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FISCAL NOTE

Drafting Number: LLS 20-0826
Prime Sponsors: Rep. Cutter; Soper

Date: January 30, 2020
Bill Status: House Energy & Environment
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Bill Topic: HAZARD MITIGATION GRANT PROGRAM

- Summary of Fiscal Impact:
- State Revenue (checked)
- State Expenditure (checked)
- State Transfer (unchecked)
- TABOR Refund (unchecked)
- Local Government (checked)
- Statutory Public Entity (unchecked)

The bill creates a hazard mitigation enterprise and charges fees on insurance premiums to create revenue for a grant program and technical assistance to local governments.

Appropriation Summary: No appropriation is required. Revenue in the new cash fund is continuously appropriated to the enterprise in the DPS.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 20-1142

Table with 4 columns: Category, Sub-category, FY 2020-21, FY 2021-22. Rows include Revenue (Cash Funds, Total), Expenditures (Cash Funds, Centrally Appropriated, Total), Total FTE, Transfers, and TABOR Refund.

## Summary of Legislation

The bill creates the Hazard Mitigation Enterprise as a Type 2 agency in the Department of Public Safety (DPS) to administer a grant program, provide public education, and supply technical assistance to local governments concerning natural hazard mitigation through land use and building codes.

The enterprise is created as a state-owned business and funded by fees charged to insurance companies providing specific types of property and hazard insurance. The fee is equal to 0.05 percent of the gross amount of premiums on policies covering property or risks in the state in the previous year, minus the amount paid as reinsurance premiums, and amounts paid to policy holders as return premiums. Fee revenue collected by the enterprise are not subject to state revenue and expenditure limitations in the constitution. The bill creates the Hazard Mitigation Cash Fund in the treasury, which is continuously appropriated to the enterprise.

State grants awarded to local entities will be applied toward the matching funds requirement of federal grants that address disaster or hazard mitigation measures. Grant recipients may only use the state grant funds to offset the federal match requirement. The enterprise may not award more than 80 percent of the annual fund revenue for grant awards, nor award more than 25 percent of the annual revenue in any single grant. The program has annual reporting requirements.

## Background

**State enterprises.** TABOR defines an enterprise as "a government-owned business authorized to issue its own revenue bonds and receiving under ten percent of annual revenue in grants from all Colorado state and local governments combined." Because the share of revenue that an enterprise may receive from government sources is capped, enterprises are largely financially independent of core government agencies. Additionally, enterprises cannot levy taxes. TABOR limits the amount of money that can be spent or saved by the state government and all local governments within the state. However, revenue collected by enterprises is not subject to these constraints.

## State Revenue

The bill increases state revenue by approximately \$4.5 million beginning FY 2020-21. Fees paid to a state enterprise are exempt from TABOR.

According to the Division of Insurance in the Department of Regulatory Agencies, the total written premiums in 2018 for the types of insurance covered by the new fee was about \$9.1 billion. The bill requires that the new enterprise charge a fee of 0.05 percent of the gross amount, or about \$4.5 million annually.

## State Expenditures

For FY 2020-21 and FY 2021-22, the bill increases expenditures in the new enterprise by about \$3.7 million and 1.5 FTE. New costs are displayed in Table 2 and described below.

**Table 2**  
**Enterprise Expenditures Under HB 20-1142**

	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Hazard Mitigation Enterprise</b>		
Personal Services	\$100,630	\$100,630
Operating Expenses	\$2,450	\$2,450
Capital Outlay Costs	\$12,400	\$1,650
Hazard Mitigation Grants	\$3,600,000	\$3,600,000
Centrally Appropriated Costs*	\$38,681	\$37,455
<b>Total Cost</b>	<b>\$3,754,161</b>	<b>\$3,742,185</b>
<b>Total FTE</b>	<b>1.5 FTE</b>	<b>1.5 FTE</b>

\* Centrally appropriated costs are not included in the bill's appropriation.

**Personal services.** Beginning FY 2020-21, the new enterprise requires staff to adopt rules, manage the enterprise, collect premium fees, create application procedures and timelines for grants, develop program materials, and conduct outreach and technical assistance with local governments. Accounting staff is required to execute contracts, perform financial compliance reviews, and approve and track payments. In total, 1.5 FTE is required for the enterprise.

**Hazard mitigation grants.** Grants from the enterprise are the largest expenditure for the new enterprise. The program may only award 80 percent of annual revenue. Assuming about \$4.5 million in revenue from fees on insurance premiums, the enterprise may award about \$3.6 million annually.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. This fiscal note assumes that both direct and indirect costs for the new enterprise are paid from the cash fund and the TABOR exempt revenue. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$38,681 in FY 2020-21 and \$37,455 in FY 2021-22.

## **Local Government**

Local governments participating in the program will receive additional state revenue to apply toward matching funds requirements for federal hazard mitigation grants.

## **Effective Date**

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed.

**State and Local Government Contacts**

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