JOINT
BUDGET
COMMITTEE

STAFF BUDGET BRIEFING
FY 2017-18

DEPARTMENT OF LOCAL AFFAIRS

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

PREPARED BY:
AMANDA BICKEL, JBC STAFF
NOVEMBER 29, 2016

JOINT BUDGET COMMITTEE STAFF
200 E. 14TH AVENUE, 3RD FLOOR · DENVER · COLORADO · 80203
TELEPHONE: (303) 866-2061 · TDD: (303) 866-3472
https://leg.colorado.gov/agencies/joint-budget-committee

CONTENTS

Department Overview 1
Department Budget: Recent Appropriations 1
Department Budget: Graphic Overview 2
General Factors Driving the Budget 4
Summary: FY 2016-17 Appropriation & FY 2017-18 Request 6

ISSUES
- Affordable Housing Request Overvew 9
- Requests for Permanent Supportive Housing and Rapid Rehousing 18
- Rural Economic Development 29
- BP America Court Decision, S.B. 16-218, and the Executive Severance Tax Request 38
- Local Government Severance Tax and Mineral Impact Funds 45

APPENDICES
- A. Numbers Pages 53
- B. Recent Legislation Affecting Department Budget 68
- C. Update on Long Bill Footnotes and Requests for Information 72
- D. Department Annual Performance Report 73

DEPARTMENT OF LOCAL AFFAIRS

DEPARTMENT OVERVIEW

The Department of Local Affairs (DOLA) is responsible for building community and local government capacity by providing training, technical, and financial assistance to localities. While current law creates a number of divisions1, the Department currently consists of the following:

- The *Executive Director's Office* provides the comprehensive departmental management and administration, including strategic planning, policy management, budget, accounting, purchasing, and human resources administration and public information.

- The *Division of Property Taxation and the Property Tax Administrator*, under the supervision and control of the State Board of Equalization, have three primary responsibilities: (1) administering property tax laws, including issuing appraisal standards and training county assessors; (2) granting exemptions from taxation for charities, religious organizations, and other eligible entities; and (3) valuing multi-county companies doing business in Colorado, including railroads, pipelines, and other public utilities.

- The *Board of Assessment Appeals* is a quasi-judicial body which hears individual taxpayer appeals concerning the valuation of real and personal property, property tax abatements, and property tax exemptions.

- The *Division of Housing* administers state and federal low-income housing programs, and regulates the manufacture of factory-built residential and commercial buildings.

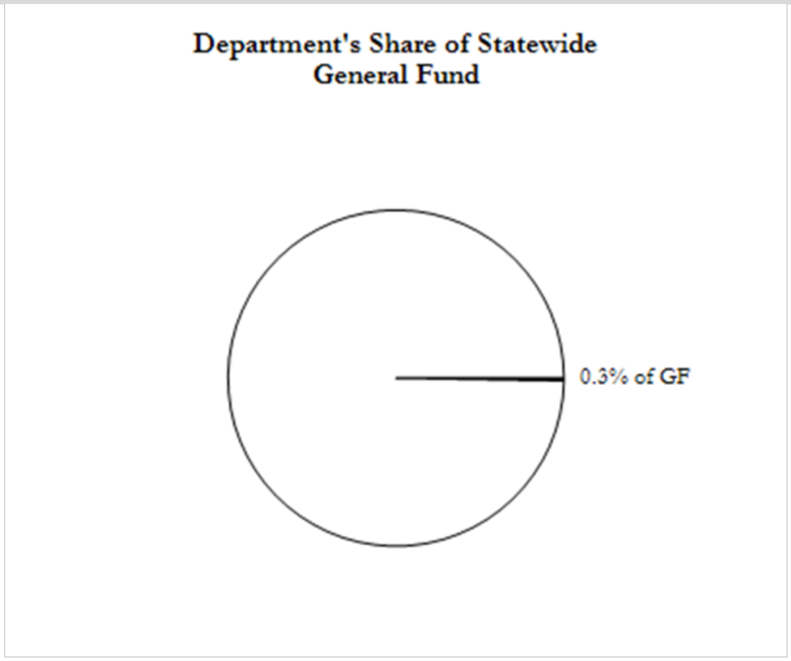
- The *Division of Local Government* provides technical assistance to local government officials. This division also administers several state and federal programs to assist local governments in capital construction and community services, including: administering the federal Community Services Block Grant and the Community Development Block Grant; making state grants to communities negatively impacted by mineral extraction and limited gaming activities; distributing Conservation Trust Fund moneys (derived from lottery proceeds) for parks, recreation, and open space; and allocating the state contribution for volunteer firefighter pension plans.

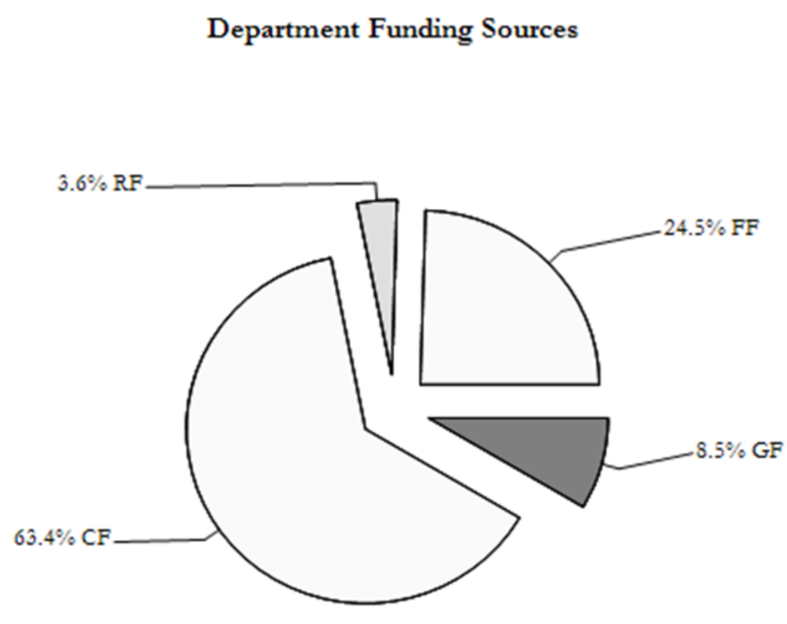
DEPARTMENT BUDGET: RECENT APPROPRIATIONS

FUNDING SOURCE	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
General Fund[1]	$17,710,455	$22,039,101	$24,626,224	$26,012,580
Cash Funds	213,224,629	209,046,453	209,312,306	194,098,487
Reappropriated Funds	8,630,903	9,412,579	10,487,107	10,915,745
Federal Funds	69,956,340	70,345,868	76,876,045	75,085,768
TOTAL FUNDS	**$309,522,327**	**$310,844,001**	**$321,301,682**	**$306,112,580**
Full Time Equiv. Staff	164.3	168.4	172.5	173.9

[1] Includes General Fund Exempt.

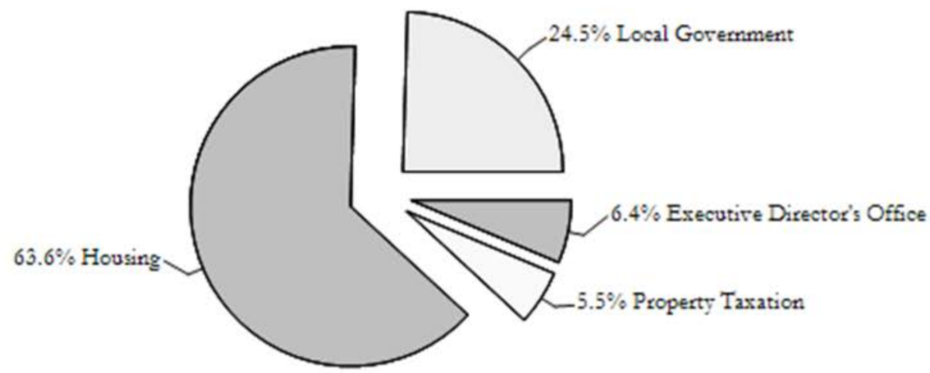
DEPARTMENT BUDGET: GRAPHIC OVERVIEW



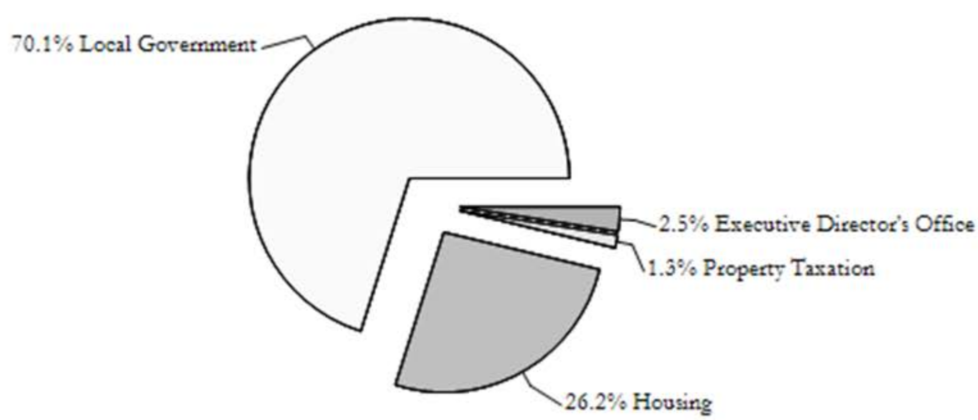


All charts are based on the FY 2016-17 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2016-17 appropriation.

GENERAL FACTORS DRIVING THE BUDGET

DEDICATED FUNDING SOURCES

The Department awards grants and oversees direct distributions to local governments for various programs with dedicated cash fund revenue sources. The FY 2016-17 appropriation for the Department reflects $180.1 million cash funds for these programs or nearly sixty percent of the Department's overall budget. These amounts are shown for informational purposes only, and actual expenditures may differ significantly from the amounts shown in the Long Bill. They include:

- Local Government Mineral and Energy Impact Grants and Disbursements – state severance tax revenues and federal mineral lease revenues that are distributed to local governments affected by mineral extraction activities through statutory formulas (for direct distributions) and grants;
- Conservation Trust Fund Disbursements – state lottery proceeds distributed to local entities on a formula basis for parks, recreation, and open space purposes; and
- Limited Gaming Impact Grants – limited gaming tax revenues distributed to communities impacted by gaming activities.

The table below shows actual prior year receipts and adjusted FY 2016-17 revenue estimates for the most significant of these funding sources. .

Major Constitutionally or Statutorily Dedicated Cash Revenues Administered by the Department of Local Affairs ($ millions)					
Revenues	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Estimate[1]
Severance Tax	$66.3	127.1	$140.1	$43.9	$25.8
Federal Mineral Lease[2]	48.9	72.3	59.6	39.9	47.2
Conservation Trust Fund	54.3	52.1	51.2	57.4	50.0
Limited Gaming Fund	5.0	5.0	5.0	5.2	5.2
TOTALS	**$174.5**	**$256.5**	**$255.9**	**$146.4**	**$128.2**

[1] Severance Tax and Federal Mineral Lease Revenue estimates are based on the September 2016 OSPB forecast and adjust for the impact of S.B. 16-218.
[2] Excludes additional distributions authorized pursuant to Section 34-63-102 (1) (c) (I) (III), C.R.S.

As reflected in the table, severance tax and federal mineral lease revenues are volatile. Oil, gas, and mineral prices and production volumes dictate annual revenue, and these are difficult to project. Further, funds received in one year are not always awarded in the same year and, once awarded, may be expended over multiple years. Because of this, the informational amount included in the Long Bill for Local Government Mineral and Energy Impact Grants and Disbursements is not typically adjusted from year to year. However, in light of actual and projected declines in severance tax and federal mineral lease revenues, this figure was reduced from $150.0 million to $125.0 million for FY 2016-17.

Severance tax revenues distributed to local governments are anticipated to be cut further based on the April 2016 State Supreme Court decision in *BP America vs. the Colorado Department of Revenue*. This decision broadened the array of costs oil and gas companies are allowed to deduct when calculating severance tax obligations. As a result, the State expects to refund significant severance tax revenues to oil and gas companies in FY 2015-16 and FY 2016-17. In addition, it anticipates ongoing funding reductions from this revenue source. Senate Bill 16-218 (State Severance Tax Refunds) required the

General Fund to cover much of the severance tax refund obligations in FY 2015-16 and FY 2016-17 but also placed restrictions on severance tax reserves in the Departments of Local Affairs and Natural Resources pending further action by the JBC and General Assembly. Within the Department of Local Affairs, $28.4 million remains restricted as of November 2016.

FEDERAL FUNDS

Federal funds comprise about one quarter ($75.1 million) of the Department of Local Affairs' FY 2016-17 appropriation. Most of the Department's federally-funded programs do not require state matching funds and are provided at the discretion of federal authorities. Annual expenditures from some of the major ongoing federal grants administered by this department are summarized in the following table.

Annual Expenditures from Major Ongoing Federal Grants Administered by Department of Local Affairs ($ millions)[1]					
	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Approp.[2]
Federal Department of Housing and Urban Development (HUD) rental subsidies	$45.2	$40.3	$43.6	$48.4	$45.4
HUD affordable housing development[3]	8.1	6.5	5.5	4.4	12.0
HUD Community Development Block Grant[3]	6.1	7.2	14.0	7.7	5.2
Health and Human Services Community Services Block Grant	6.4	5.4	5.6	5.9	6.0
HUD Emergency Shelter and Homeless Prevention Programs	1.0	2.2	1.5	1.5	1.5

[1] Amounts exclude portions used for administration and overhead except for the FY 2014-15 which include all related costs due to the data available.

[2] Reflects amounts shown for informational purposes in the Long Bill in FY 2015-16 and FY 2016-17. The Emergency Shelter and Homeless Prevention amount is higher than the Long Bill estimate based on updated information.

[3] The portion of the Community Development Block Grant (CDBG) used for affordable housing development in the appropriation year is included in the affordable housing development amount, rather than the CDBG amount. However, actual years reflect a department practice of expending all CDBG funds in the CDBG line item. The CDBG amount does not include CDBG-DR (disaster recovery) amounts that are not reflected in the Long Bill.

DISCRETIONARY APPROPRIATIONS FOR HOUSING PROGRAMS

Of the General Fund appropriation for the Department of Local Affairs, $16.5 million (63.6 percent) supports programs in the Division of Housing. In recent years, General Fund appropriations have been increased for a number of different activities.

Fort Lyon Supportive Residential Community

The Fort Lyon Supportive Residential Community brings chronically homeless individuals with alcoholism and chemical dependency to a residential community in Bent County in the rural southeast of the state (3.5 hours from Denver). The program opened in September 2013 and serves up to 250 men and women at any given time. Residents may live on the historic campus for up to two years. They must remain alcohol- and drug-free and may choose to participate in various kinds of programming (e.g., alcoholics anonymous, educational programs), but the facility is not considered a formal treatment program.

The Fort Lyon program was first authorized and funded by S.B. 13-210 (Concerning Employment Conditions for Correctional Officers). It was a conceived as a way to respond to two goals: ongoing preservation and use of the Fort Lyon property and chronic homelessness statewide. The

State previously operated Fort Lyon as a prison until 2011, when it was closed due to low state prison populations and high operating costs; prior to that it was a federal Veterans Administration rehabilitation facility.

During 2016, the JBC added $1.77 million General Fund for the program to replace one-time custodial funds that were set to expire. This brought the total appropriation to $5.0 million General Fund. The JBC also sponsored H.B. 16-1411 (Fort Lyon Residential Community Study), which authorizes the State Auditor to contract for a study to evaluate the program's costs, benefits, and outcomes compared to other programs that serve a similar population. A preliminary report is due to the State Auditor by August 1, 2017, and a final report is due by August 1, 2018.

AFFORDABLE HOUSING INITIATIVES

The State supports the construction and rehabilitation of affordable housing throughout Colorado through grants and loans. It also supports rental assistance designed to keep individuals with disabilities out of congregate care facilities. Both types of support represent a small portion of overall affordable housing initiatives statewide: federal funding is far more significant. Nonetheless, the state contribution is sometimes critical to making an affordable housing project viable or achieving state goals such as de-institutionalization.

State support for affordable housing was cut sharply during the Great Recession but has increased in recent years. A Long Bill footnote specifies the General Assembly's intent that the Department target state General Fund appropriations for affordable housing to projects and clients that can be reasonably expected to reduce other state costs.

The table below shows the increases in funding for these initiatives over the last several years. The FY 2017-18 request includes several significant proposals to increase affordable housing appropriations.

	General Fund Affordable Housing Appropriations				
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Low-income Rental Subsidies	$0	$445,524	$1,248,287	$1,360,813	$2,660,938
Affordable Housing Grants and Loans	2,200,000	4,200,000	8,200,000	8,200,000	8,200,000

SUMMARY: FY 2016-17 APPROPRIATION & FY 2017-18 REQUEST

Department Of Local Affairs	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2016-17 Appropriation:						
FY 2016-17 Long Bill (H.B. 16-1405)	306,083,310	25,983,310	194,098,487	10,915,745	75,085,768	173.4
Other legislation	29,270	29,270	0	0	0	0.5
TOTAL	**$306,112,580**	**$26,012,580**	**$194,098,487**	**$10,915,745**	**$75,085,768**	**173.9**
FY 2017-18 Appropriation:						
FY 2016-17 Appropriation	$306,112,580	26,012,580	$194,098,487	$10,915,745	$75,085,768	173.9
R1 Housing Development Grant Program	2,000,000	2,000,000	0	0	0	0.0
R2 Rural economic stabilization	104,927	0	0	104,927	0	1.0
R3 Supportive housing for behavioral health	4,000,000	0	4,000,000	0	0	1.0
R4 Supportive housing and rapid rehousing	12,319,900	0	12,319,900	0	0	1.0
R5 Kit Carson mitigation plan	515,095	515,095	0	0	0	0.0
NP1 Annual fleet vehicle request	(7,757)	(6,980)	0	(777)	0	0.0
NP2 OIT Secure Colorado	17,850	6,960	1,250	9,640	0	0.0
NP3 OIT Deskside support	7,138	2,785	500	3,853	0	0.0
Centrally appropriated line items	844,463	304,723	46,560	355,678	137,502	0.0
Indirect cost assessment	124,553	(124,553)	33,824	185,970	29,312	0.0
Informational funds adjustment	20,000	20,000	0	0	0	0.0
Annualize prior year budget actions	(8,750,000)	0	(8,752,940)	1,996	944	0.0
Annualize prior year legislation	(67,306)	(67,306)	0	0	0	(0.3)
TOTAL	**$317,241,443**	**$28,663,304**	**$201,747,581**	**$11,577,032**	**$75,253,526**	**176.6**
INCREASE/(DECREASE)	$11,128,863	$2,650,724	$7,649,094	$661,287	$167,758	2.7
Percentage Change	3.6%	10.2%	3.9%	6.1%	0.2%	1.6%

R1 Housing Development Grant Program: The Department requests an increase of $2,000,000 General Fund for affordable housing grants and loans. The Department provides gap financing to facilitate the development of affordable units throughout the State. By increasing state support from the current $8.2 million General Fund, the Department anticipates that it will support development of an additional 250 units. The target population would be low-income Coloradans spending 50 percent or more of their income on housing.

R2 Rural economic stabilization: This request is for $104,927 reappropriated funds from energy and mineral impact assistance funds (severance tax and federal mineral lease receipts) to hire 1.0 FTE to coordinate state resources in rural communities. The position would help coordinate resources for rural communities that are economically impacted by closures of major employers such as coal production facilities. The request would annualize to $100,224 and 1.0 FTE in FY 2018-19.

R3 Supportive housing for behavioral health: The Department requests ongoing support of $4,000,000 per year from the Marijuana Tax Cash Fund and 1.0 FTE to support the development of permanent supportive housing (PSH) units (housing with intensive support services) for behavioral health consumers, including those exiting or at risk of entering hospitals or state mental health institutes. The funds would be used both for grants to facilitate construction of new units and for state housing rental vouchers, with a mix between the two that would change over time.

During the first year, the Department anticipates 125 PSH units would be constructed and 105 people would be served by housing vouchers; by the fifth year, it anticipates 35 units would be constructed and 300 people would be served by housing rental vouchers. The request would support a 1.0 FTE housing navigator position and administrative funding, but treatment and case management services would be provided through other funding streams. The Department indicates that legislation would be required to implement this program.

R4 SUPPORTIVE HOUSING AND RAPID REHOUSING: This request is for $12,319,900 per year from the Marijuana Tax Cash Fund and 1.0 FTE to support permanent supportive housing and rapid rehousing initiatives. Permanent supportive housing (PSH) services (housing paired with intensive support services) would be targeted to people who are permanently disabled, dually diagnosed with mental illness and substance abuse issues (including the chronically homeless), and youth with these issues who are at risk of homelessness. Individuals receiving PSH are expected to require them permanently, although up to sixty percent may ultimately transition from the program. The rapid rehousing (RRH) portion of the proposal is targeted to individuals with "minimal" mental illness who are discharged from the Department of Corrections and at risk of homelessness. RRH services last two years, after which residents transition out. The requested funding would be used both for construction of new PSH and RRH units and for PSH and RRH housing rental vouchers. The mix between construction funding and voucher funding would change over time. During the first year, the Department anticipates that the funds would be used to construct 300 units and would also be used for rent subsidies; however the Department also anticipates that federal rental vouchers will ultimately take the place of state vouchers, allowing most funding to be used for construction subsidies. The request anticipates that 300 revolving RRH placements and 1,200 PSH placements will have been created by the program by year 5. The request also includes funding for case management, an employment counselor, and administration (1.0 FTE), training and evaluation. The Department indicates that legislation would be required to implement this program.

R5 KIT CARSON MITIGATION PLAN: To minimize the impact of the closure of Kit Carson Correctional Center on the local community, the Department requests a one-time appropriation of $515,095 General Fund to backfill property taxes lost as a result of the closure of the facility. The proposal would backfill two-thirds of a full-year of property taxes lost to Kit Carson County, the City of Burlington, the health district, the fire district and the cemetery district. The Department has requested this funding in the Rural Economic Development Initiative line item (REDI), although the proposal differs from the REDI program.

NP1 ANNUAL FLEET VEHICLE REQUEST: The request adjusts the Department's payment to the Department of Personnel (DPA) for fleet vehicles. This includes an adjustment to align actual and appropriated base payment amounts and to cover the net incremental cost of replacing five vehicles with CNG vehicles, based on DPA's vehicle replacement methodology.

NP2 OIT SECURE COLORADO: This request is for the Department's share of a Governor's Office of Information Technology (OIT) initiative to improve statewide information security.

NP3 OIT DESKSIDE SUPPORT: This request is for the Department's share of an initiative to improve end-user support for state agencies.

CENTRALLY APPROPRIATED LINE ITEMS: The request includes adjustments to centrally appropriated line items, as detailed in the table below.

Centrally Appropriated Line Item Adjustments					
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds
Health, life, and dental	$199,390	$89,834	$3,607	$52,221	53,728
Short-term disability	712	787	(487)	486	(74)
AED	50,080	27,187	(8,676)	26,862	4,707
SAED	55,922	28,270	(7,763)	29,428	5,987
Salary survey	332,562	71,388	42,984	148,715	69,475
Workers' compensation	19,433	18,033	600	800	0
Legal services	7,489	6,665	524	75	225
Payment to risk management / property funds	1,890	1,760	110	20	0
Capitol Complex leased space	114,118	38,800	6,846	59,342	9,130
Payments to OIT	125,940	49,120	8,815	68,005	0
CORE operations	(63,073)	(27,121)	0	(30,276)	(5,676)
Total	**$844,463**	**$304,723**	**$46,560**	**$355,678**	**$137,502**

Indirect cost assessment: The request includes a net increase of $124,553 in the department's statewide indirect cost assessment, which offsets General Fund otherwise required.

Informational funds adjustment: The request includes an increase of $20,000 General Fund Exempt based on the September 2016 OSPB forecast for volunteer firefighter retirement plans. The volunteer firefighter retirement benefit amount is shown in the Long Bill for informational purposes as it is continuously appropriated by statute.

Annualize prior year budget actions: The request includes adjustments for the second-year impact of prior year budget actions.

Annualize prior year budget actions						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 16-17 Local Government Permanent Fund	($8,750,000)	$0	($8,750,000)	$0	$0	0.0
Annualize prior year salary survey	0	0	(2,940)	1,996	944	0.0
Total	**($8,750,000)**	**$0**	**($8,752,940)**	**$1,996**	**$944**	**0.0**

Annualize prior year legislation: The request includes adjustments for the second- and third-year impact of prior year legislation.

Annualize Prior Year Legislation						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
Annualize HB 16-1175 (Prop Tax Exempt Admin)	($2,352)	($2,352)	$0	$0	$0	0.0
Annualize HB 15-1033 (Strategic Planning Group)	(64,954)	(64,954)	0	0	0	(0.3)
Total	**($67,306)**	**($67,306)**	**$0**	**$0**	**$0**	**(0.3)**

ISSUE: AFFORDABLE HOUSING REQUEST OVERVIEW

The Department of Local Affairs has submitted three significant requests to increase funding for affordable housing. The need for affordable housing far outstrips the State's ability to address the problem.

SUMMARY

- Households are considered "severely cost burdened" if their housing costs exceed 50 percent of their household income. In Colorado, almost 154,000 very low income households (earning 30 percent or less of area median income or AMI) are considered severely cost burdened. This represents nearly two-thirds of households in this income range. The approximately 80,000 who are housed but not so cost-burdened are heavily reliant on federally-subsidized public housing and rental vouchers. Others are homeless: 10,550 people, based on the 2016 point-in-time study.

- Over 100,000 additional households at somewhat higher income levels (up to 80 percent of AMI) are also severely cost burdened; however more than 80 percent of households in this higher income range are able to find more affordable housing, even though few receive public subsidies.

- The State contributes to affordable housing through: (1) "gap financing" for affordable housing construction; (2) rental vouchers targeted to certain high-needs populations; and (3) low-income housing tax credits. The first two of these are budgeted in the Department of Local Affairs. Low income housing tax credits, which represent a revenue reduction rather than appropriation, are not reflected in the Long Bill and are administered by the Colorado Housing and Finance Authority (CHFA). The federal government contributes far more support than the State: over 60,000 rental vouchers, approximately $55 million in block grants allocated throughout the State, and about $22 million per year in federal low income housing tax credit allocations.

- The Governor's budget request includes three housing requests: $2.0 million General Fund to increase funding for affordable housing construction, which would support a wide range of initiatives across the State (e.g., low-income senior housing, housing in areas facing gentrification), $4.0 million from Marijuana Tax Cash Funds for permanent supportive housing for people with significant behavioral health needs, and an additional $12.3 million from Marijuana Tax Cash Funds for permanent supportive housing and rapid rehousing for other high-needs populations such as those who are chronically homeless, exiting the Department of Corrections, or homeless youth.

RECOMMENDATION

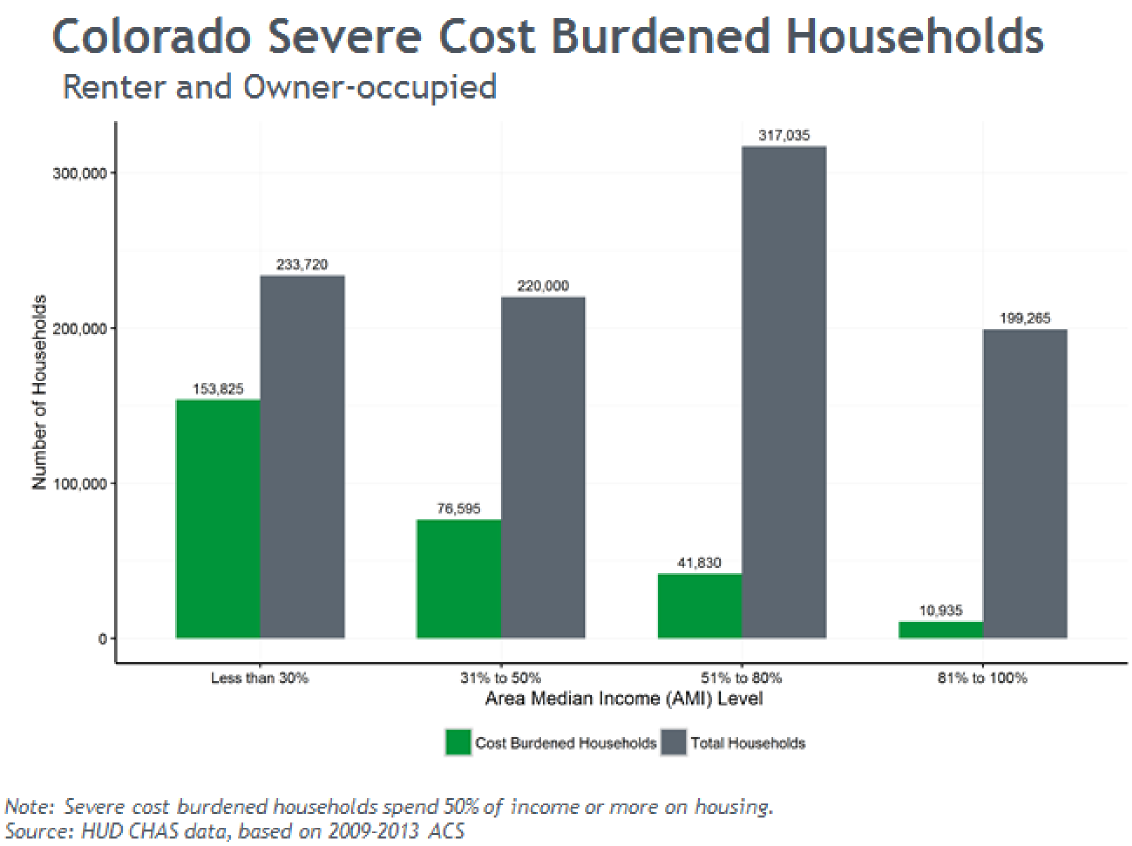
Because the need for affordable housing is so vast and resources so limited, staff recommends that the State's support be targeted to populations for whom providing housing is likely to offset other costs, such as emergency medical services. Requests R3 and R4 are more narrowly targeted to this population than Request R1.

DISCUSSION

SUPPLY AND DEMAND FOR AFFORDABLE HOUSING

In Colorado, as in much of the nation, there is an acute gap between the demand for affordable housing for low- and moderate-income people and the number of affordable units available.[1] The chart below shows the total number of households at certain income levels and the number in each category who are "severely cost burdened" because they pay fifty percent or more of household income for housing.

For example, in Denver, 30 percent of area median income (AMI) is $24,030 for a family of four. At this income level, "affordable" housing would be $600 per month (30 percent of household income) and the family would be considered "severely cost burdened" if paying $1,000 month, *i.e.,* 50 percent of household income.



As shown, at the lowest income levels (less than 30% AMI) there are almost 154,000 households that are severely cost-burdened. The large number is not surprising if you consider that the average rent for a two-bedroom apartment in Denver was $1,778 in October 2016. A household needs an income of $64,008 for this rent to be "affordable," but a minimum-wage ($8.31/hour) worker who works full time earns less than $17,000 per year. The Department reports that at the 30% AMI level, there are six households competing for each rental unit available at an affordable level.

[1] "Affordable" housing is typically defined as housing that requires no more than 30 percent of a household's income.

*Households with earnings lower than 30 percent of AMI that are **not** severely cost-burdened are likely to be receiving public subsidies.* There are approximately 80,000 households that are **not** severely cost-burdened, and the federal government provides just over 60,000 rental vouchers and project-based/public housing subsidies in the State which are generally targeted to households in this very low income range.

At somewhat higher income levels (30 to 80 percent AMI), households rely primarily on market rate housing, and the majority are not severely cost burdened—though many are. While there are approximately 130,000 households in this range identified as severely cost burdened, there are about 600,000--five times this figure--who are not. Some of these may be living in subsidized housing, but that is the minority. The Colorado Housing Finance Authority reports that there are about 89,000 subsidized units in the State, of which at least 30,000 serve those with very low incomes. This suggests that income-restricted/subsidized housing serves only a small fraction of those in the low-middle income range.

The chart below compares selected 2011 and 2016 data for very low income households. In some respects there has been remarkably little change, although the annual count of the homeless population has declined.

POPULATION IN NEED AND AVAILABLE DEEP HOUSING SUBSIDIES: 2011 AND 2016			
	2011	2016	% CHANGE
Total CO Households	2,008,257	2,134,380	6.3%
CO Households with incomes<30% AMI)* (see note)	236,960	233,720	(1.4%)
Estimated households with incomes <30% AMI who pay more than 50% income in rent/housing* (see note)	153,520	153,830	0.2%
Federally subsidized housing units + vouchers (deep subsidies) (generally for people with incomes<30% AMI)	57,848	60,056	3.8%
Estimated homeless population (point-in-time study)	15,116	10,550	(30%)

*In these categories, compares the 2007-2011 five-year average and the 2009-2013 five-year average from the American Community Survey.

STATE AND FEDERAL SUPPORT FOR AFFORDABLE HOUSING

State and federal housing subsidies typically take one of two forms:

1. Front-end construction support, which is tied to 15-30 year guarantees that units will only serve people who qualify based on income and that rents will remain restricted; and
2. Annual vouchers or building subsidies that cover the difference between 30 percent of a low-income participant's income and the unit's fair market rent.

CONSTRUCTION SUBSIDIES: Developing low income housing involves many players and uses financing from multiple sources to create units that are income-restricted for 15 to 30 years. The federal government is still the largest source of support. Based on the requirements for federal low-income housing tax credits, most of this housing is targeted to people earning 60 percent of AMI or less, though some may extend to those with incomes below 80 percent of AMI. Participating entities include:

- Housing developers: local housing authorities, not-for-profit and for-profit developers
- Local governments: land donations, local cash contributions, building regulation adjustments

- Federal government: block grant funds administered by local government entities ("entitlement" communities) and by the Department; federal housing tax credits administered by the Colorado Housing and Finance Authority.
- Real estate loan sources: commercial banks, mortgage companies, and investment bankers
- Division of Housing: equity and loans from federal and state sources, technical assistance
- Colorado Housing Finance Authority (CHFA): low-income housing tax credits, loans

If it participates in a project*, the Department of Local Affairs typically serves as a "gap financier,"* helping to buy down housing construction costs, as well as assisting locals to move the project forward. If they wish to access state funds, local housing authorities, and private for-profit and non-profit developers, submit a funding application that can apply to a number of the Division's fund sources, including the Housing Grants and Loan Program, the Community Development Block Grant funds it administers, and Federal HOME grants, as well as some smaller sources of federal funds. After applications are submitted by local housing actors, staff determines whether the project is consistent with state priorities and feasible and identifies the most appropriate mix of funds. Recommendations are then submitted to the State Housing Board.

While some state appropriations and federal grants are visible "on budget" **other significant—larger—funding sources are not reflected in the Long Bill. These include a state revolving loan fund (the CHIF), state housing tax credits, and most federal support including federal grants allocated directly to local governments and low-income housing tax credits.**

STATE CONSTRUCTION SUBSIDIES FOR AFFORDABLE HOUSING				
	SOURCE	USED FOR	ADMINISTRATION	AMOUNT
Affordable Housing Grants and Loans	Long Bill appropriation	Gap financing – grants	Division of Housing	$8,200,000 General Fund (FY 2016-17)
Colorado Housing Investment Fund (CHIF)	Continuously appropriated. Custodial funds from the settlement between states and mortgage servicing companies in 2012 and transfers from the General Fund LB appropriation	Gap financing - loans	Division of Housing	$36.2 million cash funds from Mortgage Settlement was deposited to the revolving loan fund. A portion is available each year for new loans.
Colorado Low Income Housing Tax Credits	General Fund revenue reduction (tax expenditure) most recently authorized by HB 16-1465	Adds equity to projects, reducing need for commercial loans	Colorado Housing and Financing Authority	Each year through 2019, CHFA may allocate tax credits valued at $30 million ($5.0 million per year, credited over six or more years).

LARGEST FEDERAL CONSTRUCTION SUBSIDIES FOR AFFORDABLE HOUSING				
	SOURCE	USED FOR	ADMINISTRATION	AMOUNT
Block Grants: Community Development Block Grant, HOME, Housing for People with Aids, Emergency Shelter Grant,	Federal appropriations (annual	Gap financing – grants	Division of Housing and 22 Entitlement Communities (local government entities)	$55,040,422 (2016) Note: Not all is used for housing

Largest federal Construction Subsidies for Affordable Housing				
	Source	Used for	Administration	Amount
Housing Trust Fund				
Low Income Housing Tax Credits	Federal tax expenditure	Adds equity to projects, reducing need for commercial loans	Colorado Housing and Financing Authority (CHFA)	$13.0 million federal 9% credits; $8.7 million per year federal 4% credits, (2016 allocation; represents annual amount to be paid for ten years, so worth far more)
Tax Exempt Bonds	Federal tax expenditure	Reduces financing costs through tax-exempt financing	Department of Local Affairs and CHFA	$117.2 million allocated in 2015

The federal government is the largest source of support for affordable housing. Housing authorities and non-profit developers report that federal Low Income Housing Tax Credits now provide the most significant federal subsidy available for housing: *$13.0 million in 9% tax credits translates into over $130.0 million in equity for projects.* This is also an important mechanism for state support. For additional information on this complex funding mechanism, see the box below.

Low Income Housing Tax Credits: Allocations of Low Income Housing Tax Credits (LIHTC), both federal and state, are allocated to projects by CHFA. The credit provides a $1 for $1 credit against taxes due for the life of the credit (6 years for state; 10 for federal), but the project that receives the credit must comply with the original affordability agreement (15+ years). Projects *sell* the credit to private entities which, in return, provide equity to the project that may be equal to, more or less than the face-value of the credit. As part of the arrangement, the private entity becomes the primary owner of the building, also giving the entity the ability to write off building depreciation and helping to ensure that the project complies with affordability requirements. State tax credits have been selling for $0.61 to $0.62 on the dollar; federal credits often sell for $1.05 to $1.15 on the dollar. The federal 9% credit provides a tax credit each year of up to 9% of the eligible construction costs for a period of ten years. The 4% federal credit is now often combined with the state tax credit to make it more marketable.

The resources described above appear to contribute to the development of 2,000-4,000 new affordable units each year, although the exact number is not clear. (Since most affordable housing projects rely on multiple subsidies for construction, staff does not have information on the number of *unique* new projects created statewide as a result of the various subsidies listed.) However, the chart below shows recent figures on units constructed that provide a sense of the **relatively small number of units added each year.** Note that there is partial overlap across the categories below, so that they should not be added.

FY 2015-16 NEW AFFORDABLE UNITS CONSTRUCTED WITH SELECT STATE AND FEDERAL SUPPORT		
	FY 2015-16	CORRESPONDING FUNDING
1) Units partially funded with State HDG/HITF funds	1,335	$8,700,105
2) Total units constructed with *state-administered* federal and state subsidies (overlaps #1 above)	2,505	$14,735,402
3) Total units constructed with state and federal tax credit funding (FY 2016-17 data; overlaps with #2)	1,754	$26.7 million in tax credits

RENTAL SUBSIDIES: Rental vouchers that move with the person or project-based assistance, that ties a rent-subsidy to a building, covers the difference between the unit's rental rate and 30 percent of the individual's income. The federal government supports over 60,000 such vouchers in Colorado, while the State currently supports 350. With the passage of House Bill 11-1230 (Consolidate housing assistance in Department of Local Affairs), the Department took responsibility for federal housing assistance vouchers previously located in the Department of Human Services for special populations such as persons with substance abuse problems or disabilities.

FY 2015-16 RENTAL SUBSIDIES IN COLORADO		
	FY 2015-16 VOUCHERS/SUBSIDIZED UNITS	CORRESPONDING FUNDING
All federal rent subsidies – state and entitlement community administered		
Subsidized Units (public housing, PBV, 811, 202)	30,304	
Rental vouchers (housing choice voucher)	29,752	
Total Federal Statewide*	**60,056**	$428.0 million[2]
State Vouchers (Community Choice; Mental Health	211**	$1,360,813

*Of the total, the Department of Local Affairs administers 6,553 with a value of $49.4 million.
**350 in FY 2016-17

CAN THE STATE MAKE A DIFFERENCE? REQUESTS R1, R3, R4, AND INTERIM BILL

Looking at the demand for affordable housing, **it is evident that the State has almost no ability to "move the needle" on affordable housing except to the extent it targets the most needy subset of the population.**

The Department reports that in FY 2015-16, state support contributed to the construction of 1,335 units, of which 1,111 were rent-restricted affordable units, based on grant funding from the Affordable Housing Construction Grants and Loans line item and off-budget revolving funds from the Housing Investment Trust Fund.

- A total of 1,111 new units represents less than 0.7 percent of housing needed for very low income households (30% AMI) paying more than 50 percent of their household income in rent.
- However, the number of new units looks far more significant when compared with the Colorado homeless population of 10,550, counted in the 2016 point-in-time study. While the point in time study represents an undercount of people who are homeless, it does identify those

[2] As of 2014, Center on Budget and Policy Priorities, http://www.cbpp.org/sites/default/files/atoms/files/4-13-11hous-CO.pdf

who are staying in shelters as well as many who are most visibly unsheltered. Thus, it likely captures many of those with the highest needs.

- In light of this, staff continues to recommend that state support for affordable housing be narrowly targeted to those with the highest needs, for whom there may be offsetting savings in other parts of state government.

REQUEST R1: The Department's request R1 would expand the current $8.2 million appropriation for affordable housing construction grants and loans by $2.0 million to $10.2 million. The target population for this request is low-income Coloradans across the state spending 50 percent or more of their income on housing. This is a diverse group. The request indicates that the Division's "Housing Pipeline", representing projects planned for the next 24 months, includes 7,334 units that could be constructed if resources are available.

The Department's request particularly highlights:

Rural Coloradans: Rural projects are often too small for federal Low Income Housing Tax Credit financing and often require greater per-unit subsidies. Of units in the housing pipeline, 2,332 are in rural communities.

Seniors: By 2020, the population between ages 65 and 74 will nearly double. Funding is needed to develop housing for seniors close to support services.

Gentrification: The Department intends to target more funding to Colorado communities that are experiencing gentrification or at risk of gentrification.

The Department prioritizes projects to target the homeless and other very low income populations, but it also attempts to support other projects that meet local communities' housing needs. This request would further expand the state's involvement in a broader array of projects and is less narrowly focused on those with the highest needs.

REQUESTS R3 AND R4: Requests R3 and R4 would provide $16.2 million in Marijuana Tax Cash Fund moneys for programs to serve those who need housing and services due to mental illness, disabilities, and other serious problems. These initiatives are discussed in more detail in a separate issue.

ADDITIONAL INITIATIVE – BILL D – MENTALLY ILL IN THE CRIMINAL JUSTICE SYSTEM: CONCERNING RE-ENTRY SERVICES FOR PERSONS WITH MENTAL ILLNESS IN THE CRIMINAL JUSTICE SYSTEM (Woods/Singer) This committee bill directs the Division of Housing in DOLA to "establish a program that provides vouchers and other support services for housing assistance for a homeless person with a severe mental illness or co-occurring behavioral health disorder who is transitioning from the department of corrections or county jail into the community". The bill also outlines related responsibilities for the Department of Human Services, Office of Behavioral Health and DOLA. It requires that funds that revert from community corrections contracts in the Department of Corrections shall be deposited into the Housing Assistance for Persons Transitioning from Incarceration Cash Fund created by the bill, which is continuously appropriated to DOLA. Finally, it provides appropriation of $2,700,000 General Fund to DOLA to support the proposed initiative. *Overall, this initiative is similar to request R3, although it is targeted at a subset of the R3 population (those with criminal justice involvement).* Separate from the requests submitted through the budget process, it would add $2.7 million General Fund and continuously-appropriated funds from community corrections reversions. The bill's fiscal note indicates that over the last several years, between $700,000 and $2.2 million per year has reverted from community corrections appropriations.

ISSUE: REQUESTS FOR PERMANENT SUPPORTIVE HOUSING AND RAPID REHOUSING

The Department of Local Affairs has submitted two decision items totaling $16.3 million from the Marijuana Tax Cash Fund for housing and services for homeless individuals with high needs. The requests would fund permanent supportive housing and rapid rehousing, adding over 1,500 new housing units and associated services over five years.

SUMMARY

- While goals for ending homelessness have been pervasive, success has been checkered. In Colorado, the number of beds for homeless individuals has grown by over 30 percent since 2011. Annual point-in-time homeless counts indicate the number of people in shelters and on the street has declined, but some subsets of the homeless population have increased.

- At present, the State is providing about $10.4 million per year General Fund for housing services for over 600 homeless individuals with high needs. Statewide, there are over 4,000 permanent supportive housing units supported by federal, state, and other funding sources, but as many as 5,000 additional units may be needed.

- The Department of Local Affairs has submitted two decision items totaling $16.3 million from the Marijuana Tax Cash Fund for housing and services for homeless individuals with high needs. The requests would fund permanent supportive housing and rapid rehousing, adding over 1,500 new housing units and associated services over five years.

- The Department points to studies indicating that providing housing services for high-needs individuals can be cost-effective and result in significant government cost-savings. However, research also suggests that the degree of savings realized is dependent upon the particular subset of the homeless population that receives services. Thus, providing housing for the five or ten percent of individuals who are the heaviest users of emergency medical services is likely to provide net savings, while providing services to a broader group of homeless individuals will not be. (Though some may nonetheless support this as a public good.)

- The Department requests new legislation to authorize use of the Marijuana Tax Cash Fund for this purpose. It also requests a high degree of flexibility in using the funds, including the ability to roll-forward funding into subsequent years.

RECOMMENDATION

Staff supports the portions of the requests that expand permanent supportive housing, subject to steps to ensure appropriate targeting and accountability. If the Committee is willing to sponsor legislation on this topic, staff recommends that it not only authorize use of the MTCF but also add statutory provisions formally creating a state program to reduce homelessness, with various evaluation and reporting requirements. Staff also recommends a lower level of funding in the program's first year to ensure careful program development and to account for ramp-up of new units. With respect to the rapid rehousing initiative, staff believes the Committee should further question the Departments of Local Affairs, Human Services, Corrections, and Public Safety (Division of Criminal Justice) on the benefits and risks of this portion of the request.

DISCUSSION

BRINGING HOMELESSNESS IN CHECK

In recent decades, various initiatives have presented lofty goals for reducing the homeless population. In 2001, the U.S. Department of Housing and Urban Development, under the administration of President George W. Bush, created an initiative to end chronic homelessness, reactivating the U.S. Interagency Council on Homelessness.[3] This encouraged many communities, including Denver, to establish 10-year plans for ending homelessness. More recently, in 2010, the Interagency Council's "Opening Doors" report established goals that include: preventing and ending homelessness among veterans in 2015, finishing the job of ending chronic homelessness in 2017, and preventing and ending homelessness for families with children and youth by 2020.[4]

The arguments in support of these efforts typically fall into two categories: (1) a moral argument that society has an obligation to help those who have served the country, such as veterans, or to help people who are vulnerable, such as those with mental illness and other disabilities; (2) a cost-effectiveness argument. For some homeless people, the cost to the government of providing housing may be entirely offset (or more) by reductions in emergency medical and criminal justice costs.

While goals for ending homelessness have been pervasive, success has been checkered. Nationally, the total number of homeless people has declined, based on annual point-in-time studies. There has been clear progress in reducing the number of homeless veterans. A vast infusion of federal dollars, including the nationwide addition of 85,000 new permanent supportive housing vouchers for veterans since 2008 and programs now serving 99,000 veterans and their families, has demonstrably reduced the number of homeless veterans nationwide. Federal authorities report a 50 percent decline in veteran homelessness since 2010, and some states (notably Virginia) and cities (e.g., Houston and New Orleans) appear to have successfully housed or otherwise addressed the needs of virtually all homeless veterans.[5] There has been nowhere near this level of success for other homeless populations, presumably in large part because the level of resources available has remained far lower.

In Colorado, although there has been concerted focus on homelessness at both local and state levels, progress has been mixed. The number of beds for homeless individuals has grown. As reported to

[3] Steve Berg, "Ten-year Plans to End Homelessness", National Alliance to End Homelessness, 2015. http://nlihc.org/sites/default/files/Sec7.08_Ten-Year-Plan_2015.pdf

[4] United States Interagency Council on Homelessness, Updated October 11, 2016. https://www.usich.gov/opening-doors

[5] HUD press release: Obama Administration Announces Nearly 50 Percent Decline in Veteran Homelessness, August 1, 2016. http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2016/HUDNo_16-117. Veterans Administration, "Ending Veteran Homelessness—A Community by Community Tally", March 2016. http://www.va.gov/HOMELESS/endingVetshomelessness.asp

the U.S. Department of Housing and Urban Development, *in 2011 there were 10,193 beds targeted at the homeless (emergency, transitional, and supportive) reported statewide in Colorado; by 2015 there were 13,172,* ***an increase of 2,979 or almost 30 percent.***

2011 v. 2015 Homeless Housing - Beds Available			
	2011	2015	Change
Balance of State	1,610	2,988	1,378
Denver Metro	7,421	8,465	1,044
Colorado Springs/Douglas Cty.	1,162	1,719	557
TOTAL	**10,193**	**13,172**	**2,979**

2015 Homeless Housing - Beds Available					
	Emergency	Permanent Supportive	Transitional	Safe Haven	Total
Balance of State	1,324	727	937		2,988
Denver Metro	2,990	2,601	2,849	25	8,465
Colorado Springs/Douglas Cty.	516	855	348		1,719
TOTAL	**4,830**	**4,183**	**4,134**	**25**	**13,172**

Source: HUD Continuum of Care Dashboard Reports
https://www.hudexchange.info/programs/coc/coc-dashboard-reports/?filter_Year=2010&filter_State=CO&filter_CoC=&program=CoC&group=Dash

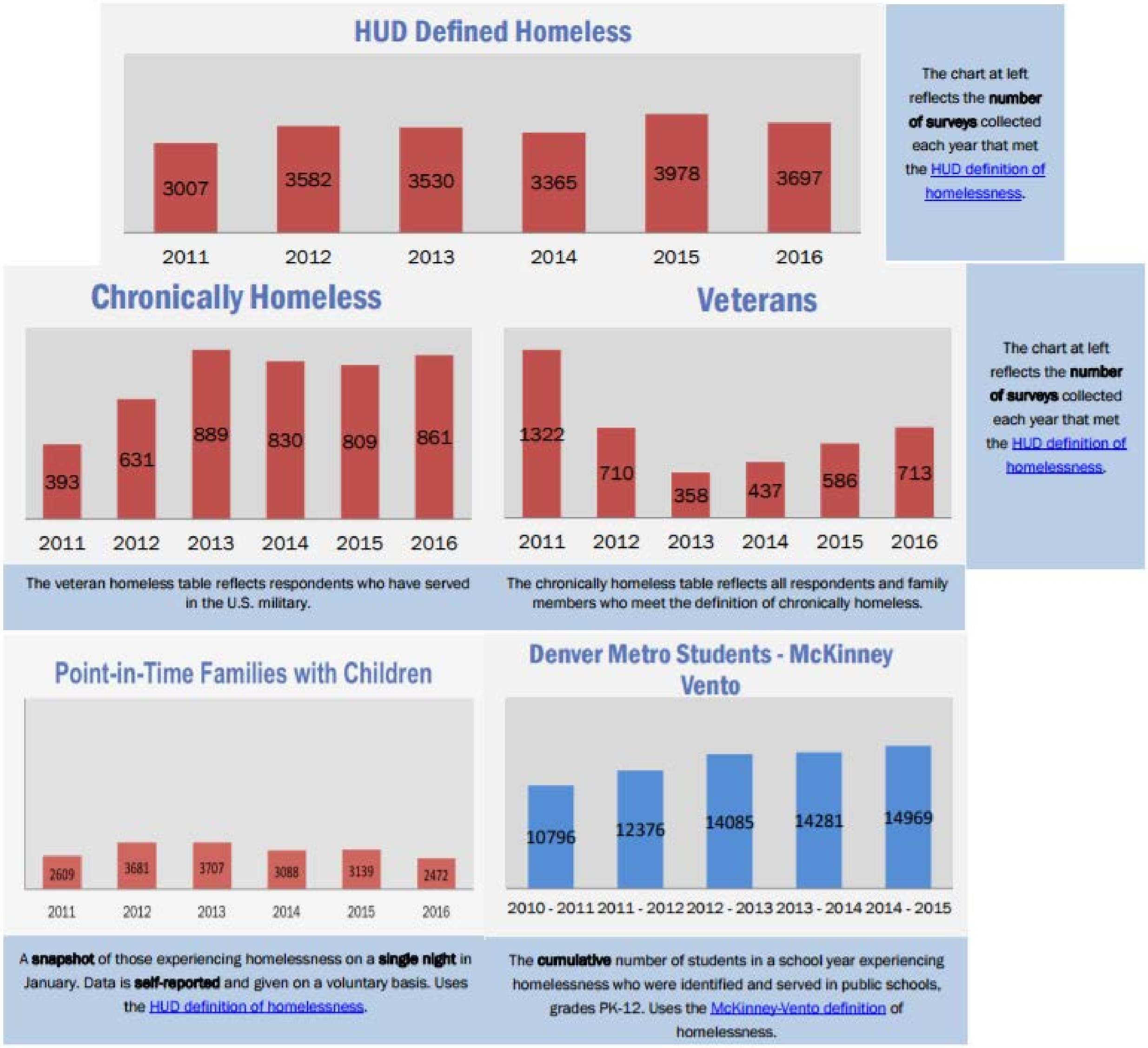
Encouragingly, **the total number of people identified in homeless counts has declined by 30 percent over the same period. Yet the trends vary based on subset of the population.** Statewide, the 2016 Point in Time Study counted 10,550 homeless people in Colorado. A recently-released federal study of homelessness nationwide finds that, while homelessness has declined substantially nationwide, homelessness in large urban areas has often increased.[6]

Statewide Point-in-time Homeless Count: 2011 and 2016			
	2011	2016	% Change
Estimated homeless population (point-in-time study)	**15,116**	**10,550**	**(30%)**
Chronically homeless	1,288,	1,642	27%
Veterans	2,074	1,181	(43%)
Unaccompanied youth	347	653	88%
People in families with children	10,570	4,100	(61%)

The charts below reflect the 5-year trends as assessed based on annual point-in-time survey of the 7-county metro region, where the largest share of the homeless population live. These charts are directly excerpted from the Metro Denver Homeless Initiative 2016 Point-In-Time (PIT) Report.[7] As can be seen, with the exception of the veteran population, overall numbers in this area have changed relatively little over time.

[6] U.S. Department of Housing and Urban Development, Office of Community Planning and Development, The 2016 Annual Homeless Assessment Report to Congress, November 2016. https://www.hudexchange.info/resources/documents/2016-AHAR-Part-1.pdf

[7] The report notes that the annual PIT study provides an undercount of homelessness, as evidenced by a comparison with school district data on number of homeless school children, and that caution should be used in comparing data across years, since anomalous factors (e.g., the weather) may affect counts. Nonetheless, the PIT studies remain the best source of data about overall homelessness trends.



Source: Metro Denver Homeless Initiative 2016 Point-In-Time Report
http://mdhi.org/wp-content/uploads/2016/07/2016-PIT-07.07.16-APT-JB.pdf

STATE HOUSING SUPPORT FOR HIGH NEEDS POPULATION AND NEED

At present, the State is providing about $10.4 million per year General Fund for housing services for individuals who require supportive housing. This includes:

- funding for rental vouchers, including 125 for individuals leaving the state mental health institutes;
- support for the Fort Lyon facility, which houses about 200 people with chronic homelessness and substance abuse issues; and
- support for affordable housing construction, some of which is directed to supportive housing construction.

STATE HOUSING SUPPORT FOR HIGH-NEEDS POPULATION			
	NUMBER VOUCHERS/RESIDENTS/NEW CONSTRUCTION FOR HIGH-NEEDS	FY 2016-17 OPERATING BUDGET/ 2016 CONSTRUCTION	AVG. ANNUAL COST PER VOUCHER/ RESIDENT FTE
State Vouchers	350	$2,660,938	$7,602
Fort Lyon Supportive Res. Community	Up to 250	4,989,637	$19,958
New PSH and Emergency Units Constructed	264	2,724,315	$10,319
Total		**$10,374,890**	

Based on the most recent federal data, t**here are 4,138 permanent supportive housing units available in the state**. In 2014, the Governor's Office commissioned a study on the need for permanent supportive housing units in Colorado. The August 2014 to the Governor's Office by Werwath Associates concluded that, based on the annual 2014 "point in time" survey of individuals who are either in emergency shelters or unhoused, the State needs about 5,800 more subsidized dwelling units, "*many*" with attached social services.[8] *The report notes that data are not available on the number of supported (service-rich) housing units needed, but implies a range on the order of 3,000-5,000, i.e., about double the number of permanent supportive units currently available.* The report identifies a need for: (1) more rent vouchers to house homeless people in scattered-site supportive housing and larger affordable rental projects; (2) larger grant-like investments in construction; and (3) case management funding.

REQUESTS R3 AND R4: PERMANENT SUPPORTIVE HOUSING AND RAPID REHOUSING

The Department of Local Affairs has submitted two decision items totaling $16.3 million from the Marijuana Tax Cash Fund for housing and services for homeless individuals with high needs. The requests would fund permanent supportive housing and rapid rehousing, adding over 1,500 new housing units and associated services over five years. Both types of housing are part of the continuum for addressing homelessness among individuals with significant needs such as mental illness.

R3 SUPPORTIVE HOUSING FOR BEHAVIORAL HEALTH: The Department requests ongoing support of $4,000,000 per year from the Marijuana Tax Cash Fund and 1.0 FTE to support the development of 354 permanent supportive housing units specifically for behavioral health consumers over five years. *The Permanent Supportive Housing (PSH)* model combines housing with other services and is a key component of both R3 and R4. Most programs are Housing First/"low barrier to entry", i.e., individuals receive an apartment without any specific commitment that they will remain sober or participate in certain activities, but they are then offered services that are "voluntary but assertive". A resident must typically pay 30 percent of his or her income in rent but may remain in the housing as long as he or she is a good tenant. Other models, e.g., group homes, may also be appropriate depending upon client needs.

The program would target:

- *Individuals exiting state mental institutes or other hospitals.* On July 1, 2016, there were 15 individuals at the institutes who would have benefited from a step-down placement were it available, equating

[8] This figure was based on the estimated households (as opposed to individuals) determined to be *unsheltered or in emergency shelters* in Colorado and excludes people in transitional housing.

to 150 per year in this situation. The average cost per day at the state mental health institute at Pueblo is $666, greatly exceeding costs of a step-down housing placement.

- *Ex-offenders/Diversions from incarceration for people with severe mental illness.* The request notes that 20% of individuals entering prisons and jails have mental illness and 10% are homeless in the months prior to incarceration. Approximately 1,800 individuals exit the state prison system to homelessness each year, and 70 percent of these have high service needs.
- *Homeless individuals with severe mental illness.* The 2015 Point in Time survey found that 1,877 of the 9,953 individuals counted as homeless self-reported as severely mentally ill. The federal Substance Abuse and Mental Health Services Administration reports that over 60 percent of people who are chronically homeless have experienced lifetime mental health problems and over 80 percent have alcohol or drug problems.

The table below summarizes the Department's anticipated mix of construction and voucher funding over a five year period.

Expenses	Year 1	Year 2	Year 3	Year 4	Year 5	Assumptions
Housing Production	$ 3,000,000	$ 2,000,000	$ 1,700,000	$ 1,400,000	$ 1,000,000	5% annual cost inflator
Units per Year	125	79	64	51	35	
Cumulative Units	125	204	269	319	354	40% Acquisitions 60% New Const
State Housing Vouchers	$ 820,000	$ 1,816,400	$ 2,112,728	$ 2,408,983	$ 2,805,162	$650/unit (5% annual inflator)
People served w/SHV	105	222	246	269	300	
Housing Navigator	$ 80,000	$ 81,600	$ 83,232	$ 84,897	$ 86,595	
Administrative	$ 100,000	$ 102,000	$ 104,040	$ 106,121	$ 108,243	
Total	**$ 4,000,000**	**$ 4,000,000**	**$ 4,000,000**	**$ 4,000,000**	**$ 4,000,000**	

As shown:

- During the first year, the Department anticipates 125 PSH units would be constructed and 105 people would be served by housing vouchers;
- By the fifth year, it anticipates 35 units would be constructed and 300 people would be served by housing rental vouchers.
- The request would support a 1.0 FTE housing navigator position and administrative funding.
- Related case management and other services are not included but would be paid for by behavioral health system sources.

R4 SUPPORTIVE HOUSING AND RAPID REHOUSING: The Department requests $12,319,900 per year from the Marijuana Tax Cash Fund and 1.0 FTE to support permanent supportive housing and rapid rehousing initiatives. The request anticipates that **300 revolving RRH placements and 1,200 PSH placements will have been created by the program by year 5**. *Rapid Rehousing (RRH)* is a temporary, two-year housing model that includes housing and services similar to PSH but is targeted to individuals with lower needs who are expected to exit the program and live independently after two years. Most of the RRH request is to serve people with *minimal* mental illness who are exiting the Department of Corrections.

This initiative differs from R3 in that:

- The target population is larger: "The five-year goal of the proposal is to end homelessness for veterans and chronically homeless and reduce homelessness for at-risk youth." Thus, the request would provide permanent supportive housing services for a broader range of consumers referred by both the Department of Corrections and the Department of Human Services.
- The request includes a "rapid rehousing" component targeted to lower-needs individuals exiting the Department of Corrections.
- Case management and employment counselor services are included, unlike for the behavioral health request.
- The request would include an evaluation component that the Executive now estimates at $100,000 per year.
- The five-year spending plan reflects an assumption that ongoing voucher costs will be assumed by federally-funded vouchers, allowing the Department to continue to focus funding on construction subsidies. By year 5, the request assumes that federal authorities will be adding as many as 400 new vouchers a year, allowing 1,200 of the 1,500 units created by year five to be supported by federal support on an ongoing basis.
- In the event that additional federal housing vouchers were not forthcoming, the $12.3 million could potentially support 1,200 ongoing vouchers (up to 300 rapid rehousing and 900 permanent supportive housing), instead of supporting new construction; however, the cost of those vouchers would likely increase over time, potentially driving either a reduction in the number of people served or an increase in demands on the state budget.

	Year One	Year 2	Year 3	Year 4	Year 5	Notes
Per unit Subsidy	$24,000	$25,200	$26,460	$27,783	$29,172	5% inflator
RRH units	200	100	0	0	0	300
PSH units	100	200	300	300	300	1,200
Total	300	300	300	300	300	1,500
	$7,200,000	$7,560,000	$7,938,000	$8,334,900	$8,751,600	$39,784,500
Rapid Rehousing						
Case Management	$330,000	$550,000	$550,000	$550,000	$550,000	staff ratio 30:1
Rental Assistance	$1,560,000	$2,340,000	$2,340,000	$2,340,000	$2,340,000	$650/mo
PSH						
Case Management	$165,000	$825,000	$1,100,000	$1,650,000	$2,200,000	staff ratio 30:1
Rental Assistance	$780,000	$2,340,000	$4,680,000	$7,020,000	$9,360,000	$650/mo
Employment Counselor	$130,000	$130,000	$195,000	$195,000	$195,000	staff ratio 100:1
Admin/Training/ Evaluation	$200,000	$225,000	$250,000	$275,000	$300,000	
Total Cost	$10,365,000	$13,970,000	$17,053,000	$20,364,900	$23,696,600	
Rent Subsidy Offset	$450,000	$1,350,000	$4,050,000	$7,200,000	$10,800,000	$750/mo
# of vouchers	50	150	450	650	1,200	
Total MJ funding	**$9,915,000**	**$12,620,000**	**$13,003,000**	**$13,164,900**	**$12,896,600**	**$61,599,500**

Common Factors in Requests

- *Construction and rental vouchers, roll-forward:* Both requests propose that the funds be used flexibly for a mix of housing construction subsidies and housing vouchers and propose that funds be allowed to roll forward from year-to-year to provide maximum flexibility to the Department.

- *Deep subsidies:* Both requests reflect relatively deep housing subsidies, given the population's needs: $24,000 per unit for construction gap financing in the first year, $7,800 annual rental voucher per unit, and (for R4) annual case management costs of $1,928 per unit per year.

- Both *requests indicate that legislation will be needed* to add housing to the list of acceptable uses of the Marijuana Tax Cash Fund. Staff concurs that Section 39-28.8-501, C.R.S., must be amended.

- *Cost-effectiveness argument*: Both requests argue that investing in the requested housing will be cost-effective for the State, resulting in offsetting savings of $30,000 to $40,000 per year per person related to reduced medical and criminal justice costs for participants, compared to housing voucher plus service costs of just under $10,000 per year.

Evidence for Cost-effectiveness

The Department's requests cite extensive studies arguing for the cost-effectiveness of providing housing for high-needs homeless populations. The Department highlighted eight studies that had found cost-savings associated with housing services. Some of these included:

- The 2001 Culhane Report, which assessed the impact of supportive housing for 4,679 homeless persons with severe mental disabilities in New York City. The study found that before placement homeless people with severe mental illness used about $40,451 per person per year in services (1999 dollars). Placement in housing was associated in with a reduction in services use of $16,281 per housing unit per year.
- A 2006 Colorado Coalition for the Homeless Cost Benefit Analysis Study, which studied actual health and emergency service use of individuals for a 24 month period prior to entering housing services to a 24 month period afterwards. The study found emergency cost savings of $31,545 per participant.
- A 2012 Supportive Housing for Returning Prisoners Program in Ohio pilot, which compared post-incarceration costs for 121 participants who received supportive housing with 118 who did not. Those in housing were 43% less likely to be re-arrested on misdemeanor charges and 61% less likely to be incarcerated.
- A review by the Corporation for Supportive Housing of 20 studies published between 2002 and 2014 from across the country that studied chronically homeless, high utilizers accessing permanent supportive housing. The average annual cost per person while homeless was $67,209 per person. Once housed, the average annual cost reduction was $40,474.

These and many similar studies that show that permanent supportive housing can be cost effective; *however, evidence suggests that these kinds of savings only hold for a certain high-utilizer subsection of the homeless population.* Even focusing on individuals who are chronically homeless is not always sufficient to deliver net cost savings, because providing housing is very expensive (nearly $10,000 per year per this request for housing and case management).

- The Washington State Institute for Public Policy (WSIPP) concluded from its review of meta-data from other studies that providing supported housing for chronically homeless adults is not cost-effective (has a net *cost* of $22,517 with a **0 percent chance that financial benefits will outweigh financial costs)**.[9]
- A detailed study of the Silicon Valley homeless population found that public costs only exceed the cost of providing housing for the top 5 percent of homeless service users.[10]
- Rapid rehousing, while considered a "promising practice" **does not** yet have evidence-based support, according to the Governor's Office.

[9] Washington State Institute for Public Policy, Cost-Benefit Results http://www.wsipp.wa.gov/BenefitCost?topicId=8

[10] Daniel Flaming, Halil Toros, and Patrick Burns, *Home Not Found: the Cost of Homelessness in Silicon Valley*, Economic Roundtable, 2015.
http://destinationhomescc.org/wp-content/uploads/2015/05/er_homenotfound_report_6.pdf

In response to a staff request, the Results First team from the Governor's Office used data provided by the Department of Local Affairs to provide a cost-effectiveness analysis of the permanent supportive housing component of this request. **As Results First uses a version of the WSIPP model, their results also conclude that PSH is not cost-effective.**

Summary of Benefit-Cost Components

Table 1: Benefit-Cost Analysis of Permanent Supported Housing	
a. Benefits to Taxpayers	$438.96
b. + Non-taxpayer Benefits	$983.25
c. = Total Benefits	$1,422.21
d. Cost	$8,688
e. Benefits – Cost	$(7,265.79)
f. Taxpayer Benefit-Cost Ratio (a/d)	$0.05
g. Total Benefit-Cost Ratio (c/d)	**$0.16**

The Results First team notes that the model generally does not show savings associated with permanent supportive housing at least in part because of the wide variability in populations studied and because the model is unable to "monetize" all benefits that may be associated with providing housing. No analysis is available for rapid rehousing due to the limited number of studies of the program.

Staff concludes that **if the General Assembly wishes to fund this initiative because providing housing may be "cost-effective," it will be critical to ensure that the program serves the correct subset of "high needs" users. Further, this should be monitored through instruments that assess client needs and enable the State to study the program's impacts.**

Management, Roll-out, and Accountability Issues

The Department has requested (1) that all funds associated with this request be appropriated in a line item that is normally dedicated to construction funding but has also proposed that it be allowed to spend for rental vouchers from the same line item; and (2) that it receive authority to roll-forward the appropriated funding as needed. Thus, it is seeking a high degree of flexibility in use of these new funds. *Staff is concerned that this is more flexibility than is appropriate. Certainly, if such flexibility is granted, the General Assembly should also demand additional accountability on use of the funds.* Staff's specific concerns include:

- The request, as formulated, reflects significant spending for housing vouchers in the first year, even though this is the year when the new units would be constructed. It would be extraordinary for the Department to be able to both construct new units and fill them for a full a twelve months the first year. Thus, **staff assumes that more than half of the funds requested in the first year would likely not be used and would instead be rolled forward to the second year.**

- The 2014 study commissioned by the Governor's Office on the need for permanent supportive housing outlines various administrative issues that must be addressed. It recommends, the Department and the Colorado Housing and Finance Authority (CHFA):
  - better define a "supportive housing unit" and the special incentives to be made available for such projects;
  - adopt "changes in underwriting to ensure public benefit and financial soundness"; and

   - adopt "cost-control guidelines, which might be considered by the Division and CHFA" to keep the total subsidy needs in check.

  Consistent with this: "Because a number of policies and procedures of CHFA and DOH would have to change, we recommend that these agencies consider rolling out a test phase through a pilot RFP for the first 150 units proposed." **The current request includes no mention of a test-phase.**

- **Rapid Rehousing proposal concerns:** (1) There may be significant obstacles to siting the proposed rapid rehousing for people exiting DOC, given that it is virtually impossible to site community corrections facilities due to community resistance. (2) This portion of the request is targeted to those with lower needs (e.g., "minimal" mental health issues). Particularly in light of this, it is unclear whether this portion of the request can deliver savings comparable to the savings that may be available from permanent supportive housing. As noted by the executive branch, there is insufficient evidence to even count this type of service as "evidence based".

RECOMMENDED PROGRAM COMPONENTS

Staff believes a significant initiative such as this, if funded, should:

- Ensure ongoing cross-departmental coordination to address homelessness, even after a change in executive administration. The Executive Branch has created a Pathways Home Colorado Advisory Board to direct the implementation of the state plan to end homelessness; the General Assembly could consider formalizing such an entity in statute if it intends to provide ongoing resources for this purpose.
- Adopt and *test* definitions, underwriting guidelines, and cost-control measures for supportive housing and (if approved) rapid rehousing.
- Require programs to use and report on the severity of client needs based on reliable and consistent instruments, in order to support program evaluation. An existing tool is already being used in the 7-county metro region. Consistent use of this tool must be extended throughout the State so that new state housing vouchers are appropriately targeted.
- Require the State work aggressively to ensure that General Fund does not substitute for Medicaid case management and treatment services. At present, Medicaid case management and treatment for people in permanent supportive housing is available in some parts of the State but not others based on contractual arrangements between mental health centers and behavioral health organizations (BHOs). State contractual requirements for mental health centers (DHS contracts), BHOs (HCPF contracts), and potentially other HCPF managed care entities to ensure that Medicaid case management services are provided for those in supportive housing who are Medicaid eligible.
- Develop an evaluation system from the outset that will enable the program to track (or at least estimate) the costs and benefits of the State's investments. To the extent feasible, such analyses should build on other research already in progress, such as the study of the Fort Lyon and the Denver Social Impact Bond.
- Require regular reporting to the General Assembly.

Staff believes legislation could help to ensure that this program is thoughtfully developed, managed, and evaluated over the long-term. The Department has correctly noted that legislation is already required to implement this proposal in order to use the MTCF funding source. Staff agrees but believes a more comprehensive bill may be appropriate.

ISSUE: RURAL ECONOMIC DEVELOPMENT

The Department of Local Affairs requests $104,927 from mineral and energy impact funds and 1.0 FTE to enhance rural services coordination on the Western Slope and $515,095 General Fund to backfill property taxes lost to local governments as a result of the closure of the Kit Carson Correctional Center on the Eastern Plains. Although the Department has general statutory responsibilities related to promoting economic development in rural areas, related new legislation may be required.

SUMMARY

- As members of the General Assembly are aware, economic development and income is unevenly distributed across the State, and many parts of the State have experienced declining populations for decades.

- The Department of Local Affairs has various general statutory responsibilities related to promoting economic development, particularly in rural areas.

- The Department administers two small programs under this general statutory authority that are designed to help reinvigorate struggling rural communities: the Rural Economic Development Initiatives Program, and the Main Streets Program. It also distributes larger energy impact infrastructure grants and provides technical assistance to local governments.

- For FY 2017-18 the Department has submitted two requests related to economic development in more remote parts of the State: R2 Enhanced Rural Services Coordination would add $104,927 and 1.0 FTE reappropriated energy and mineral impact funds for a new position in Grand Junction to assist local communities that are economically impacted by closures of major employers. R5 Kit Carson Mitigation Plan request for $515,095 General Fund would backfill two-thirds of the 2017 property tax reductions to Kit Carson County, the City of Burlington, and special districts anticipated as a result of the closure of the Kit Carson Correctional Facility.

RECOMMENDATION

1. If the Committee wishes to move forward with either of the Department's two proposals, staff recommends sponsoring related legislation.
    - The Kit Carson request would directly backfill lost local government revenue related to closure of a prison. OLLS is of the opinion that the Department has no statutory authority for this activity. If desired, new legislation could authorize a grant program for the purpose of addressing closure of a state-operated facility or another dominant employer in a rural region and allowing grants for temporary backfill of lost local government revenue, economic planning, and government infrastructure. On November 17, 2016, OSPB submitted a letter indicating that it would support a statutory change if the General Assembly feels it cannot appropriate funds for this without one.
    - The request would further expand the use of Mineral and Energy Impact funds for department administration. While the General Assembly has a longstanding practice of

using energy and mineral impact funds for Department administration, there is no specific statutory authority that supports this use.

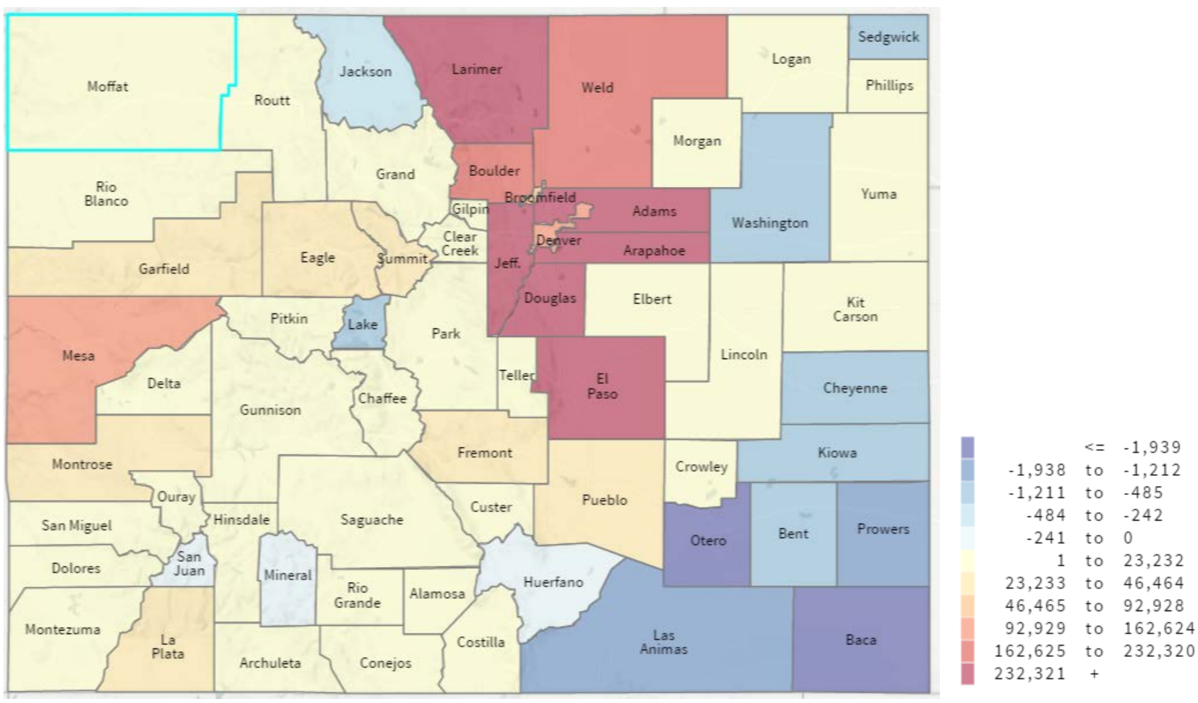
2 The proposals put forward—for 1.0 new state FTE and to backfill a local government's lost revenue—provide little guidance as to how the State should respond to economic crises in rural areas in the future, be they prison closures or mine closures. Staff encourages the Committee to discuss with the Department whether additional approaches and tools should be considered.

DISCUSSION

RURAL ECONOMIC DEVELOPMENT IN COLORADO

As the Committee is aware, economic development and income is unevenly disbursed across the State. Rural parts of the State have experienced flat or declining population for decades.

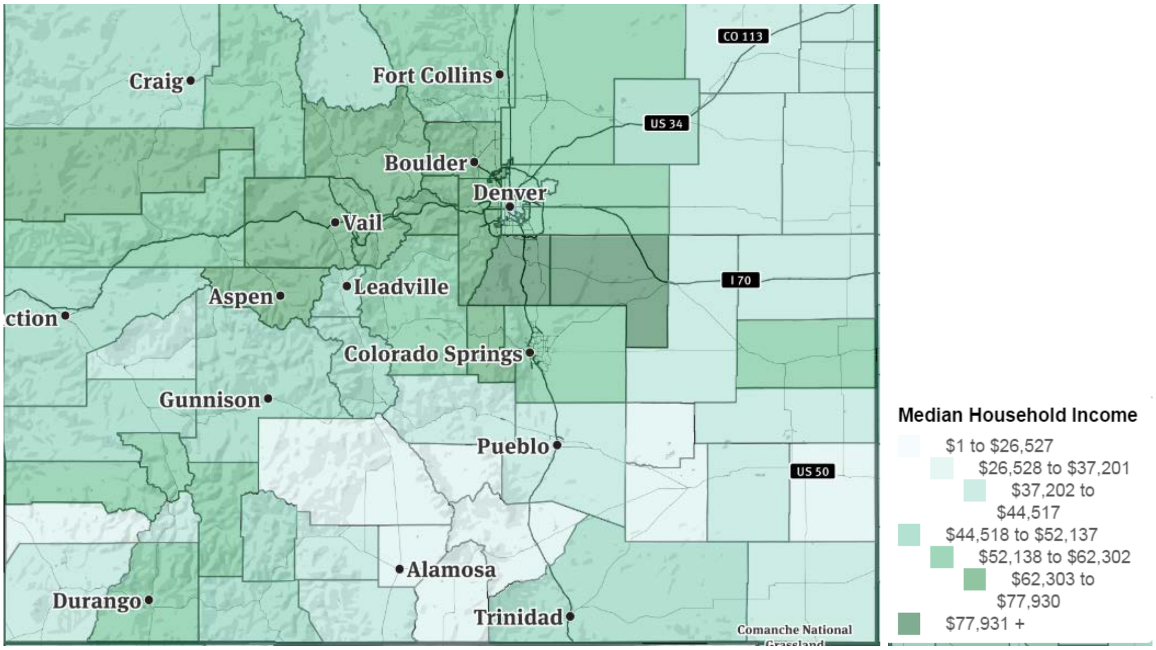
Total Population Change by County (1970-2015)



Source: Colorado Department of Local Affairs, State Demographer's Office

The total population of the State outside the 12 urban Front Range comprised just 17.5 percent of the state's total population in 2010 and less than 15 percent if Mesa county is excluded.

The chart below, from the American Community Survey data 2010-2014 shows median household income by county.



Source: Colorado Department of Local Affairs, State Demographer's Office

Even during the current economic expansion, many areas outside of the Front Range have grown far more slowly than the Fort Collins-Denver-Colorado Springs corridor. As discussed in both the OSPB and LCS September 2016 forecasts, while there are positive signs of growth in most parts of the State:

- Most job growth has been occurring in the Front Range.
- Rural locations have been hit hard by low commodity prices since 2015. On the eastern plains and in the San Luis Valley, direct employment in agribusiness is the largest "basic" employment sector, comprising 30 percent and 27 percent, respectively.
- Natural gas production in the northwest part of the state has declined every year since 2013, and numerous coal mines in the region have closed or announced plans to close since 2013.
- The crash in oil prices has dramatically reduced drilling since late 2014. OSPB estimates that mining and logging sector employment has fallen 20.6 percent in the last year.
- Grand Junction and Pueblo, as well as more remote areas, have experienced slower growth throughout the economic expansion and have substantially higher unemployment rates than the Denver metro area.

The State has used various tools to try to support the state's more remote areas for decades. This includes activities from prison construction to support for education and higher education buildings and services, to broadband development. While agriculture and extractive industries remain important in many rural areas, the U.S. Department of Agriculture notes that service and retail industries have accounted for most job growth in rural areas for several decades.[11]

[11] http://www.ers.usda.gov/topics/rural-economy-population/

ROLE OF THE DEPARTMENT OF LOCAL AFFAIRS

Colorado is one of relatively few states with a Department of Local Affairs, and, from its inception, support for rural areas and smaller towns in the state has been one of its central functions.

Pursuant to Section 24-32-303 (1) and (2), C.R.S., the Executive Director of the Department is responsible for:

- "Expenditure of state funds, within the appropriations, allocations, and directives of the general assembly or the governor, for the encouragement and stimulation of local planning, promotion, and development activities"; and
- "Stimulation and guidance of area redevelopment plans in those areas of the state with declining economies."

Further, Section 24-32-801 et. seq. establishes an Office of Rural Development within the Department with responsibilities that include:

- "Cooperating with and providing technical assistance to local officials for the orderly development of rural Colorado";
- "Encouraging and, when requested, assisting local governments to develop mutual and cooperative solutions to rural community development"; and
- "Serving as a clearinghouse for rural development information, including state and federal programs designed for rural development" (24-32-803, C.R.S.)

The Department currently has several programs targeted to economic development in rural areas of the State. The following state grant programs *are in addition to* statutory distributions of funds directly to local governments and grant programs supported by federal funds.

Field Services Staff/General Technical Assistance: The Department has field staff located throughout the State who are specifically charged with providing technical assistance to local governments, as well as reviewing and managing grant funding for these governments. These staff typically have previous background as city managers and are familiar with various resources throughout the State. Small rural areas are most likely to rely on the Department's regional staff for technical assistance. These positions are generally supported through local government severance tax and mineral impact funds.

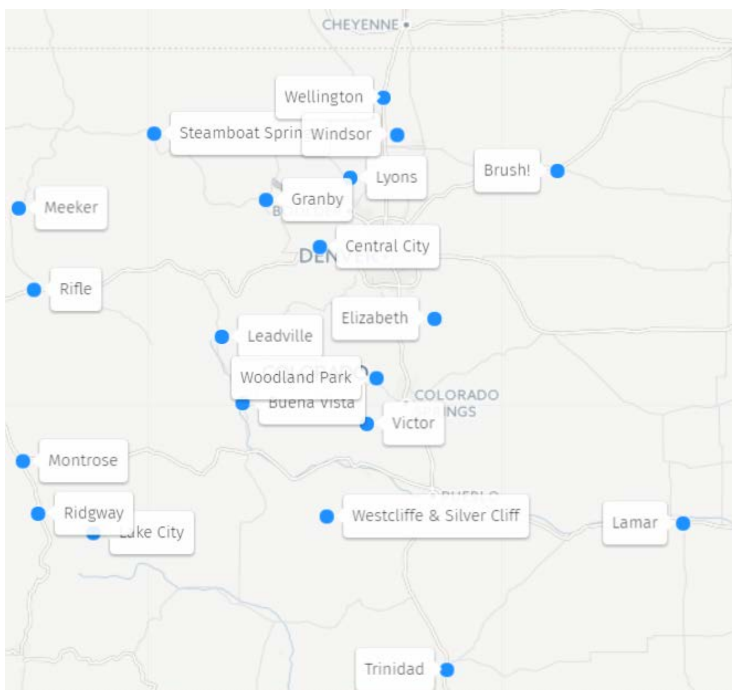
Energy Impact Grants: This is by far the Department's largest grant program and typically distributes $50 to $100 million in any given year. The program is discussed in greater detail in a separate issue. It primarily supports public infrastructure development. Thus, the funding provides both direct economic stimulus in the form of construction jobs and supports community economic activity through new and improved roads, Broadband, water systems and other critical infrastructure and services. Grants are distributed throughout the State and thus benefit both small and large communities. The original function of this program was to respond to the cyclical economic impacts of extractive industries, as grants "shall be distributed to those political subdivisions socially or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels" with consideration for the "economic needs of a political subdivision." [Section 39-29-110 (1) (b) (I); however, funding is used broadly across the State, as the Department identifies the entire state as impacted to some degree.

Main Street Program: The Main Street Program is a smaller and more targeted program designed to re-energize historic downtowns in small communities. It supports downtown revitalization through asset-based economic development and historic preservation, The overall program budget of $791,758 and 2.0 FTE for FY 2016-17 is from energy impact reappropriated funds. It provides scholarships and mini-grants for communities and state and contracted technical assistance in areas such as architecture and historic preservation.

The program follows a national model that includes the following components:

- Organization: Promotes partnerships among public and private groups and individuals interested in downtown revitalization and helps them to structure their collaboration through a volunteer governing board of directors and standing committees, and a paid program director.
- Design: Helps communities identify physical improvements needed to make their downtown areas inviting for shoppers, workers, and visitors.
- Promotion/marketing: Provides tools and techniques to help communities promote their downtown areas.
- Economic Development: Assists communities in retaining and expanding successful business to provide a balanced commercial mix, including helping businesses with merchandizing and attracting new businesses that the market can support. Many programs help communities creatively reuse historic properties.

It presently serves 19 communities and hopes to build to 35 by 2020. Current communities are shown in the map below.



Source: Department of Local Affairs (website: https://www.colorado.gov/pacific/dola/main-street-communities)

Rural Economic Development Initiative: This program helps eligible rural communities develop plans and undertake projects to create jobs, drive capital investment, and increase wages to create more resilient and diverse local economies. A first version of the program was created in FY 2013-14 when the General Assembly added $3.0 million for this program through the Long Bill in response to threatened prison closures in rural areas. Although no prisons closed at that time, the funds were still used to promote local economic resiliency. No funding was requested or provided in FY 2014-15, but funding of $750,000 General Fund was again added by the General Assembly in FY 2015-16 through a Long Bill amendment and was continued in FY 2016-17. There is no separate statutory authorization for the program, although it is consistent with the Department of Local Affairs' general statutory authority to promote rural economic development.

The program has evolved from the version first requested and funded by the General Assembly in FY 2013-14. Initially, the program was based on collaborative process involving the Governor's Office of Economic Development and International Trade (OEDIT). It included direct support for businesses and focused on communities that had lost or were highly dependent upon a single large employer. In version "2.0":

- The program is administered by DOLA only and provides grants solely for local governments, rather than businesses.
- Program guidelines give the Department wide latitude in allocating funds throughout the State, since the guidelines specify only that the "most competitive" proposals will be from less populated areas (counties with less than 50,000 people and municipalities/unincorporated communities with fewer than 20,000 people).
- The Department *considers* financial need and whether the community is at risk of losing a major employer or industry in making awards; however this is no longer the primary consideration for providing an award. Applications are evaluated based on "commitment and readiness to implement projects and the ability of projects to further both diversity and resiliency in the local economy".
- The Department has "simplified the program to allow more communities to benefit" and has instituted a grant cycle.

The program offers two types of grants:

- Economic Planning Grants (typically not to exceed $100,000)
- Infrastructure Grants that support economic diversification (typically not to exceed $500,000)

There were 10 grants awarded in FY 2015-16 and 15 in FY 2016-17. Most FY 2016-17 funding was for relatively small grants (average under $45,000) for various types of planning documents (business development plans, recruitment strategies, retail analytics studies). Some funds were also provided for utility, intersection, and other infrastructure improvements to support business expansion. *Program funding has consistently gone to smaller towns and rural areas, but not always the most economically distressed areas of the State.* For example FY 2016-17 recipients included Saguache County and the town of Holly, which are economically distressed based on various indicators, but also included the towns of Minturn and Grand Lake, which do not face the same level of economic challenge.[12]

[12] There are many measures for assessing economic distress. The following heat map, developed by the Economic Innovation Group, provides some useful measures: http://eig.org/dci/interactive-maps/u-s-zip-codes

In a response to a Committee request for information (RFI #2), the Department has requested authority to roll-forward funds from year-to-year to enable it to support more complex multi-year construction projects and respond to needs late in the year.

Fiscal Year FY 2017-18 Rural Economic Development Requests

R2 Rural economic stabilization: The Department requests $104,927 reappropriated funds from energy and mineral impact assistance funds (severance tax and federal mineral lease receipts) to hire 1.0 FTE to coordinate state resources in rural communities.

The new position would assist local communities in responding to the economic impact of energy transformation in western parts of the state, as well as in other rural areas. The request highlights Delta and Gunnison counties, which have seen over 750 coal employees laid off, and Moffat, Montrose, Routt, Clear Creek, and Kit Carson counties, where new layoffs have been announced.

The Department proposes to use the new position, located in Grand Junction, to:

- Create a coordinated response for impacted Western Slope communities;
- Create a focal point in state government to align state and federal agencies to fund and support local and regional community and economic development priorities;
- Align that funding with job retraining programs.

The request indicates that current demands require assistance at a higher level than the State has been able to provide. The goal is to diversify rural economies and create long-term employment opportunities, following a model that has already been employed in Delta, Gunnison, and Rifle. This includes developing a data-driven strategic action plan and then funding prioritized projects designed to have the largest possible impact.

The Department indicates it is in a unique position to work with state and federal authorities to align resources. At the State level, the Department is already working to improve coordination with key partners including OEDIT and the Departments of Labor and Employment, Natural Resources, and Public Health and Environment.

Success would be measured based on new business starts, business expansion, number of workers retrained, and public infrastructure investments and dollars leveraged. However, it is not clear to staff how the differential impact of funding versus not funding the initiative could ever be assessed.

The request would annualize to $100,224 and 1.0 FTE in FY 2018-19.

R5 Kit Carson mitigation plan: To minimize the impact of the closure of Kit Carson Correctional Center (KCCC) on the local community, the Department requests a one-time appropriation of $515,095 General Fund to backfill property taxes lost as a result of the closure of the facility. *The proposal would backfill two-thirds of a full-year of property taxes lost to Kit Carson County, the City of Burlington, the health district, the fire district and the cemetery district.* The Department has requested this funding in the Rural Economic Development Initiative line item (REDI), although the proposal differs significantly from the REDI program.

R5 Kit Carson Mitigation	2/3rds lost property tax
Kit Carson County	$374,626
City of Burlington	$84,859
Health District	$29,601
Cemetery District	$5,624
Total - GF	**$515,095**

Between June 30, 20115 and June 30, 2016, Colorado's total inmate population declined almost five percent to 19,619, a drop of 1,004 offenders. Because private prison beds assist with the overflow from state correctional facilities, the operational sustainability of KCCC declined with the loss of both Colorado and Idaho offenders.

The General Assembly appropriated $3,000,000 to the Department of Corrections for FY 2016-17 to attempt to prevent the closure of the facility, but negotiations with the owner of the facility, the Corrections Corporation of America (CCA), were unsuccessful, and CCA closed the facility at the end of July 2016.

The request is a portion of a larger proposal to address payments lost to local governments in Kit Carson County to partially compensate for the impact of the facility's closure. The facility paid $1.9 million in property taxes, utility payments, and per-diem payments to local governments in 2015, and this will decline sharply between 2016 and 2018. The request indicates that a second part of the request, to address lost utility and inmate per diem payments to the City of Burlington, will be submitted in January as a FY 2016-17 supplemental. Based on a School Finance Act provision that protects districts from a rapid decline in revenue, the Department does not believe backfill is required for the school district.

The closure is expected to have significant impacts on the local economy, including on revenue to the city and county, CCA's property taxes provided approximately 10 percent of the county's total tax revenue.

<u>2015 data/estimates</u>

County/City Population	Kit Carson County - 8,240 City of Burlington – 4,188 Both figures include 935 prisoners
County/City Jobs	Kit Carson County - 4,395 City of Burlington – 2,125
Correctional Facility (KCCC) jobs	153 direct employment 3.5 percent of county jobs; 7.2 percent city jobs Additional 30 are calculated to be indirect or "induced" 62 percent KCCC employees live in Kit Carson, 17 percent other Colorado counties, and 22 percent elsewhere (Kansas)
KCCC wages and salary	$7.1 million (5.0 percent county wages)

In September 2016, the Department requested $685,446 General Fund overexpenditure authority in its Other Local Government Grants line item to backfill revenue lost to the City of Burlington related to the KCCC closure. The current request indicates that the Department will submit that request again as a regular supplemental. **The Joint Budget Committee rejected the interim supplemental request based on feedback from the Office of Legislative Legal Services that there was not statutory authority for the proposed backfill to local governments and that this therefore could not be authorized under interim supplemental criteria**. JBC staff also noted that some portions of the request, e.g., a request to backfill lost utility revenue, might not make sense, given that the much of the lost utility revenue was a pass-through to Excel Energy for electrical power that was no longer required. *At the time, the JBC expressed interest in reexamining the issue in January when legislation could be introduced and other options explored.*

The current request appears to present the same legal problem as the interim supplemental, i.e., that there is no specific statutory authority for backfilling lost local government revenue. The General Assembly's "plenary power of appropriation" is broader than the JBC's authority to authorize overexpenditures; however, OLLS is still concerned that the Department's existing statutory authority relates to "encouragement and stimulation of local planning, promotion, and development activities", rather than providing direct backfill for local government coffers in response to the closure of a major local employer.

In response to JBC staff inquiries, **OSPB submitted a letter to the JBC dated November 17, 2016, stating that "If the Committee determines that the legislature cannot appropriate funds for the purposes outlined, we would emphatically support a change to the appropriate statutes to allow such appropriation."**

ISSUE: *BP AMERICA* COURT DECISION, S.B. 16-218, AND THE EXECUTIVE SEVERANCE TAX REQUEST

Under current law, the Department of Local Affairs receives 50 percent of state severance tax revenues. As a result of the *BP America* State Supreme Court ruling and S.B. 16-218, the General Fund is backfilling some severance tax refunds to oil and gas companies, while $28.4 million is reserved in the Department of Local Affairs to potentially repay the General Fund. The Governor has requested that a portion of the reserved funds be transferred to the General Fund.

SUMMARY

- Under current law, the Department of Local Affairs receives fifty percent of severance tax revenues. Severance tax receipts are always volatile and are currently at a low point. Exacerbating the problem, an April 2016 a State Supreme Court decision (*BP America v. Colorado*) requires the State to refund certain previously-collected funds to oil and gas producers.

- In response to the *BP America v. Colorado* decision, the JBC sponsored and the General Assembly enacted S.B. 16-218. Key provisions:

    - Protected departments from the impact of the legal decision (and other large severance tax refund obligations) by requiring the General Fund, instead of the Severance Tax Trust Fund, to reimburse oil and gas companies for overpayments of severance tax. Based on current estimates, about $100 million from the General Fund will be used for this purpose between FY 2015-16 and FY 2016-17.

    - Restricted $77.4 million in severance tax moneys in Departments of Local Affairs and Natural Resources accounts, pending additional information on the scale of refunds required pursuant to the *BP America* case. These funds were set-aside in case they were needed to repay the General Fund for the outlays described above.

    - Authorized the JBC to release the restrictions described above. On August 1, 2016, the JBC released $19.9 million of the DOLA restriction. This leaves $57.5 restricted, including $28.4 million restricted in DOLA.

- The Governor's budget request proposes legislation to transfer $31.7 million of the S.B. 16-218 restricted funds back to the General Fund. If this amount is equally divided between DOLA and the Department of Natural Resources, $15.85 million would be transferred from the Local Government Severance Tax Fund back to the General Fund.

RECOMMENDATION

- Staff believes transferring restricted funds from DOLA to the General Fund is reasonable: the Governor's request to transfer $15.85 million from DOLA (or even transferring the full $28.4 million that has been restricted in DOLA) would only partially compensate for the approximately $50 million the General Fund is now estimated to pay on behalf of DOLA in severance tax refunds under S.B. 16-218.

- Nonetheless, staff recommends that the Committee *neither* release nor transfer funds restricted in DOLA at this time, pending additional information on the impact of S.B. 16-218 and March 2017 budget balancing needs. If the JBC ultimately releases funds, these should be made available to DOLA for use in FY 2017-18.

- If the JBC wishes to take *more* than $28.4 million from DOLA, e.g., to recover the funds that were released this summer, it should be aware that DOLA has been accelerating its grant-allocation schedule, so additional funds would likely need to be recouped based on legislation that diverts *future* severance tax receipts, rather than transferring funds from existing fund balances.

DISCUSSION

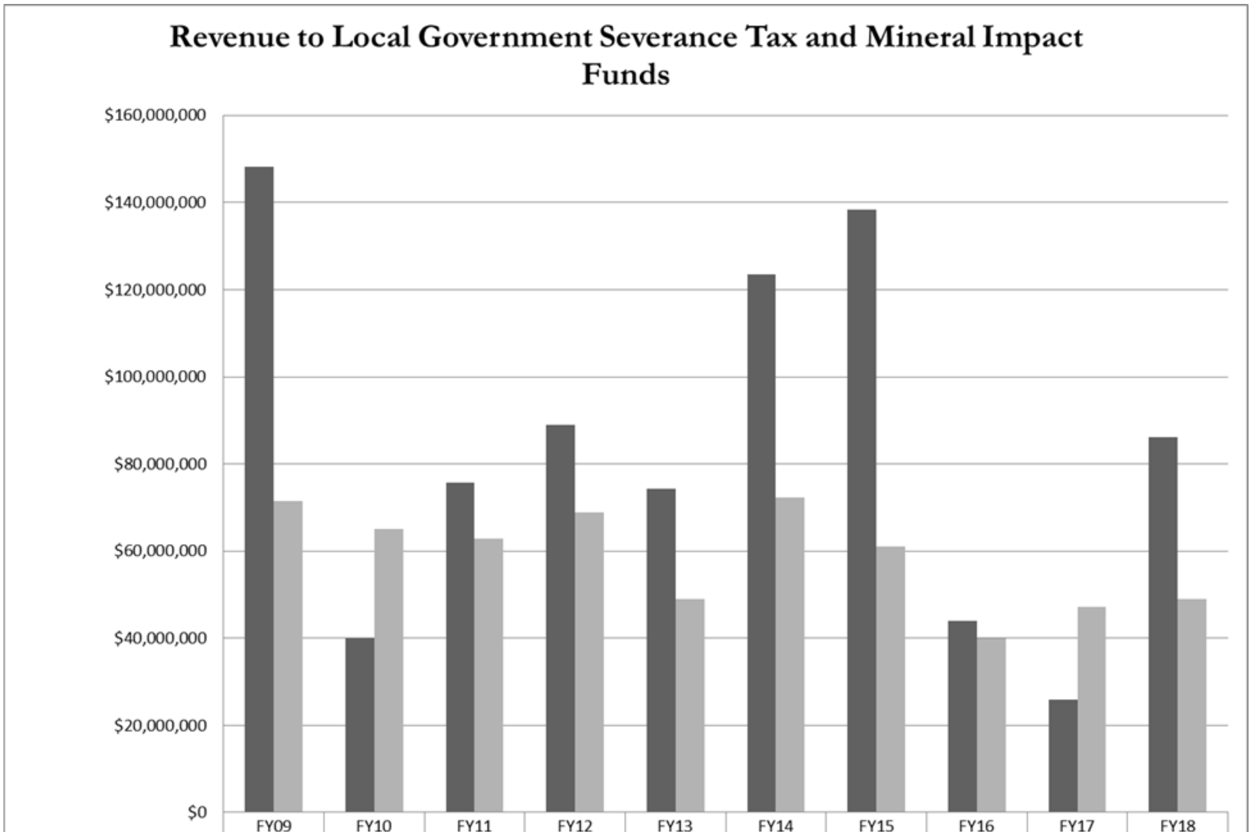
LOCAL GOVERNMENT MINERAL AND ENERGY IMPACT FUNDS

The Department of Local Affairs is responsible for distributing state revenues associated with mineral extraction to local governments. This includes moneys from two major funding sources. While these streams are separate, the functions of the two funding sources are similar within this department.

- 41.7 percent of most **federal mineral lease (FML)** revenues, the state's share of rents and royalties from private sector mineral extraction on federal lands located in the state.

- 50 percent of state **severance tax** revenue, levied pursuant to 39-29-101, et. seq., C.R.S., on oil, gas, and metallic minerals, based on the value of material extracted from privately and publicly owned lands.

The funds are used within DOLA for direct distributions to local governments affected by mineral extraction activities, grants and loans to local governments (primarily for infrastructure, and department administration. Additional information on the use of these funds is included in a separate briefing issue.



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Severance Tax	$148,219,04	$39,880,100	$75,692,638	$88,959,566	$74,317,840	$123,457,18	$138,419,35	$43,935,220	$25,823,645	$86,179,292
Federal Mineral Lease	$71,469,494	$65,075,082	$62,806,520	$68,789,934	$48,939,666	$72,298,604	$60,954,811	$39,946,027	$47,247,004	$48,963,717

*FY 2016-17 and FY 2017-18 amounts are based on OSPB projections. FY 2015-16 and FY 2016-17 amounts are adjusted upward due to the impact of S.B. 16-218 which directs some severance tax refunds to be paid from the General Fund.

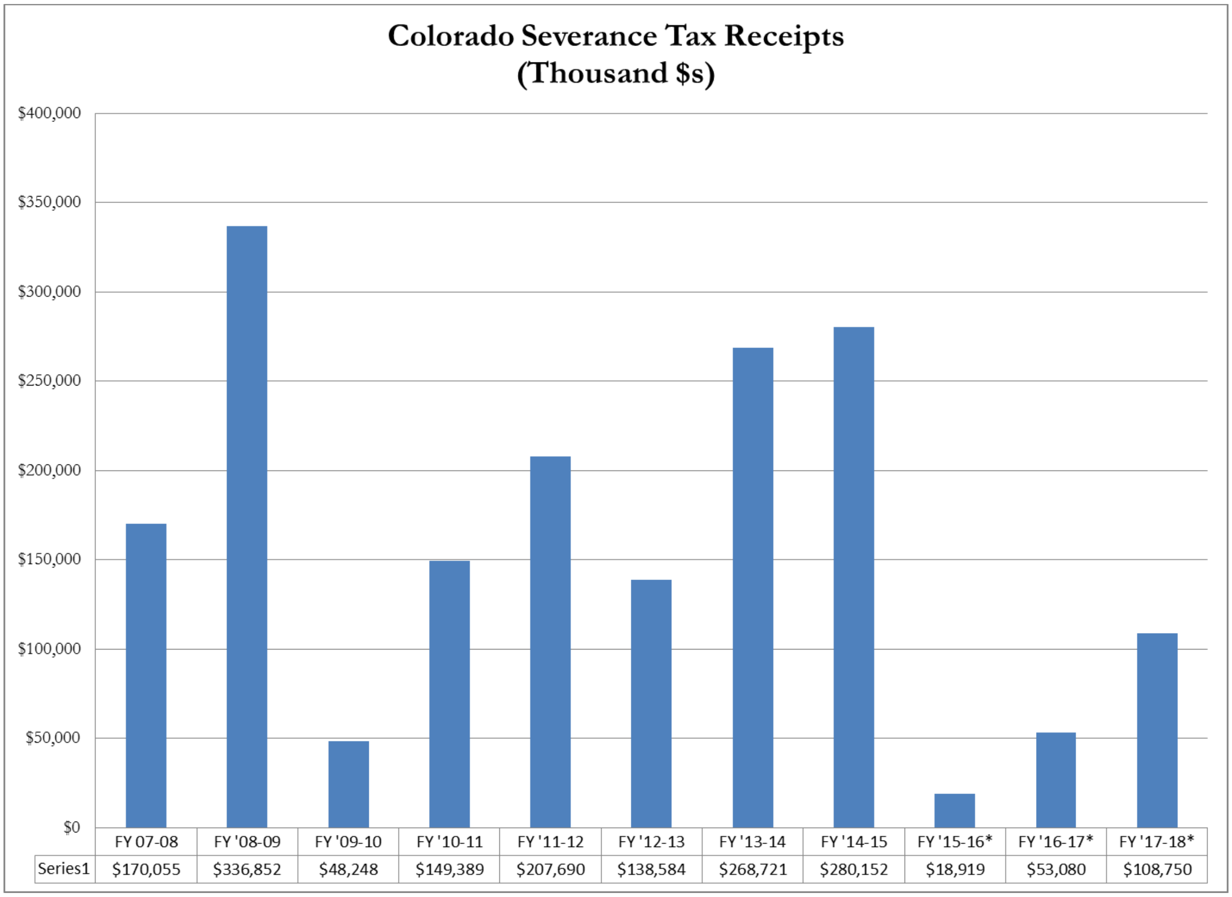
RECENT SEVERANCE TAX PROJECTIONS

Revenue from severance tax and FML funds is extremely variable due primarily to the volatility of oil and gas prices. This volatility is exacerbated in the case of severance taxes by the ad valorum property tax credit, which drives severance tax peaks higher and valleys lower than they would otherwise be.

Fiscal year 2015-16 actual severance tax revenue was exceptionally low due to:

- The 2015 collapse of oil and gas prices
- Refunds for property tax deductions (the ad valorum tax credit) that were tied to earlier high-receipt years
- Refunds related to the *BP America v. Colorado Department of Revenue* State Supreme Court decision in April 2016

While modest increases are now anticipated for FY 2016-17, severance tax is notoriously difficult to project.



Source: Legislative Council Staff. FY 2015-16 reflects preliminary figure, and FY 2016-17 and FY 2017-18 reflect the Legislative Council Staff Forecast. Figures **include** reductions for refunds.

BP America v. Colorado Department of Revenue and S.B. 16-218

For FY 2015-16 and FY 2016-17, the overall severance tax revenue situation has been further complicated by a Colorado Supreme Court decision, *BP America v. Colorado Department of Revenue*. On April 25, 2016, the Colorado Supreme Court issued a decision in this case in favor of the oil and gas producer and held that the plain language of Colorado severance tax statute authorizes a deduction for any transportation, manufacturing, and processing costs, including the cost of capital. Included in the decision was an award for $2.4 million to BP America; however, the estimate of the liability created by the language in the ruling was projected to be much higher.

Facing unexpected severance tax refunds that might exceed $100 million over the course of a few months, the JBC sponsored and the General Assembly enacted S.B. 16-218 at the very end of the legislative session. Key provisions:

- Protected departments from the impact of the *BP America* decision (and other large severance tax refund obligations) by requiring the General Fund, instead of the Severance Tax Trust Fund, to reimburse oil and gas companies for overpayments of severance tax, including refunds related to the *BP America* decision.

- Restricted $77.4 million of in severance tax moneys in Departments of Local Affairs and Natural Resources accounts, pending additional information on the scale of refunds required pursuant to

the BP America case. These funds were set-aside in case they were needed to repay the General Fund for the outlays described above. This included:
  - Severance Tax Operational Fund (Department of Natural Resources) = $10.0 million
  - Severance Tax Perpetual Base Fund (Department of Natural Resources) = $19.1 million
  - Local Government Severance Tax Fund (Department of Local Affairs) = $48.3 million from the portion of revenue allocated for grants.

- Authorized the JBC to release the restricted funds based on a majority vote. On August 1, 2016, the JBC released $19.9 million of the restricted funds in the Department of Local Affairs. . This leaves $57.5 restricted, including:
  - Department of Natural Resources = $29.1 million
  - Local Government Severance Tax Fund (Department of Local Affairs) = $28.4 million

IMPACT OF S.B. 16-218 ON DEPARTMENTS AND THE GENERAL FUND

To understand the impact of S.B. 16-218 on the General Fund, it is important to separate two issues:

1. The estimated impact of the *BP America* decision on *severance tax refunds and receipts*. This continues to be a moving target, as the Department of Revenue meets with stakeholder groups. The figures below are based on the September 2016 forecasts from LCS and OSPB.

ESTIMATED SEVERANCE TAX REFUNDS DUE TO BP AMERICA DECISION*	MILLIONS
FY 2015-16	$17.8
FY 2016-17 (LCS v. OSPB)	$46.4-$68.4
Total	**$64.2-$86.2**

In addition to refund amounts, OSPB currently anticipates a 6 percent reduction in ongoing severance tax receipts related to the BP decision.

2. Overall severance tax refunds due to be paid from the General Fund, regardless of whether they are due to the *BP America* decision or other issues. The figures below are based on the September 2016 forecasts from LCS and OSPB.

ESTIMATED FISCAL IMPACT ON THE GENERAL FUND OF S.B. 16-218	MILLIONS
FY 2015-16	$56.8
FY 2016-17 (LCS v. OSPB)	$36.5-$43.7
Total	**$93.3-$100.5**

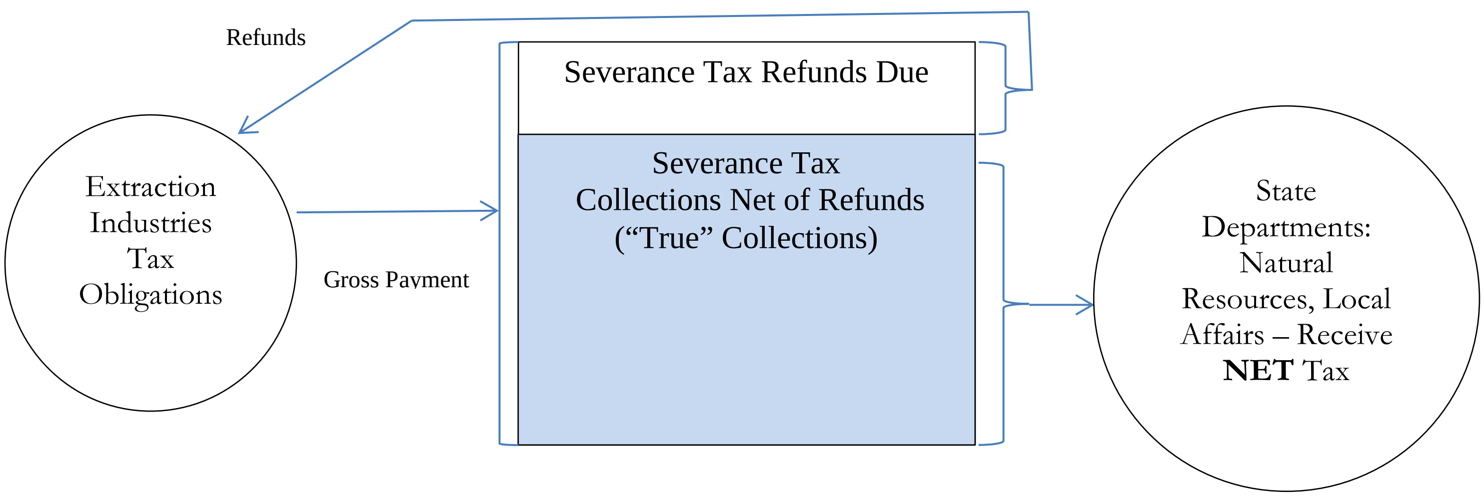
Because of the way S.B. 16-218 is structured, it is this second figure, rather than the first, that is relevant to budget balancing for the General Assembly. Senate Bill 16-218 authorized the General Fund to pay for severance tax refunds in FY 2015-16 and FY 2016-17, but did not distinguish between refunds related to the court decision and those that would have occurred otherwise. Therefore income tax revenue (General Fund) is used to cover some severance tax refunds that would have occurred regardless.

- For FY 2015-16, $39 million refunded from the General Fund pursuant to S.B. 16-218 was a result of ad valorem credits, rather than refunds related to *BP America*.

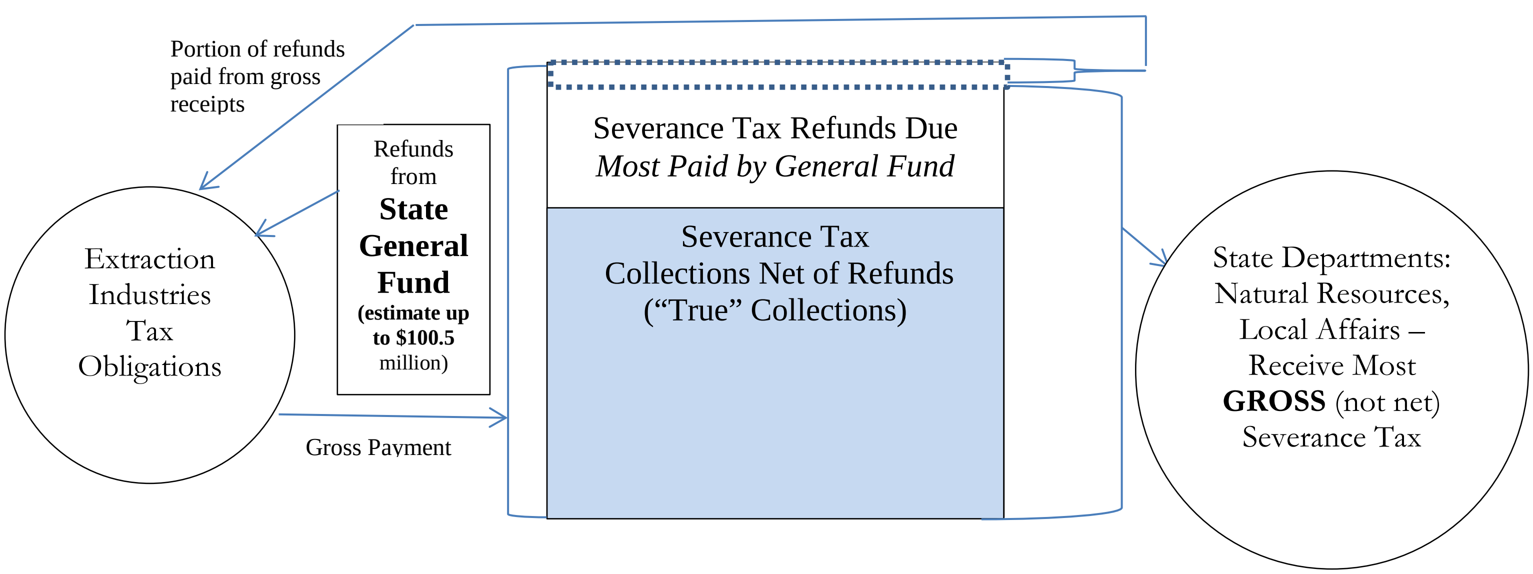
- For FY 2016-17, in any month in which refunds are larger than 15 percent of gross severance tax revenue, income tax is diverted to pay the portion of the refund that exceeds the 15 percent threshold, without regard to why the refund is required. Because refunds vary from month-to-month, the impact of this 15 percent threshold remains uncertain.

The graphic below shows how S.B. 16-218 changes the structure of severance tax receipts and reimbursements in FY 2015-16 and FY 2016-17. *As shown, S.B. 16-218 enhances department receipts from severance tax, above what they would otherwise be in FY 2015-16 and FY 2016-17.* Thus, as intended by S.B. 16-218, the Departments of Natural Resources and Local Affairs are the beneficiaries of the $93.3 to $100.5 million in severance tax refunds estimated to be paid from the General Fund.

Severance Tax Receipts and Expenditures WITHOUT S.B. 16-218



Severance Tax Receipts and Expenditures WITH S.B. 16-218



FY 2017-18 Executive Request for Severance Tax and JBC Options

In the Governor's budget transmission letter of November 1, 2016, he requests legislation to transfer $31.7 million of the Severance Tax revenue restricted in the Departments of Local Affairs and Natural Resources to the General Fund to help balance the FY 2016-17 budget. The letter does not specify the proposed break-down between the two departments.

From staff's perspective, it is reasonable for DOLA to repay the General Fund for a portion of the severance tax refunds paid by the General Fund under S.B. 16-218. However, staff does not recommend the JBC take any further action to release restricted funds in the Department of Local Affairs *or* to transfer funds to the General Fund until it has more information on the impact of the BP America case, the impact of S.B. 16-218, and the General Fund balancing situation for FY 2016-17 and FY 2017-18. Committee options include:

- **Transfer the full $28.4 million from DOLA to the General Fund** (legislation required), recognizing the $19.9 million has already been released for allocation. *The $28.4 million restricted is still considerably less than the approximately $50 million the General Fund is anticipated to pay under S.B. 16-218 for DOLA's share of severance tax refunds in FY 2015-16 and FY 2016-17.*

- **Release the remaining $28.4 million for use by DOLA and local governments** (JBC action only required). Between FY 2009-10 and FY 2014-15, $176.9 million in severance tax funds that would otherwise have been available for distribution to local governments was transferred to the General Fund. Thus, *the $50 million General Fund backfill for severance tax refunds under S.B. 16-218 may be viewed as a partial repayment for transfers from the Local Government Severance Tax Fund to the General Fund in prior years.*

- **Choose a figure "in between" to transfer**, e.g., $15.85 million if DOLA were to be responsible for half of the transfer proposed by the Governor, and release the balance.

- **Divert an additional amount from DOLA to the General Fund.** If necessary based on budget-balancing needs, require an additional amount (e.g., $20 million) of FY 2017-18 severance tax receipts due to DOLA to instead be diverted to the General Fund. Such action, in combination with the transfer of $28.4 million in restricted funds, could compensate for the full $50 million the General Fund is anticipated to pay under S.B. 16-218 for DOLA's share of severance tax refunds.

To assist the Committee in determining whether it ultimately wishes to make the requested transfer from DOLA--or a larger or smaller one--the following informational issue provides additional background on how severance tax amounts are used in the Department of Local Affairs.

INFORMATIONAL ISSUE: LOCAL GOVERNMENT SEVERANCE TAX AND MINERAL IMPACT FUNDS

Fifty percent of all severance tax revenues and over 40 percent of the state's share of federal mineral lease revenues are distributed by the Department of Local Affairs to local governments via direct distributions and grants. Combined Local Government Severance Tax Fund and Local Government Mineral Impact Fund receipts fell sharply in FY 2015-16, contributing to a significant decline in funds available for distribution in FY 2016-17. The Department currently anticipates distributing $107.0 million in FY 2016-17 and $115.0 million in FY 2017-18.

SUMMARY

- The Department of Local Affairs receives fifty percent of severance tax revenue and more than 40 percent of most federal mineral lease revenue. Annual receipts are variable and are currently at a low point, with $83.9 million received in FY 2015-16 and only modest increases projected for FY 2016-17 and FY 2017-18.

- These funds support direct distributions to local governments (via formula) and a large grant program that primarily supports local infrastructure projects. This money is also used to support Department administration. Legislative practice has been to appropriate funds for administration and to treat funding for grants and direct distributions as continuously appropriated.

- Although statute requires that the grant program be used for "energy impacted communities" this has been interpreted to mean the entire state. Grant funds are used flexibly to support local governments and to pursue specific executive initiatives related to local governments. They represent a small proportion of overall revenue to local governments, and the General Assembly has at times redirected these moneys to the General Fund.

- Total revenues fell sharply in FY 2015-16, resulting in a significant decline in funds available for FY 2016-17. The Department currently anticipates distributing $107.0 in FY 2016-17 and $115.0 million in FY 2017-18 excluding transfers to the General Fund. Despite the decline, the Department has requested an additional 1.0 FTE ($104,927) from mineral and energy impact funds for FY 2017-18 for a position to enhance coordination of rural services.

DISCUSSION

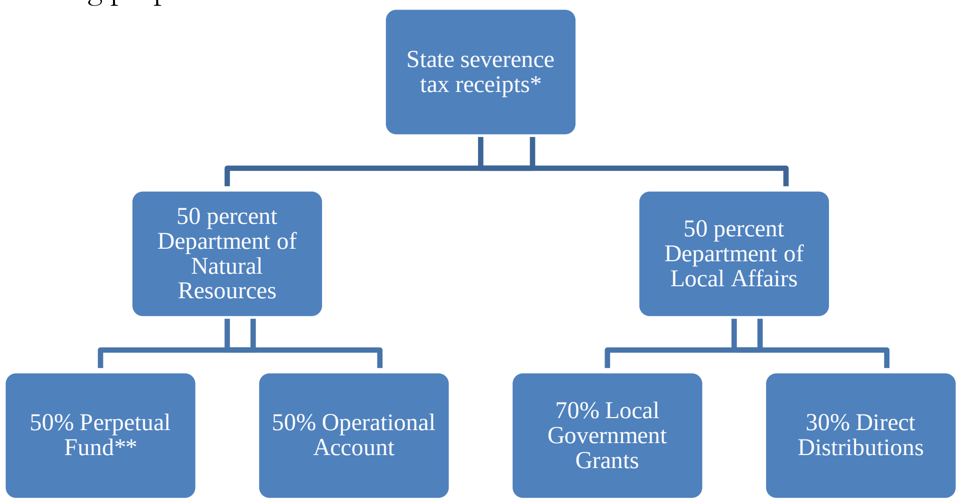
LOCAL GOVERNMENT MINERAL AND ENERGY IMPACT FUNDS

The Department of Local Affairs is responsible for distributing state revenues associated with mineral extraction to local governments. This includes moneys from two major funding streams discussed below. While these streams are separate, the functions of the two funding sources are similar within this department.

- 50 percent of state **severance tax** revenue, levied pursuant to 39-29-101, et. seq., C.R.S., on oil, gas, and metallic minerals, based on the value of material extracted from privately and publicly owned lands; and

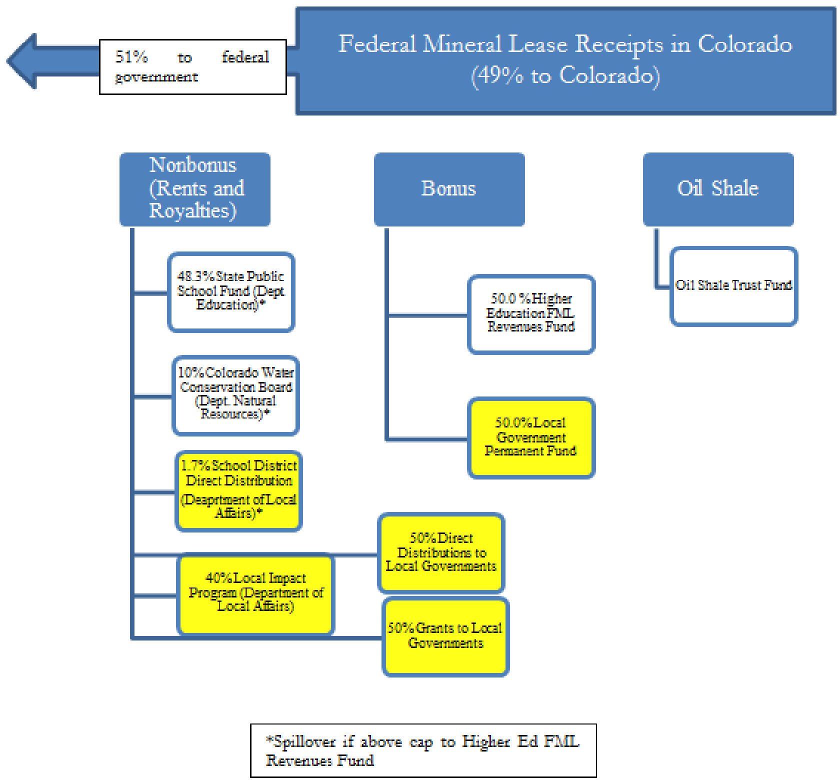
- 41.7 percent of most **federal mineral lease (FML)** revenues, the state's share of rents and royalties from private sector mineral extraction on federal lands located in the state ("non-bonus" revenues). The Department also administers a 50 percent share of "bonus" revenues (initial payments from private entities for the right to extract oil, gas, or minerals on a parcel of land) that may be used when the regular revenue stream declines.

Severance Tax Flow Chart: State Severance Tax receipts are allocated, pursuant to **39-29-108, C.R.S.**, in the following proportions:



*$1.5 million of total gross receipts is allocated to the Governor's Energy Office.
**Up to $10 million after $50 million is allocated for CDPHE small communities' water and wastewater grants.

Federal Mineral Lease Allocations: Federal Mineral Funds are allocated based on a more complex flow, pursuant to **34-63-102, C.R.S**. However, the majority of funds are non-bonus moneys, from which the Department of Local Affairs receives 41.7 percent for direct distributions and grants.



ANTICIPATED RECEIPTS AND USE OF MINERAL AND ENERGY IMPACT FUNDS

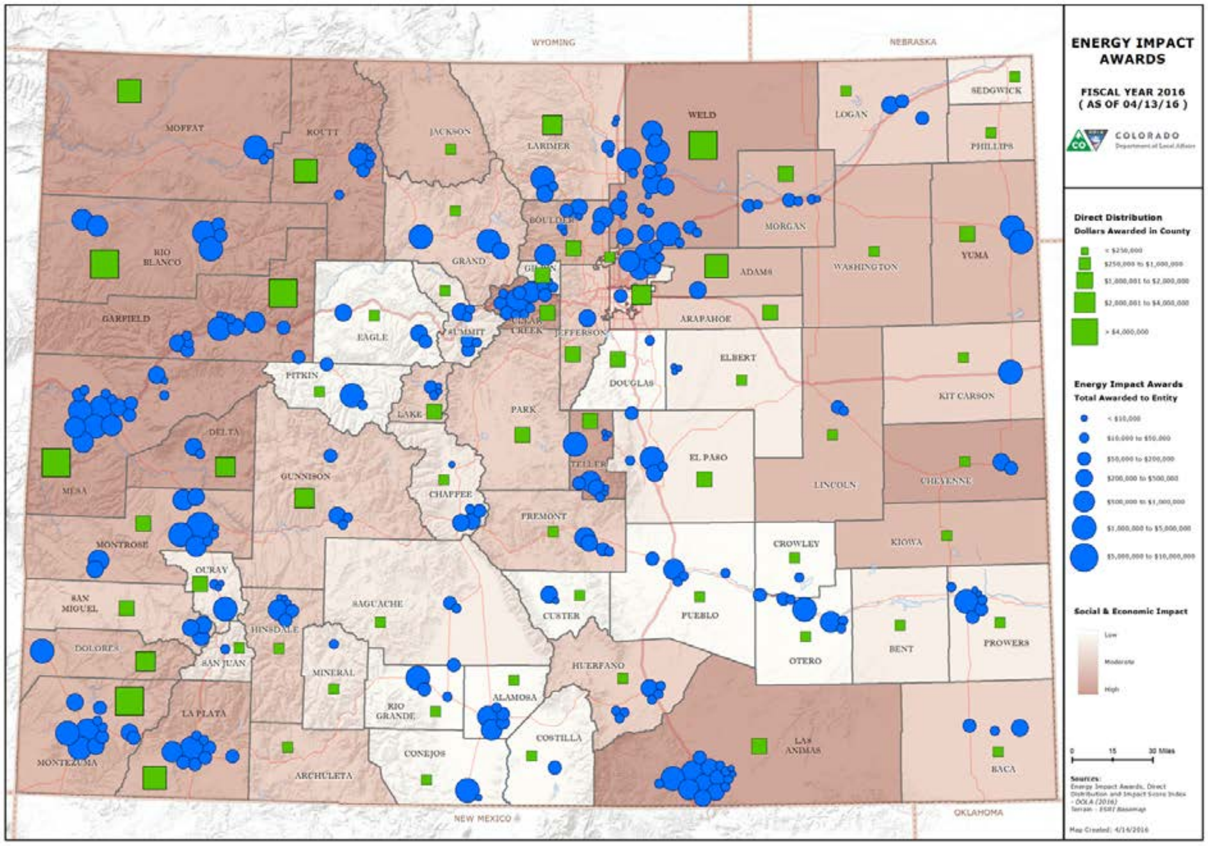
Funding received by the Department of Local Affairs is used in several ways.

- **Direct distributions** to mineral-impacted local governments via two formulas (one for severance tax and one for mineral impact funds). This includes 30 percent of Local Government Severance Tax revenues and 50 percent of Local Government Mineral Impact revenues.

- **Grants to local governments** for infrastructure and other needs. This includes approximately 70 percent of Local Government Severance Tax revenues and 50 percent of Local Government Mineral Impact revenues.

- In addition, as discussed further below, these funds are also used for **department administration**, although this is not specifically authorized by statute.

The chart below reflects the Department's use of the funds in FY 2015-16. Squares represent direct distributions, circles represent grant funding. Shading reflects the county's energy impact score, with darker scores representing more highly impacted communities.



The table below summarizes the actual, estimated, and projected uses of severance tax and mineral impact funds administered by the Department of Local Affairs from FY 2014-15 through request year FY 2017-18. *This table is structured to show **new awards and distributions** in a given year, as opposed to actual expenditures.* This is the "view" that the Long Bill provides for informational purposes.

LOCAL GOVERNMENT MINERAL AND ENERGY IMPACT GRANTS AND DISBURSEMENTS				
	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Estimated	FY 2017-18 Projected
Local Government Severance and Mineral Impact Fund				
Revenue (New Tax + Interest Income)				
Local Government Severance Tax Fund (50.0 percent severance tax revenue)	$138,419,350	$43,935,220	$25,823,645	$86,074,015
Local Government Mineral Impact Fund (40.0 percent state share of FML revenue)	60,954,811	39,946,027	47,247,004	48,961,975
Total New Revenue	**$199,374,161**	**$83,881,247**	**$73,070,648**	**$135,035,991**
Carry-forward Adjustment				
Carry forward from prior year less carry-forward to subsequent year	($2,142,806)	$106,797,289	$33,971,357	($4,171,274)
Total Revenue Distributed/allocated during the FY	**$197,231,355**	**$190,678,536**	**$107,042,006**	**$130,864,716**
Use of Funds				
Administration and Indirect Costs	$6,473,979	$6,716,807	$7,385,197	$7,532,901

Local Government Mineral and Energy Impact Grants and Disbursements				
	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Estimated	FY 2017-18 Projected
Transfers to other agencies	3,612,912	3,611,006	373,885	373,885
Direct Distributions (in August; prior year payable)				
Severance Tax Direct Distribution	37,037,154	42,047,432	13,105,850	7,747,093
Mineral Impact Direct Distribution	37,238,438	31,237,224	24,795,920	21,808,217
New Grants Awarded				
Regular Grant Program	107,373,482	92,225,960	57,773,153	76,552,620
Special Executive Initiatives	5,495,389	14,289,108	2,149,000	0
Legislated Initiatives	0	551,000	1,459,000	1,000,000
Transfers to General Fund*	$0	$0	$0	$15,850,000
Total New Fund Uses	**$197,231,355**	**$190,678,536**	**$107,042,006**	**$130,864,716**

*An $8.1 million FY 2014-15 transfer to the General Fund occurred before deposit in the Local Government Severance Tax Fund

- Revenue may swing dramatically: $199.4 million in FY 2014-15 versus $83.9 million in FY 2015-16. Outlays swing less dramatically, as the department moderates cycles through its spending patterns.
- New direct distributions and grant commitments in a fiscal year are largely, though not entirely, based on receipts in the prior year. Thus, FY 2016-17 spending estimates ($107.0 million) reflects the impact of low FY 2015-16 receipts.
- As discussed in the previous staff issue on S.B. 16-218, FY 2016-17 receipts remain uncertain and these estimates will be adjusted further as the year progresses.

Direct distributions

Thirty percent of the Department's share of severance tax receipts and 50 percent of the Department's share of mineral impact receipts (plus an additional proportion for school districts) are allocated for direct formula distribution. Distribution formulas are dictated in statute at 39-29-110 (1) and 34-63-102 (5.4), C.R.S. For severance taxes, the calculation incorporates the proportion of residents in a county employed in extraction industries, mine and well permits and overall mineral production compared to the rest of the state. For mineral lease distributions, funding is based on the county share of employees engaged in FML extraction and its proportion of the state's FML production. Direct distribution payments occur in August, based on the prior fiscal year actual receipts.

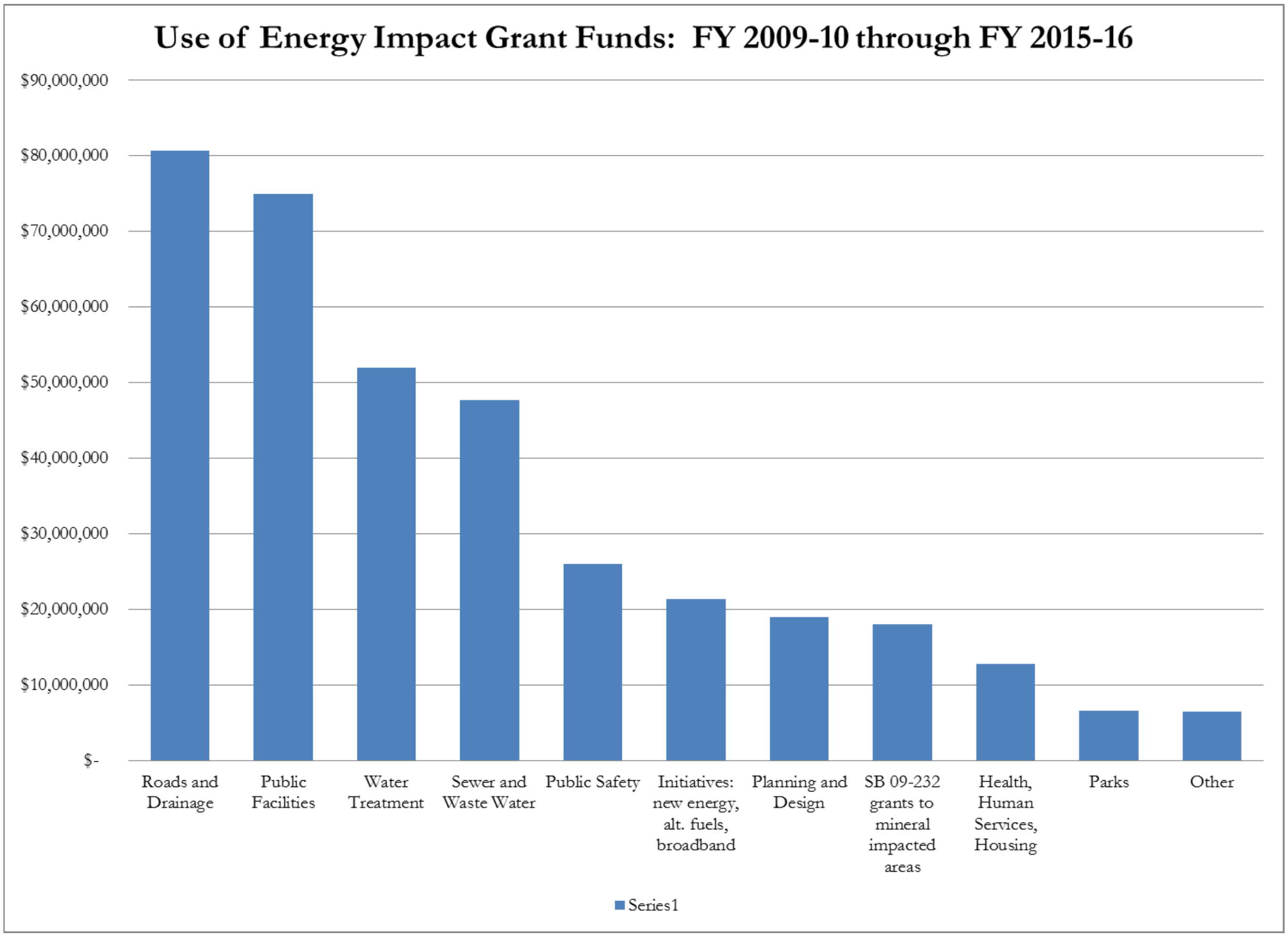
Grant funds

Statute requires that funds be distributed to impacted governments "for the planning, construction, and maintenance of public facilities and for the provision of public services". Priority is given to schools and local governments socially or economically impacted by the mineral extraction industry on federal lands. (Sections 39-29-110 and 34-63-102 (1) (b), C.R.S.) Although there are two separate sources of funds, the Department integrates them for purposes of the grant program. Eligible recipients are government entities: municipalities, counties, school districts, and most special districts.

The Executive Director of the Department of Local Affairs determines the allocation of grants for purposes consistent with statute, taking into consideration the recommendations of the statutory Energy Impact Advisory Committee. Grants up to $200,000 may be reviewed and approved by Department staff (Tier I). Grants up to $2.0 million are part of the regular (Tier II) grant cycle reviewed by the nine-member committee. Regular grant cycles occur three times a year (August, December, and April). Each cycle is typically for $25 to $35 million, depending upon funds available. Additional funds may be awarded for Special Executive Initiatives and other multi-jurisdictional projects (Tier III) as funding allows.

Because of the decline in funding and the impact of S.B. 16-218, the Department's August 2016 grant cycle was delayed to September, the maximum Tier II grant for the next cycle has been reduced to $1.0 million, and the overall scale of the next round of grants is uncertain.

As reflected in the chart below, energy impact funds are used most heavily for construction of roads and public facilities, as well as for loans and grants for water and sewer systems.



The following issues have been reviewed in detail in previous staff briefings.

- *Energy Impact Grants represent a very small portion of local government funding.* The $50.6 million in average annual grants from FY 2008-09 to FY 2014-15 represented 0.6 percent of total annual county and municipal budgets in FY 2010-11. The significance ranges by locality from 0 percent in Broomfield and Gilpin Counties, which received no funding, to 7.6 percent in Las Animas County.

- *There is not a statistically significant relationship between whether a community is highly impacted by energy development and the amount of grant funding it receives.* Statute directs that energy impact grant funds be allocated to political subdivisions socially or economically impact by mineral and energy development and processing. The Department calculates a "energy impact score" for all communities in the State but has identified all communities as energy impacted to some extent. Based on regression analysis, staff found no correlation between FY 2015-16 energy impact scores and where grants had been awarded between FY 2008-09 and FY 2014-15.

- *Administration.* Of the total grant funding, $7.4 million in FY 2016-17, including $3.4 million in federal mineral lease funds and $4.0 million in severance tax funds, is appropriated to support department administration. The Department has again requested expansion, through an additional 1.0 FTE, this year. *Although this is a long-standing practice of the General Assembly, there is no specific statutory support for using severance tax revenues for this purpose.*

- *Governor "Special Initiatives".* When sufficient funds are available, the Governor uses mineral and energy impact funds to achieve administration goals that may or may not be a particular focus of interest of the General Assembly. Funds for such initiatives are granted to local governments—and are thus broadly consistent with the statutory uses of energy impact funds—but are not otherwise created in statute. In recent years this has included grants for localities to purchase alternative fuel vehicles and a $20 million broadband grant program. Due to current low receipts, there are no special set-asides proposed for FY 2016-17 or FY 2017-18.

OTHER USES: DEPOSIT TO THE GENERAL FUND

Local government severance and FML allocations are directed by the General Assembly through statutory changes, rather than through Long Bill appropriations.

From FY2008-09 through FY 2011-12, the General Assembly transferred local government severance and mineral impact funds to the General Fund. Associated with this**, from FY 2008-09 through FY 2010-11, the Department stopped providing new grants**. New grants were again authorized starting in December 2012.

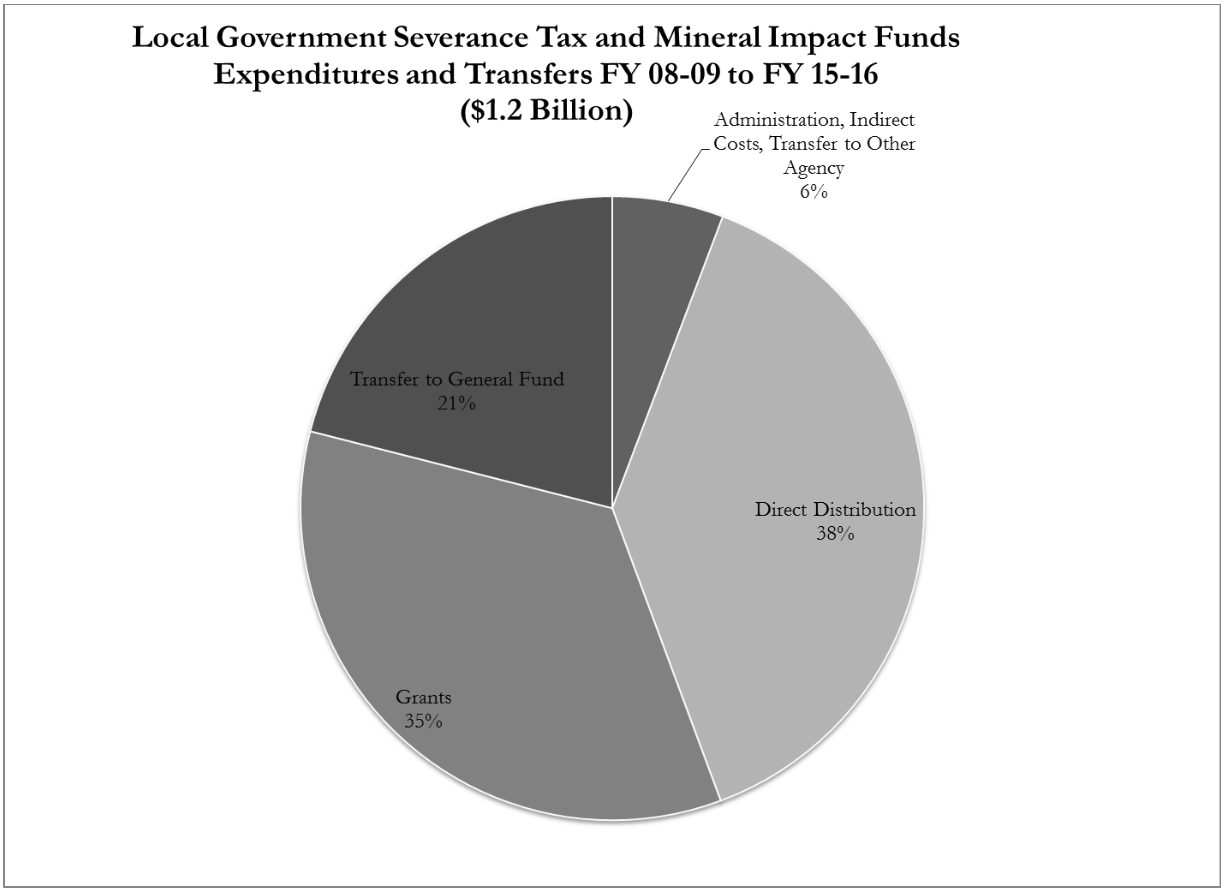
TRANSFERS TO THE GENERAL FUND:
LOCAL GOVERNMENT SEVERANCE AND MINERAL IMPACT (FML) FUNDS

	LOCAL GOVERNMENT SEVERANCE TAX FUND	LOCAL GOVERNMENT MINERAL IMPACT FUND	LOCAL GOVERNMENT PERMANENT FUND
2008-09	7,500,000	1,000,000	0
2009-10	50,327,769	22,600,000	14,305,697
2010-11	70,000,000	15,000,000	4,136,764
2011-12	41,000,000	30,000,000	0
2012-13	0	0	0
2013-14	0	0	0
2014-15	8,113,366	0	0
Total	**$176,941,135**	**$68,600,000**	**$18,442,461**

Notes: Reflects amounts actually transferred (sometimes lower than maximum authorized) that were not reversed/reimbursed.

For FY 2014-15, shows funding as if it had actually been deposited to the funds where severance tax is normally allocated; however, the actual reduction was taken "off the top" before the funds received the money.

The chart below shows how Local Government Severance and Mineral Impact Funds were used from FY 2008-09 through FY 2015-16.



Appendix A: Number Pages

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request		Request vs. Appropriation
DEPARTMENT OF LOCAL AFFAIRS						
(1) EXECUTIVE DIRECTOR'S OFFICE						
This division is responsible for the management and administration of the Department, including accounting, budgeting, human resources, as well as other miscellaneous functions statutorily assigned to the Department, including administration of the Moffat Tunnel Improvement District.						
Personal Services	1,294,248	1,352,634	1,381,026	1,382,981		
FTE	15.0	12.9	14.2	14.2		
Reappropriated Funds	1,294,248	1,352,634	1,381,026	1,382,981		
Health, Life, and Dental	1,131,931	1,511,654	1,429,520	1,636,837	*	
General Fund	214,400	355,517	296,753	386,587		
Cash Funds	238,318	225,527	262,556	266,163		
Reappropriated Funds	425,281	603,918	545,246	605,394		
Federal Funds	253,932	326,692	324,965	378,693		
Short-term Disability	19,552	22,751	21,653	22,479	*	
General Fund	4,268	4,967	4,014	4,801		
Cash Funds	1,241	3,301	3,378	2,891		
Reappropriated Funds	9,984	9,708	9,515	10,115		
Federal Funds	4,059	4,775	4,746	4,672		
S.B. 04-257 Amortization Equalization Disbursement	396,523	484,972	560,808	613,891	*	
General Fund	78,859	99,960	103,946	131,133		
Cash Funds	58,913	69,147	87,633	78,957		
Reappropriated Funds	183,715	219,765	246,315	276,180		
Federal Funds	75,036	96,100	122,914	127,621		

*Items marked with an asterix include change requests

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
S.B. 06-235 Supplemental Amortization Equalization Disbursement	379,315	468,441	554,966	613,891 *	
General Fund	73,930	96,551	102,863	131,133	
Cash Funds	62,805	66,825	86,720	78,957	
Reappropriated Funds	172,438	212,241	243,749	276,180	
Federal Funds	70,142	92,824	121,634	127,621	
Salary Survey	278,297	106,646	9,579	332,562	
General Fund	57,596	26,613	1,261	71,388	
Cash Funds	46,268	0	4,909	42,984	
Reappropriated Funds	124,014	56,133	1,266	148,715	
Federal Funds	50,419	23,900	2,143	69,475	
Workers' Compensation	94,854	88,090	108,635	128,068	
General Fund	87,680	81,521	100,419	118,452	
Cash Funds	3,215	2,989	3,682	4,282	
Reappropriated Funds	3,959	3,580	4,534	5,334	
Operating Expenses	132,888	131,600	132,888	132,888	
Reappropriated Funds	132,888	131,600	132,888	132,888	
Legal Services	153,830	120,048	169,189	176,678	
General Fund	153,830	114,537	149,421	156,086	
Cash Funds	0	0	12,361	12,885	
Reappropriated Funds	0	0	2,072	2,147	
Federal Funds	0	5,511	5,335	5,560	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Payment to Risk Management and Property Funds	30,090	33,952	49,452	51,342	
General Fund	28,009	31,604	46,032	47,792	
Cash Funds	1,858	2,096	3,007	3,117	
Reappropriated Funds	223	252	413	433	
Vehicle Lease Payments	79,365	70,311	97,998	90,241	
General Fund	71,363	70,311	88,054	81,074	
Reappropriated Funds	8,002	0	9,944	9,167	
Information Technology Asset Maintenance	80,469	32,656	80,469	80,469	
General Fund	29,913	29,913	29,913	29,913	
Cash Funds	13,049	2,743	13,049	13,049	
Reappropriated Funds	37,507	0	37,507	37,507	
Leased Space	55,456	60,420	65,000	65,000	
General Fund	22,376	22,376	22,376	22,376	
Reappropriated Funds	33,080	38,044	42,624	42,624	
Capitol Complex Leased Space	463,750	648,536	678,382	792,500	
General Fund	160,480	224,425	234,720	148,967	
Cash Funds	28,001	39,158	40,703	47,549	
Reappropriated Funds	241,965	338,378	354,115	538,010	
Federal Funds	33,304	46,575	48,844	57,974	
Payments to OIT	1,046,932	1,140,081	1,631,609	1,782,537 *	
General Fund	189,934	205,571	272,207	331,072	
Cash Funds	5,712	6,139	113,689	124,254	
Reappropriated Funds	478,370	523,637	707,815	789,313	
Federal Funds	372,916	404,734	537,898	537,898	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
CORE Operations	691,023	399,621	467,101	404,028	
General Fund	391,735	205,893	201,806	174,685	
Reappropriated Funds	204,431	149,511	221,956	191,680	
Federal Funds	94,857	44,217	43,339	37,663	
Moffat Tunnel Improvement District	36	71	100,000	100,000	
Cash Funds	36	71	100,000	100,000	
Merit Pay	110,908	101,218	0	0	
General Fund	21,928	23,130	0	0	
Cash Funds	21,557	0	0	0	
Reappropriated Funds	47,144	54,456	0	0	
Federal Funds	20,279	23,632	0	0	

TOTAL - (1) Executive Director's Office	6,439,467	6,773,702	7,538,275	8,406,392	11.5%
FTE	15.0	12.9	14.2	14.2	0.0%
General Fund	1,586,301	1,592,889	1,653,785	1,835,459	11.0%
Cash Funds	480,973	417,996	731,687	775,088	5.9%
Reappropriated Funds	3,397,249	3,693,857	3,940,985	4,448,668	12.9%
Federal Funds	974,944	1,068,960	1,211,818	1,347,177	11.2%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(2) PROPERTY TAXATION					
This section provides funding for the Division of Property Taxation, the State Board of Equalization, and the Board of Assessment Appeals.					
Division of Property Taxation	2,685,668	2,453,706	2,849,315	2,848,932	
FTE	31.9	30.6	37.2	37.2	
General Fund	949,492	973,045	1,020,172	1,017,820	
Cash Funds	866,265	737,683	926,873	928,842	
Reappropriated Funds	869,911	742,978	902,270	902,270	
State Board of Equalization	9,971	12,856	12,856	12,856	
General Fund	9,971	12,856	12,856	12,856	
Board of Assessment Appeals	574,302	474,394	619,580	620,290	
FTE	13.4	6.4	13.2	13.2	
General Fund	446,862	379,779	404,788	405,498	
Cash Funds	75,247	32,681	151,637	151,637	
Reappropriated Funds	52,193	61,934	63,155	63,155	
Indirect Cost Assessment	357,244	354,710	413,095	436,274	
Cash Funds	189,628	174,755	218,205	230,449	
Reappropriated Funds	167,616	179,955	194,890	205,825	
TOTAL - (2) Property Taxation	3,627,185	3,295,666	3,894,846	3,918,352	0.6%
FTE	45.3	37.0	50.4	50.4	(0.0%)
General Fund	1,406,325	1,365,680	1,437,816	1,436,174	(0.1%)
Cash Funds	1,131,140	945,119	1,296,715	1,310,928	1.1%
Reappropriated Funds	1,089,720	984,867	1,160,315	1,171,250	0.9%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation

(3) DIVISION OF HOUSING

The Division provides financial and technical assistance to help communities provide affordable housing, it administers state and federal affordable housing programs, and it regulates the manufacture of factory-built residential and commercial buildings.Cash fund include certification and registration fees paid by the producers and installers of manufactured homes, among other sources. Reappropriated funds are from severance tax and federal mineral lease tax revenues transferred from the Division of Local Government.

(A) Community and Non-Profit Services

(i) Administration

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Personal Services	1,501,879	2,351,971	2,215,529	2,218,398	
FTE	23.7	39.9	25.6	25.6	
General Fund	327,476	341,264	348,495	348,714	
Cash Funds	15,375	12,738	17,169	17,169	
Reappropriated Funds	0	96,590	100,746	101,264	
Federal Funds	1,159,028	1,901,379	1,749,119	1,751,251	
Operating Expenses	325,908	375,437	378,873	378,873	
General Fund	36,278	36,278	36,278	36,278	
Cash Funds	2,500	2,500	2,500	2,500	
Federal Funds	287,130	336,659	340,095	340,095	
SUBTOTAL -	1,827,787	2,727,408	2,594,402	2,597,271	0.1%
FTE	23.7	39.9	25.6	25.6	(0.0%)
General Fund	363,754	377,542	384,773	384,992	0.1%
Cash Funds	17,875	15,238	19,669	19,669	0.0%
Reappropriated Funds	0	96,590	100,746	101,264	0.5%
Federal Funds	1,446,158	2,238,038	2,089,214	2,091,346	0.1%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(ii) Community Services					
Low Income Rental Subsidies	44,803,726	50,720,443	48,024,412	48,024,412	
General Fund	1,248,287	1,362,473	2,660,938	2,660,938	
Federal Funds	43,555,439	49,357,970	45,363,474	45,363,474	
Homeless Prevention Programs	1,641,208	1,571,568	1,635,236	1,635,236	
Cash Funds	109,197	61,598	110,000	110,000	
Federal Funds	1,532,011	1,509,970	1,525,236	1,525,236	
SUBTOTAL -	46,444,934	52,292,011	49,659,648	49,659,648	0.0%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	1,248,287	1,362,473	2,660,938	2,660,938	0.0%
Cash Funds	109,197	61,598	110,000	110,000	0.0%
Federal Funds	45,087,450	50,867,940	46,888,710	46,888,710	0.0%
(iii) Fort Lyon Supportive Housing Program					
Program Costs	3,223,851	3,223,851	4,989,637	4,989,637	
FTE	0.0	0.0	1.0	1.0	
General Fund	3,223,851	3,223,851	4,989,637	4,989,637	
SUBTOTAL -	3,223,851	3,223,851	4,989,637	4,989,637	0.0%
FTE	0.0	0.0	1.0	1.0	0.0%
General Fund	3,223,851	3,223,851	4,989,637	4,989,637	0.0%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request		Request vs. Appropriation
SUBTOTAL - (A) Community and Non-Profit Services	51,496,572	58,243,270	57,243,687	57,246,556		NaN
FTE	23.7	39.9	26.6	26.6		(0.0%)
General Fund	4,835,892	4,963,866	8,035,348	8,035,567		0.0%
Cash Funds	127,072	76,836	129,669	129,669		0.0%
Reappropriated Funds	0	96,590	100,746	101,264		0.5%
Federal Funds	46,533,608	53,105,978	48,977,924	48,980,056		0.0%
(B) Field Services						
Affordable Housing Program Costs	1,605,950	633,764	1,217,341	1,219,417	*	
FTE	20.9	21.2	19.9	21.9		
General Fund	284,432	294,035	299,952	300,284		
Cash Funds	783,757	33,361	75,361	75,361		
Reappropriated Funds	256,272	291,185	294,586	295,375		
Federal Funds	281,489	15,183	547,442	548,397		
Affordable Housing Grants and Loans	13,720,876	13,157,670	20,228,793	38,548,693	*	
General Fund	8,200,000	8,200,000	8,200,000	10,200,000		
Cash Funds	0	0	0	16,319,900		
Federal Funds	5,520,876	4,957,670	12,028,793	12,028,793		
Manufactured Buildings Program	0	724,138	733,697	733,697		
FTE	0.0	8.0	7.3	7.3		
General Fund	0	0	0	0		
Cash Funds	0	724,138	733,697	733,697		

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (B) Field Services	15,326,826	14,515,572	22,179,831	40,501,807	82.6%
FTE	20.9	29.2	27.2	29.2	7.4%
General Fund	8,484,432	8,494,035	8,499,952	10,500,284	23.5%
Cash Funds	783,757	757,499	809,058	17,128,958	2017.1%
Reappropriated Funds	256,272	291,185	294,586	295,375	0.3%
Federal Funds	5,802,365	4,972,853	12,576,235	12,577,190	0.0%
(C) Indirect Cost Assessments					
Indirect Cost Assessments	212,096	266,421	694,609	733,585	
Cash Funds	146,264	201,692	226,740	239,463	
Reappropriated Funds	29,916	64,729	53,993	57,023	
Federal Funds	35,916	0	413,876	437,099	
SUBTOTAL - (C) Indirect Cost Assessments	212,096	266,421	694,609	733,585	5.6%
FTE	0.0	0.0	0.0	0.0	0.0%
Cash Funds	146,264	201,692	226,740	239,463	5.6%
Reappropriated Funds	29,916	64,729	53,993	57,023	5.6%
Federal Funds	35,916	0	413,876	437,099	5.6%
TOTAL - (3) Division of Housing	67,035,494	73,025,263	80,118,127	98,481,948	22.9%
FTE	44.6	69.1	53.8	55.8	3.7%
General Fund	13,320,324	13,457,901	16,535,300	18,535,851	12.1%
Cash Funds	1,057,093	1,036,027	1,165,467	17,498,090	1401.4%
Reappropriated Funds	286,188	452,504	449,325	453,662	1.0%
Federal Funds	52,371,889	58,078,831	61,968,035	61,994,345	0.0%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation

(4) DIVISION OF LOCAL GOVERNMENT

This division provides information and training for local governments in budget development, purchasing, demographics, land use planning, and regulatory issues; and it manages federal and state funding programs to support infrastructure and local services development. Cash funds are predominantly from the Local Government Severance Tax Fund, Local Government Mineral Impact Fund, and the State Lottery.

(A) Local Government and Community Services

(i) Administration

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Personal Services	1,374,427	1,346,833	1,524,598	1,524,598	
FTE	19.1	16.1	18.7	18.7	
General Fund	436,959	326,058	333,377	333,377	
Reappropriated Funds	937,468	1,020,775	1,043,865	1,043,865	
Federal Funds	0	0	147,356	147,356	
Operating Expenses	66,494	128,116	132,301	132,301	
General Fund	42,178	47,831	43,128	43,128	
Reappropriated Funds	24,316	16,258	25,146	25,146	
Federal Funds	0	64,027	64,027	64,027	
Strategic Planning Group on Coloradans Age 50 and Over	0	364,915	64,954	0	
FTE	0.0	0.3	0.3	0.0	
General Fund	0	364,915	64,954	0	
SUBTOTAL -	1,440,921	1,839,864	1,721,853	1,656,899	(3.8%)
FTE	19.1	16.4	19.0	18.7	(1.6%)
General Fund	479,137	738,804	441,459	376,505	(14.7%)
Reappropriated Funds	961,784	1,037,033	1,069,011	1,069,011	0.0%
Federal Funds	0	64,027	211,383	211,383	0.0%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(ii) Local Government Services					
Local Utility Management Assistance	157,921	162,173	171,762	171,762	
FTE	2.0	2.0	2.0	2.0	
Cash Funds	157,921	162,173	171,762	171,762	
Conservation Trust Fund Disbursements	51,166,726	57,134,256	50,000,000	50,000,000	
FTE	1.8	2.0	2.0	2.0	
Cash Funds	51,166,726	57,134,256	50,000,000	50,000,000	
Volunteer Firefighter Retirement Plans	4,170,673	4,116,022	4,200,000	4,220,000	
General Fund	0	0	0	0	
General Fund Exempt	4,170,673	4,116,022	4,200,000	4,220,000	
Firefighter Heart and Circulatory Malfunction Benefits	797,640	1,743,429	1,903,273	1,903,273	
FTE	0.3	0.3	0.5	0.5	
General Fund	51,128	958,183	964,220	964,220	
Cash Funds	746,512	0	0	0	
Reappropriated Funds	0	785,246	939,053	939,053	
Volunteer Firefighter Death and Disability Insurance	21,065	21,065	30,000	30,000	
General Fund	0	0	0	0	
General Fund Exempt	21,065	21,065	30,000	30,000	
Environmental Protection Agency Water/Sewer File Project	58,156	50,669	62,718	62,718	
FTE	0.5	0.5	0.5	0.5	
Federal Funds	58,156	50,669	62,718	62,718	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL -	56,372,181	63,227,614	56,367,753	56,387,753	0.0%
FTE	4.6	4.8	5.0	5.0	0.0%
General Fund	51,128	958,183	964,220	964,220	0.0%
General Fund Exempt	4,191,738	4,137,087	4,230,000	4,250,000	0.5%
Cash Funds	52,071,159	57,296,429	50,171,762	50,171,762	0.0%
Reappropriated Funds	0	785,246	939,053	939,053	0.0%
Federal Funds	58,156	50,669	62,718	62,718	0.0%
(iii) Community Services					
Community Services Block Grant	5,625,726	6,256,901	6,000,000	6,000,000	
Federal Funds	5,625,726	6,256,901	6,000,000	6,000,000	
SUBTOTAL -	5,625,726	6,256,901	6,000,000	6,000,000	0.0%
FTE	0.0	0.0	0.0	0.0	0.0%
Federal Funds	5,625,726	6,256,901	6,000,000	6,000,000	0.0%
SUBTOTAL - (A) Local Government and Community Services	63,438,828	71,324,379	64,089,606	64,044,652	(0.1%)
FTE	23.7	21.2	24.0	23.7	(1.3%)
General Fund	530,265	1,696,987	1,405,679	1,340,725	(4.6%)
General Fund Exempt	4,191,738	4,137,087	4,230,000	4,250,000	0.5%
Cash Funds	52,071,159	57,296,429	50,171,762	50,171,762	0.0%
Reappropriated Funds	961,784	1,822,279	2,008,064	2,008,064	0.0%
Federal Funds	5,683,882	6,371,597	6,274,101	6,274,101	0.0%

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
(B) Field Services					
Program Costs	2,590,548	2,677,328	2,943,757	3,034,637 *	
FTE	25.5	20.7	28.2	29.2	
General Fund	533,886	0	0	0	
Cash Funds	103,982	21,655	109,027	109,027	
Reappropriated Funds	1,952,680	2,338,519	2,511,402	2,602,282	
Federal Funds	0	317,154	323,328	323,328	
Community Development Block Grant	14,030,415	8,330,821	5,200,000	5,200,000	
Federal Funds	14,030,415	8,330,821	5,200,000	5,200,000	
Local Government Mineral and Energy Impact Grants and Disbursements	130,466,720	122,351,291	125,000,000	125,000,000	
Cash Funds	130,466,720	122,351,291	125,000,000	125,000,000	
Local Government Permanent Fund	0	0	8,750,000	0	
Cash Funds	0	0	8,750,000	0	
Local Government Limited Gaming Impact Grants	4,141,322	5,315,590	4,900,000	4,900,000	
Cash Funds	4,141,322	5,315,590	4,900,000	4,900,000	
Local Government Geothermal Energy Impact Grants	0	8	50,000	50,000	
Cash Funds	0	8	50,000	50,000	
Other Local Government Grants	4,863	61,098	30,000	30,000	
Cash Funds	1,053	61,098	30,000	30,000	
Reappropriated Funds	3,810	0	0	0	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Rural Economic Development Initiative Grants	0	655,561	750,000	1,265,095 *	
FTE	0.0	0.3	0.0	0.0	
General Fund	0	655,561	750,000	1,265,095	
Search and Rescue Program	430,778	455,280	618,420	618,420	
FTE	1.2	0.9	1.3	1.3	
Cash Funds	430,778	455,280	618,420	618,420	
Local Government Marijuana Impact Grant Program	0	1,126,946	1,117,540	1,117,540	
FTE	0.0	2.0	2.0	2.0	
General Fund	0	1,000,000	0	0	
Cash Funds	0	126,946	1,117,540	1,117,540	
SUBTOTAL - (B) Field Services	151,664,646	140,973,923	149,359,717	141,215,692	(5.5%)
FTE	26.7	23.9	31.5	32.5	3.2%
General Fund	533,886	1,655,561	750,000	1,265,095	68.7%
Cash Funds	135,143,855	128,331,868	140,574,987	131,824,987	(6.2%)
Reappropriated Funds	1,956,490	2,338,519	2,511,402	2,602,282	3.6%
Federal Funds	14,030,415	8,647,975	5,523,328	5,523,328	0.0%

(C) Indirect Cost Assessments

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
Indirect Cost Assessments	832,535	795,723	1,112,009	1,174,407	
Cash Funds	155,871	125,434	157,869	166,726	
Reappropriated Funds	676,664	670,289	845,654	893,106	
Federal Funds	0	0	108,486	114,575	

	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Appropriation	FY 2017-18 Request	Request vs. Appropriation
SUBTOTAL - (C) Indirect Cost Assessments	832,535	795,723	1,112,009	1,174,407	5.6%
FTE	0.0	0.0	0.0	0.0	0.0%
Cash Funds	155,871	125,434	157,869	166,726	5.6%
Reappropriated Funds	676,664	670,289	845,654	893,106	5.6%
Federal Funds	0	0	108,486	114,575	5.6%
TOTAL - (4) Division of Local Government	215,936,009	213,094,025	214,561,332	206,434,751	(3.8%)
FTE	50.4	45.1	55.5	56.2	1.3%
General Fund	1,064,151	3,352,548	2,155,679	2,605,820	20.9%
General Fund Exempt	4,191,738	4,137,087	4,230,000	4,250,000	0.5%
Cash Funds	187,370,885	185,753,731	190,904,618	182,163,475	(4.6%)
Reappropriated Funds	3,594,938	4,831,087	5,365,120	5,503,452	2.6%
Federal Funds	19,714,297	15,019,572	11,905,915	11,912,004	0.1%
TOTAL - Department of Local Affairs	293,038,155	296,188,656	306,112,580	317,241,443	3.6%
FTE	155.3	164.1	173.9	176.6	1.6%
General Fund	17,377,101	19,769,018	21,782,580	24,413,304	12.1%
General Fund Exempt	4,191,738	4,137,087	4,230,000	4,250,000	0.5%
Cash Funds	190,040,091	188,152,873	194,098,487	201,747,581	3.9%
Reappropriated Funds	8,368,095	9,962,315	10,915,745	11,577,032	6.1%
Federal Funds	73,061,130	74,167,363	75,085,768	75,253,526	0.2%

APPENDIX B
RECENT LEGISLATION AFFECTING DEPARTMENT BUDGET

2015 SESSION BILLS

S.B. 15-029 (VOLUNTEER FIREFIGHTER PENSION PLAN STUDY): Requires the Office of the State Auditor (OSA), with the concurrence of the Fire and Police Pension Association (FPPA) and the Department of Local Affairs (Department), to retain a nationally recognized law firm and, if necessary, an actuary to conduct a study of various issues related to the state's volunteer firefighter pension plan system. Requires the OSA, the FPPA, and the Department to work collectively to develop recommendations for the legislature regarding changes to the system of volunteer firefighter pension plans, based on the results of the report. Requires the Police Officers' and Firefighters' Pension Reform Commission to review the results on the report and to determine whether to propose legislation relating to the funding and structure of volunteer firefighter pension plans in the state. Provides the following FY 2015-16 appropriations: $100,000 General Fund to the Legislative Department for allocation to the OSA; $4,271 General Fund to the Department of Local Affairs; and $848 reappropriated funds to the Governor's Office for information technology services for the Department of Local Affairs.

S.B. 15-112 (BUILDING REGULATION FUND): The Building Regulation Fund (Fund) supports programs to inspect and regulate manufactured buildings. In 2009, the General Assembly transferred $1,101,349 from the Fund to the General Fund to address statewide revenue shortfalls. Repays $500,000 of this amount through two transfers from the General Fund to the Fund:

- On April 1, 2015, transfers $300,000 from the General Fund to the Fund.
- On July 1, 2016, transfers $200,000 from the General Fund to the Fund.
- Waives the limit on uncommitted reserves in the Fund for FY 2014-15.

S.B. 15-234 (LONG BILL): General appropriations act for FY 2015-16.

S.B. 15-244 (TRANSFERS RELATED TO FEDERAL MINERAL LEASE RECOUPMENT): Enacts statutory transfers from the General Fund for three consecutive fiscal years, from FY 2015-16 to FY 2017-18, to backfill state cash funds for local public entities that will be reduced by the recoupment of federal mineral lease (FML) revenue previously received from oil and gas leases on the Roan Plateau. Due to a recently-settled lawsuit, businesses with drilling rights on the Plateau are vacating some mineral leases in return for reimbursement of their initial up-front FML "bonus" payments. To adjust for a total FML reduction of $23,366,598 over three years, the State Treasurer will annually transfer $7,788,866 from the General Fund to the Public School Fund. This will trigger further transfers from the Public School Fund to the Local Government Mineral Impact Fund and Colorado Water Conservation Board Construction Fund (CWCB Fund). These further transfers are made from FML funds rather than General Fund, but are based on ensuring allocation of the initial $7.8 million General Fund transfer consistent with each fund's usual statutory share of FML revenue.

TRANSFERS UNDER SB 15-244, FOR EACH FISCAL YEAR BETWEEN FY 2015-16 AND FY 2017-18. (FOLLOWING STATUTORY NONBONUS FML DISTRIBUTIONS IN SECTION 34-63-102, C.R.S.)				
ORIGINAL SOURCE	FIRST TRANSFER	FINAL TRANSFER / RESIDUAL	%	RECIPIENT PURPOSE
General Fund	$7,788,866 to the Public School Fund	$3,115,546 to the Local Government Mineral Impact Fund.	40.0	For the Local Impact Program in DOLA.
		$778,887 to the CWCB Fund	10.0	For use in water projects.
		$132,411 to the Local Government Mineral Impact Fund	1.7	For use by DOLA in school district direct distributions.
		$3,762,022 residual in the Public School Fund	48.3	Payments to support public schools.
		TOTAL TRANSFER $7,788,866		

S.B. 15-255 (DEPOSIT SEVERANCE TAX REVENUES IN GENERAL FUND): Diverts up to the first $20.0 million in gross severance tax revenues collected after the effective date to the General Fund in FY 2014-15. Pursuant to Section 39-29-108 (2) (a) (I), C.R.S., the Department of Natural Resources and the Department of Local Affairs each receive 50.0 percent of total severance tax revenues. The diversion reduces revenue to the Local Government Severance Tax Fund by up to $10.0 million in FY 2014-15. However, the final diversion was $8,113,366, based on severance tax revenues actually received and thus available for diversion. For additional information, see the "Recent Legislation" section at the end of Part III of the Department of Natural Resources.

S.B. 15-288 (COMPENSATION PAID TO ELECTED OFFICIALS): Increases statutory salaries for county commissioners, sheriffs, treasurers, assessors, clerks, coroners, and surveyors by 30.0 percent, effective January 2016. Requires the Director of Research of the Legislative Council to periodically adjust the salaries of these elected county officials for inflation, and post the adjusted salary amounts on the General Assembly's web site. For additional information, see the "Recent Legislation" section at the end of the Governor – Lieutenant Governor – State Planning and Budgeting.

H.B. 15-1033 (STRATEGIC PLANNING GROUP ON AGING): Creates a Strategic Action Planning Group on Aging (Group) to study and produce a comprehensive strategic action plan on aging in Colorado. The 23-member Group, appointed by the Governor, will examine the impacts of the aging demographic shift through the year 2030 on the economy, state and local budgets, and health care and transportation needs, among other issues. The bill outlines various requirements for representation on the Group and its activities. Requires the Group to provide oral updates to the Joint Budget Committee during the 2016 and 2017 legislative sessions, to submit its written strategic plan with final recommendations by November 30, 2016, and to submit two updates to the strategic plan, one by November 1, 2018 and one by November 1, 2020. The Group is repealed September 1, 2022, pending sunset review. Creates the Strategic Action Plan on Aging Cash Fund, which is continuously appropriated to the Group and consists of money appropriated by the General Assembly and gifts, grants or donations. Provides an appropriation of $365,915 General Fund and 0.3 FTE to the Department of Local Affairs for FY 2015-16 for allocation to the Division of Local Government to support the Group. For additional information, see the "Recent Legislation" section at the end of the Department of Revenue.

H.B. 15-1225 (FEDERAL LAND COORDINATION): Requires the executive branch to provide technical and financial support to local governments that are affected by federal land management. Specifically, requires the Governor to provide technical support in cooperation with the executive directors of the Department of Local Affairs, the Department of Natural Resources, and the Commissioner of the Department of Agriculture. Support includes sharing information with federal land managers, developing local land use plans, hiring consultants, and entering into memoranda of understanding or other cooperation with federal agencies. The Governor is also authorized, but not required, to establish an advisory committee that provides technical assistance related to specific federal land management decision-making processes. Authorizes the use of the Local Government Mineral Impact Fund and the Local Government Severance Tax Fund for planning, analysis, public engagement, collaboration with federal land managers, and other local government activity related to federal land management. For three years, grant funding of $1.0 million per year will be available to counties for these activities or for similar or related activities by local governments. For FY 2015-16, appropriates $32,369 reappropriated funds and 0.5 FTE to the Department of Local Affairs from amounts initially appropriated to the Department for local government mineral and energy impact grants and disbursements.

H.B. 15-1367 (RETAIL MARIJUANA TAXES): Refers a ballot issue to voters on November 3, 2015, asking whether the state may retain and spend revenue collected from the Proposition AA excise and special sales taxes on retail marijuana in FY 2014-15. Creates a $58.0 million Proposition AA Refund Account (Refund Account) in the General Fund. Independent of whether the voters approve the ballot issue, the bill creates a Local Government Retail Marijuana Impact Grant Program in the Department of Local Affairs and makes various other changes to law regarding marijuana taxes and expenditure of related revenue. Among other appropriations, appropriates $71,342 cash funds from the Marijuana Tax Cash Fund and 1.0 FTE to the Department of Local Affairs for FY 2015-16, regardless of whether the ballot initiative is adopted. If the ballot initiative is adopted, appropriates an additional $1,000,000 for FY 2015-16 to the Department of Local Affairs from the Refund Account. For additional information, see the "Recent Legislation" section at the end of the Department of Revenue.

2016 SESSION BILLS

S.B. 16-218 (STATE SEVERANCE TAX REFUNDS): Addresses a severance tax refund obligation arising as a result of the Colorado Supreme Court's April 25, 2016 decision in *BP America v. Colorado Department of Revenue*. Creates a mechanism for refunds of severance tax revenue to businesses, including businesses that revise their severance tax refunds to claim additional tax deductions for tax years 2012 through 2015. Diverts amounts required, estimated at $115.1 million in FY 2015-16, from the General Fund reserve to make the reimbursements. Restricts expenditures of severance tax money in various funds unless lifted in whole or in part by the Joint Budget Committee. In the Department of Local Affairs, restricts $48.3 million in the Local Government Severance Tax Fund. For additional information, see the "Recent Legislation" section at the end of the Department of Natural Resources.

H.B. 16-1175 (PROPERTY TAX EXEMPTION ADMINISTRATION): Makes various administrative changes to help identify applicants who do not meet the legal requirements for the Senior and Disabled Veteran Homestead Exemption. Authorizes data sharing and related cross-checking of records from the Department of Revenue, the Department of Local Affairs, and the Department of Public Health and Environment. Ensures that the Treasurer does not reimburse counties for Homestead Exemptions that do not meet all the legal requirements. Appropriates $29,270 General Fund and 0.5 FTE to the Department of Local Affairs for FY 2016-17. Is projected to reduce General Fund reimbursements to counties by $1,898,000 beginning in FY 2017-18.

H.B. 16-1405 (LONG BILL): General appropriations act for FY 2016-17.

H.B. 16-1411 (FORT LYON RESIDENTIAL COMMUNITY STUDY): Authorizes the State Auditor to contract for a study of the Fort Lyon Supportive Residential Community to evaluate the program's costs, benefits, and outcomes. This program serves approximately 250 chronically homeless individuals at a historic facility in Bent County. The contractor for the study is to be selected with the concurrence of the Division of Housing in the Department of Local Affairs, and a Fort Lyon Study Advisory Committee, appointed by the Director of the Division of Housing, will assist the auditor and Division in evaluating proposals and the contractor's progress on the study. A preliminary findings report is due to the State Auditor by August 1, 2017 and a final report is due by August 1, 2018. After review by the Legislative Audit Committee, both reports will be disseminated to various legislative committees and executive branch agencies. For FY 2016-17, appropriates $200,000 General Fund to the Legislative Department for the Office of the State Auditor to contract for the study and $11,875 General Fund to the Department of Corrections for contract services related to compiling data for the study. Unspent amounts may rolled forward for expenditure in FY 2017-18. The total cost of the study from FY 2016-17 until its completion in FY 2018-19 is not expected to exceed $450,000 General Fund.

H.B. 16-1465 (MODIFICATIONS LOW-INCOME HOUSING TAX CREDIT): Extends from 2 years to 5 years, through the calendar year ending December 31, 2019, the period during which the Colorado Housing and Finance Authority (CHFA) may allocate low-income housing tax credits. Each year through 2019, CHFA may allocate tax credits valued at $30 million ($5.0 million per year, credited over six or more years). For the new years authorized, the bill deletes provisions added in 2014 that exempted credit allocations to developments located in counties impacted by a natural disaster from the aggregate annual limit. The bill's total fiscal impact is projected to be a $90.0 million reduction in General Fund revenue, spread between FY 2017-18 and FY 2029-30, with the peak reduction of $14.0 million General Fund estimated to occur in FY 2022-23.

APPENDIX C
FOOTNOTES AND INFORMATION REQUESTS

UPDATE ON LONG BILL FOOTNOTES

68 Department of Local Affairs, Division of Housing -- It is the intent of the General Assembly that the Department target state General Fund appropriations for affordable housing to projects and clients that can be reasonably expected to reduce other state costs.

COMMENT: This footnote expresses legislative intent. Information on how the Department's projects target clients that may drive other state costs is included in a staff issue on affordable housing.

UPDATE ON REQUESTS FOR INFORMATION

1 Department of Local Affairs, Division of Housing -- The Department is requested to submit a report by November 1, 2016, on its affordable housing programs. The report should specifically address:

- the projects funded with the affordable housing construction moneys provided;
- the per-unit costs of these projects identifying specifically state funds and other funds;
- how the projects funded align with the goals outlined in the Department's FY 2014-15 budget request to "end homelessness for veterans and chronically homeless" and "ensure sufficient affordable housing for persons with the lowest incomes"; and
- what progress the State has made in achieving each of these goals.

COMMENT: The Department submitted the report as requested. The response is discussed as part of a staff briefing issue on the Departments' affordable housing requests.

2 Department of Local Affairs, Division of Local Government -- The Department of Local Affairs is requested to submit a report by November 1, 2016, on the Rural Economic Development Initiative program. The report should explain the goals of the "2.0" version of the program first funded in FY 2015-16, what entities are eligible to participate, the administrative structure for the program, and any recommendations for program changes, including any recommendations for creating the program in statute. The Department is also requested to submit a list of grants awarded for FY 2015-16.

COMMENT: The Department submitted the report as requested. The response is discussed as part of a staff briefing issue on rural economic development issues.

APPENDIX D
DEPARTMENT ANNUAL PERFORMANCE REPORT

Pursuant to Section 2-7-205 (1) (a) (I), C.R.S., the Office of State Planning and Budgeting is required to publish an Annual Performance Report for the Department of Local Affairs by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation. For consideration by the Joint Budget Committee in prioritizing the Department's budget request, the first-quarter FY 2016-17 report dated October 2016 may be found at the following link:

https://drive.google.com/file/d/0B8ztIiGduUWbRnFRTzJUbk83MlU/view

The final FY 2015-16 report is at the following link:

https://drive.google.com/file/d/0B8ztIiGduUWbRURGM3RaR0p4VkE/view

Pursuant to Section 2-7-204 (3) (a) (I), C.R.S., the Department of Local Affairs is required to develop a performance plan and submit that plan to the Joint Budget Committee and appropriate Joint Committee of Reference by July 1 of each year. For consideration by the Joint Budget Committee in prioritizing the Department's budget request, the FY 2016-17 plan dated June 24, 2016 may be found at the following link:

https://drive.google.com/file/d/0B-yDiMcBmTmhV1dGWWJkX0FBOWM/view