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FISCAL NOTE

Drafting Number: LLS 20-0280
Prime Sponsors: Sen. Coram

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Bill Status: Senate Agriculture
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Bill Topic: WATER RESOURCE FINANCING ENTERPRISE

- 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 the Water Resources Financing Enterprise to collect a fee from customers of public water supply systems to finance water projects through grants and loans. It increases state revenue and expenditures on an ongoing basis.

Appropriation Summary: For FY 2020-21, the bill requires an appropriation of \$755,994 to the Department of Natural Resources.

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

Table 1
State Fiscal Impacts Under SB 20-153

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 Water Resources Financing Enterprise (enterprise) in the Department of Natural Resources (DNR) to provide financing to water providers. The enterprise is governed by a board of directors that consists of the members of the Colorado Water Resources and Power Development Authority board and the Colorado Water Conservation Board (CWCB). It is designated as an enterprise for the purposes of TABOR.

Water users fee. Beginning July 1, 2020, the enterprise may charge a fee to all customers of public water systems. The fee is 25 cents per thousand gallons of drinking water delivered per month to each metered connection, after the first four thousand gallons. The board may adjust the fee for inflation and to address equity concerns. The fee is to be collected by public drinking water suppliers, which may retain three and one third percent of the amount collected as a vendor fee. The fee revenue is deposited into the Water Resources Financing Fund. Fee revenue is exempt from state revenue limits established in TABOR. In addition, the enterprise is authorized to issue revenue bonds.

Water financing program. The enterprise will provide grants, loans, and in-kind technical assistance to water providers, which are defined to include raw water suppliers, drinking water suppliers, and wastewater treatment suppliers. Financing is restricted to projects relating to the provision of raw water, drinking water, water treatment, wastewater treatment, feasibility studies, planning, permitting, and construction of infrastructure and conservation projects. Financing applicants will be evaluated based on merit and need-related characteristics, as listed in the bill. The board must report to the Water Resources Review Committee by July 1 of each year.

Assumptions

The fiscal note makes the following assumptions related to collection of the fee:

- aggregate statewide municipal and industrial water use is 998,730 acre feet (325 billion gallons);
- of that total, an estimated 250 billion gallons are delivered to customers on public water systems after accounting for water losses;
- there are an estimated 2 million metered connections statewide, each with 48,000 gallons of water use per year exempt from the fee, resulting in 96 billion gallons of use exempt from the fee and 153 billion gallons subject to the fee; and
- this will generate \$38.2 million in annual revenue, \$1.3 million of which will be retained by water suppliers as a vendor fee, leaving \$36.9 million in revenue to the enterprise.

State Revenue

The bill increases state revenue by an estimated \$36.9 million per year to the Water Resources Financing Fund.

Fee impact on public water system users. Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. The fee is set in statute at \$0.25 per thousand gallons, which may be adjusted by the enterprise based on inflation and equity concerns. The table below identifies the fee impact of this bill.

**Table 2
Fee Impact Under SB 20-153**

Fiscal Year	Metered Customers of Public Water Systems	Average Monthly Fee (mean user: 6,400 gallons per month)	Total Fee Impact
FY 2020-21	2.0 million	\$1.59	\$38.2 million

Revenue bonds. The enterprise is authorized to issue revenue bonds. Bond-related revenue and expenditures are not estimated.

State Expenditures

The bill increases state expenditures in the Department of Natural Resources by \$36.9 million and 7.0 FTE in FY 2020-21 and future years. These expenditures include water resources financing costs and administrative costs for the program. These costs are shown on Table 3 and described below.

**Table 3
Expenditures Under SB 20-153**

	FY 2020-21	FY 2021-22
Department of Natural Resources		
Water Resources Financing	up to \$35,928,280	up to \$35,959,859
Personal Services	\$590,861	\$644,576
Operating Expenses	\$9,315	\$10,125
Capital Outlay Costs	\$49,600	-
Travel	\$9,570	\$9,570
Board Meetings	\$21,064	\$21,064
Website	\$50,000	-
Legal Services	\$25,584	\$25,584
Centrally Appropriated Costs*	\$215,726	\$229,222
FTE – Personal Services	6.9 FTE	7.5 FTE
FTE – Legal Services	0.1 FTE	0.1 FTE
Total Cost	\$36,900,000	\$36,900,000
Total FTE	7.0 FTE	7.6 FTE

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

Department of Natural Resources. The fiscal note assumes that DNR will require a staff similar to that of CWCB's finance section, which administers a comparable loan and grant program through the CWCB Construction Fund and Perpetual Base Fund. Costs are shown for a team consisting of 7.0 FTE for the enterprise, and 0.5 FTE in DNR's Executive Director's Office to manage the increased administrative and purchasing workload, all prorated for an August 2020 hire

date. Workload for enterprise staff includes evaluating technical and financial feasibility of projects, assisting in project planning and design, administering grant and loan contracts, and accounting. In addition, these costs include 240 hours of legal services (0.1 FTE legal services) from the Department of Law at a rate of \$106.60 per hour; travel costs for enterprise staff to visit project locations; lodging, per diem, travel, and food for four annual board meetings; and a one-time cost of \$50,000 for the Office of Information Technology to develop a website to share information and manage applications. Bond-related expenditures are not estimated.

Water resources financing. These costs are calculated as the money remaining after the administrative costs of the program are covered, and are estimated to be about \$36 million per year. The financing provided by the enterprise consists of grants and loans.

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. These costs, which include employee insurance, leased space, and supplemental employee retirement payments, are estimated to be \$215,726 in FY 2020-21 and \$229,222 in FY 2021-22.

Local Government

Municipalities that operate public drinking water systems will experience revenue and expenditure impacts. Water suppliers are required to collect the fee on behalf of the enterprise, which will entail expenditures and workload. Water suppliers may retain three and one third percent of fees collected, which the fiscal note estimate at \$1.3 million per year for all water suppliers.

Technical Note

The bill does not specify whether or not enterprise operating costs can be paid from the Water Resources Financing Fund. It is unclear what funds will be used to for startup costs.

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 Appropriations

For FY 2020-21, the bill requires an appropriation of \$755,994 and 7.0 FTE to the DNR from the Water Resources Financing Fund to administer the program. Of this total, \$25,584 and 0.1 FTE is reappropriated to the Department of Law, and \$50,000 is reappropriated to the Office of Information Technology.

The fiscal note assumes that grants will be appropriated through separate legislation or through the annual budget process.

State and Local Government Contacts

Information Technology

Natural Resources