



**Colorado
Legislative
Council
Staff**

SB16-167

**REVISED
FISCAL NOTE**

(replaces fiscal note dated March 22, 2016)

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-1118
Prime Sponsor(s): Sen. Grantham
Rep. Rankin

Date: March 28, 2016
Bill Status: Senate Appropriations
Fiscal Analyst: Marc Carey (303-866-4102)

BILL TOPIC: SEVERANCE TAX OPERATIONAL FUND RESERVE REDUCTION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	See State Revenue and Expenditures section.	
State Expenditures		
Appropriation Required: None.		
Future Year Impacts: None.		

Summary of Legislation

Under current law, the reserve requirement for the Severance Tax Operational Fund for a given fiscal year is equal to total operating appropriations for Tier 1 programs and 15 percent of Tier 2 transfers. This bill, **recommended by the Joint Budget Committee** (JBC), reduces the portion of the reserve requirement based on the Tier 1 programs by \$2.98 million for FY 2016-17 only.

Background

Agencies and programs that receive funding from the Severance Tax Operational Fund are divided into Tier 1 and Tier 2 programs. Tier 1 expenditures support ongoing operational expenses for agencies in the Department of Natural Resources (DNR), including the Colorado Oil and Gas Conservation Commission (COGCC). The Tier 1 reserve requirement is equal to one full year of operating appropriations to help insulate these programs from severance tax revenue volatility. The reserve requirement effectively doubles the impact of any increases to Tier 1 appropriations; for every dollar appropriated to a Tier 1 agency, available revenue in the operational fund is reduced by two dollars.

Tier 2 programs are funded with remaining revenue after Tier 1 appropriations. Tier 2 programs include water-related programs, agriculture-related programs, income qualified energy efficiency programs, soil conservation, the control of invasive species, low-income energy assistance, and species conservation. If mid-year projections indicate there will be insufficient revenue in the operational fund to support authorized Tier 2 expenditures, funding for these programs is proportionately reduced unless the General Assembly prioritizes cuts via legislation.

State Revenue and Expenditures

Based on the March 2016 Legislative Council Economic Forecast and expected expenditures from the operational fund, the DNR will be required to make a 89.8 percent proportional reduction across all existing Tier 2 programs. By exempting the one-time COGCC appropriation, the proportional reduction will be reduced to 81.7 percent.

The JBC has voted to approve a one-time increase of \$2.98 million from Tier 1 of the Severance Tax Operational Fund for the COGCC in FY 2016-17. Under current law, this one-time COGCC appropriation would reduce available revenue by \$5.96 million in FY 2016-17—\$2.98 million for the appropriation itself and \$2.98 million for the Tier 1 reserve. Based on the March 2016 Legislative Council Staff revenue forecast, the appropriation would increase proportional reductions to Tier 2 programs to 89.9 percent. By effectively exempting the appropriation from the Tier 1 reserve requirement, this bill reduces the revenue impact to \$2.98 million dollars, requiring estimated proportional reductions of 81.7 percent for Tier 2 programs in FY 2016-17. Table 1 presents affected programs and the additional funding they will see as a result of this bill.

Table 1. Operational Fund Tier 2 Program Fund Projections Under Current Law and SB 16-167			
Tier 2 Programs	Current Law	With SB 16-167	Difference
Water Supply Reserve Account	1,019,097	1,827,166	808,069
Soil Conservation Districts Matching Grants	45,859	82,223	36,364
Water Efficiency Grants	56,050	100,494	44,444
Species Conservation Trust Fund	509,549	913,583	404,034
Low Income Energy Assistance Program (LEAP)	1,324,826	2,375,315	1,050,489
Agriculture Value-Added Cash Fund	50,955	91,358	40,403
Interbasin Compacts	75,930	136,136	60,206
Forestry Grants / Bark Beetle	254,774	456,791	202,017
Aquatic Invasive Species	408,251	731,963	323,712
Forfeited Mine Sites	12,943	23,205	10,262
TOTAL TIER 2 PROGRAMS	\$3,758,234	\$6,738,234	\$2,980,000

Source- Department of Natural Resources
 All funds continuously appropriated to their respective administrative agencies.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Natural Resources