include tribes, basin roundtables, the Interbasin Compact Committee, water providers, water conservation and conservancy districts, and the General Assembly. The total cost associated with the initial identification of issues is estimated at $98,250.
The CWCB will convene seven workgroups further identify specific issues, prioritize concepts for investigation, propose scopes of work for analysis, and establish timelines for deliverables. Workgroups will be established for the following categories: law and policy; monitoring, verification, and accounting; water rights administration; environmental considerations; economic considerations; funding; and education and outreach. It is anticipated that each workgroup will meet a total of six times. The total cost associated with convening these workgroups is estimated at $1,048,950.

In addition to the aforementioned issue identification and workgroups, the CWCB will conduct public workshops as part of its public outreach efforts. These workshops are intended to provide an avenue of communication between state staff, members of the public, stakeholders, and water users as the program development phase progresses. The CWCB anticipates holding quarterly workshops in different locations around the state to ensure participation from those impacted by a possible demand management program. Workshop attendance is estimated to range from 40-60 individuals. It is anticipated that CWCB will hold four workshop at an estimated $12,500 per event, which includes staffing, facilitation, meeting space, and refreshments. The total cost for these public workshops is $50,000.

The CWCB will conduct and publish feasibility studies, which will serve as the technical platform and scientific basis for implementation of potential pilot programming. These studies will also provide a comprehensive legal and policy framework for the anticipated demand management program. Modeling, engineering, and legal consultants will provide the bulk for the work product associated with these studies. The total cost associated with conducting and publishing these feasibility studies is $500,000.
JBC STAFF CONCERNS

The transfer of $20.0 million into Compact Compliance account has merit but gives staff pause. This is a chicken-or-the-egg scenario. Staff has concerns about setting aside money for a program that has not yet been fully approved on the Compact level or the federal level. Staff is also concerned that a demand management program does not exist in statute. A demand management program is a long-term water resources conservation solution, but without codification the program would have to be approved on an annual basis, likely through appropriations in the CWCB Water Projects bill.

In working with the Department on the language for this draft bill, the codification of a demand management program became a sticking point. Staff believes that before any expenditures are made for the implementation of a demand management program, that program should be approved and codified by the General Assembly. The Department worries that this would set up an “Arizona scenario,” one in which the rest of the Upper Basin states approve a demand management program but the regional program is stalled because the Colorado General Assembly has not approved a program in time. While this concern is understandable, it should be noted that the Arizona legislature approved the state’s Drought Contingency Plan by the deadline established by the Bureau of Reclamation.

The current delays in the approval of the full suite of Colorado River Basin DCPs is at the water district and local level, not at the state level. Arizona has a patchwork of agreements and contracts to be approved beyond the legislative approval they have already gained. These agreements and contracts are between the state and tribes, water districts, and individual municipalities. To the best of staff’s knowledge, this type of approval system does not exist in Colorado, nor is staff recommending the creation of such a system. Additionally, the Imperial Irrigation District in Southern California, which holds some of the highest-priority water rights to the Colorado River, is reported to be holding out on approving California’s DCP. The Imperial Irrigation District is demanding funding guarantees from the federal government for the Salton Sea, which has been in a crisis state for decades.

Staff believes that the Department’s concern is understandable, but ultimately does not apply to Colorado. The creation and implementation of a demand management program to address compact compliance concerns in Colorado’s portion of the Colorado River Basin is a significant policy change, one that should be discussed and approved by the General Assembly explicitly. This legislative approval should be viewed as necessary because this policy would affect innumerable Coloradans. While this funding bill may provide conceptual approval, it does not and should not be considered to provide tacit approval to the CWCB for a demand management program. Explicit approval of such a program and its attendant expenditures would also avoid the current situation of the Water Plan Grant Program, which this bill seeks to rectify: a program currently approved through annual appropriations but which lacks clear statutory authority to exist.
BILL TOPIC: "Approp General Fund Implement State Water Plan"

A BILL FOR AN ACT

CONCERNING THE TRANSFER OF GENERAL FUND MONEY TO IMPLEMENT THE STATE WATER PLAN, AND, IN CONNECTION THEREWITH, MAKING AN APPROPRIATION.

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at http://leg.colorado.gov/.)

Joint Budget Committee. Section 1 of the bill:

- Creates the water plan implementation cash fund and 2 accounts within the fund: The water plan grant program account and the compact compliance account;
- Specifies criteria for expenditures by the Colorado water
conservation board (board) out of the accounts; and

- Transfers $30 million from the general fund to the fund, credited as follows:
  - $10 million to the grant account; and
  - $20 million to the compact compliance account.

Section 5:

- Appropriates $1.7 million from the compact compliance account to the department for use by the board for stakeholder outreach and technical analysis to develop the compact compliance program's framework; and

- Appropriates $10 million from the grant account to the department of natural resources for use by the board as follows:
  - $2,500,000 for water storage and supply projects;
  - $2,500,000 for conservation and land use projects;
  - $2,500,000 for agricultural projects; and
  - $2,500,000 for environmental and recreation projects.

Section 3 directs the water resources review committee to hold a public hearing and accept public comments regarding Colorado River demand management. The committee shall provide a summary of public comments, as well as the committee's own recommendations, to the board by November 1, 2019. Section 1 directs the board to consider any recommendations from the water resources review committee or committees of reference.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. In Colorado Revised Statutes, add with amended and relocated provisions 37-60-106.3 as follows:

37-60-106.3. [Formerly 37-60-106 (1)(u)] State water plan - legislative declaration - cash fund - repeal. (u) (1) State water plan. To THE BOARD SHALL adopt and update, as warranted, a state water plan. In exercising its authority pursuant to this paragraph (u) SECTION, executive order D2013-005, or any analogous successor order directing the board to adopt or amend a state or Colorado water plan, the board shall comply with all requirements of this paragraph (u) SECTION.
(H) (2) **Legislative declaration.** Because the constitution vests all legislative power of the state in the general assembly, the general assembly:

(A) (a) Finds that the primary purpose of a state water plan is to determine state policy regarding the optimal conservation and development of Colorado's water resources;

(B) (b) Determines that the general assembly is primarily responsible for guiding the development of state water policy; and

(C) (c) Declares that enactment of this paragraph (u) SECTION is necessary to protect the interests of the public in the state's water resources and that in enacting this paragraph (u) SECTION, the general assembly intends to engage the people of the state in a public dialogue regarding optimum state water policy; affirm its delegation of policy-making authority to the Colorado water conservation board, subject to direction by the general assembly; and not interfere with, but instead to promote the policies, processes, basin roundtable plans, and interbasin compact negotiations conducted pursuant to the "Colorado Water for the 21st Century Act", article 75 of this title TITLE 37, and the interbasin compact charter as approved by the general assembly acting by bill as specified in section 37-75-105 (2).

(H) (3) **Development of plan.** In exercising its authority pursuant to this paragraph (u) SECTION, the board shall:

(A) (a) Develop the state water plan with the involvement of the public and the basin roundtables, as created in section 37-75-104 (3)(b), and provide opportunities for public comment before adopting any final or significantly amended plan;
(B) Present the scope, fundamental approach, and basic elements of the plan to the water resources review committee created in section 37-98-102 by August 1, 2014;

(C) In developing the draft plan, consider the feedback from the water resources review committee submitted to the board pursuant to section 37-98-103 (6)(a) by November 1, 2014;

(D) Present the draft plan to the water resources review committee by July 1, 2015;

(E) In developing the final plan, consider the feedback from the water resources review committee submitted pursuant to section 37-98-103 (6)(b) by November 1, 2015; and

(F) (b) Notify the water resources review committee created in section 37-98-102 of any proposed significant amendments to the plan, as determined by the board, by June 1 of any year in which the amendment is proposed to be adopted; present the proposed amendment to the committee by August 1 of that year; and consider the committee's feedback submitted pursuant to section 37-98-103 (6)(c) by November 1 of that year.

(IV) (4) Legislation. By November 1 of each year following the submission to the water resources review committee of a state water plan or amendment pursuant to this paragraph (u) SECTION, any member of the general assembly may make a request in writing to the chairperson of the water resources review committee that the committee hold one or more hearings to review the plan or amendment as submitted to the water resources review committee. Upon receipt of the request, the chairperson of the committee shall promptly schedule a hearing to conduct the review and provide adequate notice to the public and the board. The committee,
after holding a public hearing, may recommend the introduction of a bill or bills based on the results of the review. A bill recommended by the committee for consideration under this subparagraph (IV) SUBSECTION (4) does not count against the number of bills to which either the committee or the members of the general assembly are limited by law or joint rule of the senate and the house of representatives, and a hearing held by the committee pursuant to this subparagraph (IV) SUBSECTION (4) does not count against the number of meetings allowed by section 37-98-102 (1)(a).

(V) (5) Policy. A state water plan, whether or not the subject of a bill introduced pursuant to subparagraph (IV) of this paragraph (u) SUBSECTION (4) OF THIS SECTION, is only a policy, is not a rule, and does not have the force or effect of law.

(6) Cash fund created - accounts. (a) The water plan implementation cash fund, referred to in this section as the "fund", is hereby created in the state treasury. The fund consists of money credited to the fund pursuant to this section and any other money that the general assembly may appropriate or transfer to the fund. The state treasurer shall credit all interest and income derived from the deposit and investment of money in the fund to the fund. The money in the fund is subject to annual appropriation.

(b) The following accounts are created in the fund:

(I) The water plan grant program account, referred to in this section as the "grant account"; and

(II) The compact compliance account, referred to in this section as the "compliance account".
(c) (I) On July 1, 2019, the State Treasurer shall transfer thirty million dollars from the General Fund to the Fund, credited as follows:

(A) Ten million dollars to the Grant Account; and

(B) Twenty million dollars to the Compliance Account.

(II) This subsection (6)(c) is repealed, effective September 1, 2020.

(d) The board may expend money from the Fund to implement the State Water Plan as specified in subsections (7) and (8) of this section.

(7) Grant account. The board may approve of grants from the Grant Account pursuant to the following requirements:

(a) Eligible applicants are limited to:

(I) Governmental entities, including covered entities, as defined in section 37-60-126 (1)(b), if the applicant has adopted an approved water conservation plan, municipalities, districts, enterprises, counties, cities and counties, and State agencies;

(II) Private entities, including mutual ditch companies, nonprofit corporations, and partnerships.

(b) Eligible projects are limited to:

(I) Water storage and supply projects, including projects that facilitate the development of additional storage, artificial recharge into aquifers, dredging existing reservoirs to restore the reservoirs' full decreed storage capacity, multi-beneficial use projects, and those projects identified in Basin implementation plans to address the water supply and demand gap;
(II) Conservation and land use projects, including activities that implement long-term strategies for water conservation, land use, and drought planning;

(III) Engagement and innovation activities, including activities that support water education, outreach, and innovation efforts;

(IV) Agricultural projects, including projects that provide technical assistance or improve agricultural water efficiency; and

(V) Environmental and recreation projects, including projects that promote watershed health, environmental health, and recreation.

(c) Grant account money must amount to no more than fifty percent of the total cost of an individual project and the total money from all board funding sources must not exceed seventy-five percent of the total cost of an individual project.

(d) The board shall evaluate each eligible project grant application based on the following criteria:

(I) Conformity with section 9.4 of the State Water Plan, entitled "Framework for a More Efficient Permitting Process", as amended;

(II) Alignment with the applicable basin implementation plan;

(III) The impact of the proposed project, with preference given to projects that have multiple benefits and multiple purposes and involve multiple stakeholders; and

(IV) The anticipated project start date.
(8) **Compliance account.** (a) In order to better ensure compliance with the Colorado River Compact, Article 61 of this Title 37, by managing demand on the use of water that may affect that compliance, the Board may approve of expenditures from the compliance account pursuant to the following requirements:

(I) **Up to one million seven hundred thousand dollars** from the compliance account balance may be used to support stakeholder outreach and technical analysis to develop the compact compliance program’s framework; and

(II) The following conditions must be met before the Board may approve expenditures other than pursuant to subsection (8)(a)(I) of this section:

(A) The Colorado River basin drought contingency plan agreements must be finalized and approved by all of the states of the lower division, as that term is defined in Article II (d) of the Colorado River Compact, Article 61 of this Title 37, all of the states of the upper division, as that term is defined in Article II (c) of the Colorado River Compact, Article 61 of this Title 37, and the commissioner of the Federal Bureau of Reclamation;

(B) Legal and technical analysis of the contingency plan performed by the Colorado attorney general’s office and the board must be completed;

(C) The board must initiate an ongoing stakeholder process to be fully informed by those potentially affected by demand management efforts within Colorado;

(D) The upper Colorado River commission recognized in
SECTION 37-62-103 MUST FORMALLY APPROVE A DEMAND MANAGEMENT
PROGRAM, AND EACH OF THE STATES OF THE UPPER DIVISION, AS THAT
TERM IS DEFINED IN ARTICLE II (c) OF THE UPPER COLORADO RIVER
COMPACT, ARTICLE 62 OF THIS TITLE 37, MUST ALSO APPROVE THE
PROGRAM THROUGH ITS RESPECTIVE COMMISSIONER; AND

(E) THE BOARD SHALL CONSIDER ANY RECOMMENDATIONS FROM
THE WATER RESOURCES REVIEW COMMITTEE SUBMITTED PURSUANT TO
SECTION 37-98-103 (6.5) OR COMMITTEES OF REFERENCE.

(b) NOTWITHSTANDING SECTION 24-1-136(11), THE BOARD SHALL
ANNUALLY REPORT TO THE COMMITTEES OF REFERENCE OF THE GENERAL
ASSEMBLY WITH REGARD TO WATER RESOURCES ABOUT THE PROGRESS
TOWARD DEVELOPING A COLORADO RIVER DEMAND MANAGEMENT
PROGRAM AND ANY USE OF THE MONEY IN THE COMPLIANCE ACCOUNT.

SECTION 2. Repeal of relocated provisions in this act. In
Colorado Revised Statutes, repeal 37-60-106 (1)(u).

SECTION 3. In Colorado Revised Statutes, 37-98-103, amend
(6)(c), (6)(d)(II), and (7); ____repeal (6)(a) and (6)(b); and add (6.5) as
follows:

37-98-103. Annual recommendations - bill limitation -
deadlines for introduction. (6) (a) When the Colorado water
conservation board submits the scope, fundamental approach, and basic
elements of a draft state water plan to the committee as specified in
section 37-60-106 (1)(u)(III)(B), the committee shall hold at least one
public hearing on the scope, fundamental approach, and basic elements
of the draft plan in each geographic region associated with the basin
roundtables, as created in section 37-75-104 (3)(b), for the purpose of
receiving the public's feedback. The committee shall provide a summary
of the public's feedback, as well as the committee's own feedback, to the board by November 1, 2014.

(b) When the Colorado water conservation board submits a draft state water plan to the committee as specified in section 37-60-106 (1)(u)(III)(D), the committee shall hold at least one public hearing on the draft plan in each geographic region associated with the basin roundtables for the purpose of receiving the public's feedback. The committee shall provide a summary of the public's feedback, as well as the committee's own feedback, to the board by November 1, 2015.

(c) When the Colorado water conservation board submits a significant amendment to the state water plan to the committee as specified in section 37-60-106 (1)(u)(III)(F) 37-60-106.3 (3)(f), the committee may hold at least one public hearing on the amendment in each geographic region associated with the basin roundtables for the purpose of receiving the public's feedback. If the committee holds the hearings, the committee shall provide a summary of the public's feedback, as well as the committee's own feedback, to the board by November 1 of the year in which the hearings are held.

(d) Hearings held pursuant to this subsection (6):

(II) May be held before the Colorado water conservation board submits the documents specified in section 37-60-106 (1)(u)(III)(B) or (1)(u)(III)(D) 37-60-106.3 (3)(b) or (3)(d) if deemed appropriate by the chair of the committee.

(6.5) The committee shall hold a public hearing and accept public comments regarding Colorado River demand management. The committee shall provide a summary of public comments, as well as the committee’s own recommendations, to
THE COLORADO WATER CONSERVATION BOARD BY NOVEMBER 1, 2019.

(7) No later than November 1, 2017, and no later than every five years thereafter, the committee shall prepare a list of specific topics that it deems necessary to be addressed in the state water plan, as updated or amended pursuant to section 37-60-106(1)(u) 37-60-106.3. The Colorado water conservation board shall provide its recommendations, including suggestions for potential legislation, for the committee's consideration within eight months after receipt of the list of specific topics.

SECTION 4. In Colorado Revised Statutes, 39-29-109, amend (2)(a)(XVI) as follows:

39-29-109. Severance tax trust fund - created - administration - distribution of money - repeal. (2) (a) The severance tax perpetual base fund. (XVI) Notwithstanding any provision of this subsection (2)(a) to the contrary, on July 1, 2017, and each year thereafter on July 1, the state treasurer shall transfer ten million dollars from the fund to the Colorado water conservation board construction fund, created in section 37-60-121 (1)(a), for use by the Colorado water conservation board, created in section 37-60-102, for the board to fund studies, programs, or projects that assist in implementing the state water plan adopted pursuant to section 37-60-106 (1)(u) 37-60-106.3 (1).

SECTION 5. Appropriation. (1) For the 2019-20 state fiscal year, $10,000,000 is appropriated to the department of natural resources for use by the Colorado water conservation board. This appropriation is from the water plan grant program account in the water plan implementation cash fund created in section 37-60-106.3 (6)(b)(I), C.R.S. To implement this section, the Colorado water conservation board may use this appropriation to finance grant-making pursuant to section
37-60-106.3 (7), C.R.S., including the following:

(a) $2,500,000 for water storage and supply projects;
(b) $2,500,000 for conservation and land use projects;
(c) $2,500,000 for agricultural projects; and
(d) $2,500,000 for environmental and recreation projects.

(2) The money appropriated in subsection (1) of this section remains available for expenditure until the completion of the projects or the close of the 2021-22 state fiscal year, whichever comes first.

(3) For the 2019-20 state fiscal year, $1,700,000 is appropriated to the department of natural resources for use by the Colorado water conservation board. This appropriation is from the compact compliance account in the water plan implementation cash fund created in section 37-60-106.3 (6)(b)(II), C.R.S. To implement this section, the Colorado water conservation board may use this appropriation for stakeholder outreach and technical analysis to develop the compact compliance program's framework.

**SECTION 6. Safety clause.** The general assembly hereby finds, determines, and declares that this act is necessary for the immediate preservation of the public peace, health, and safety.