

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**SUPPLEMENTAL REQUESTS FOR FY 2014-15
DEPARTMENT OF LOCAL AFFAIRS**

**JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision**

**Prepared By:
Amanda Bickel, JBC Staff
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For Further Information Contact:

Joint Budget Committee Staff
200 E. 14th Avenue, 3rd Floor
Denver, Colorado 80203
Telephone: (303) 866-2061
TDD: (303) 866-3472

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DEPARTMENT OF LOCAL AFFAIRS

Department Overview

The Department of Local Affairs is responsible for building community and local government capacity by providing training, technical, and financial assistance to localities. Major divisions include the Executive Director’s Office, Property Taxation, the Division of Housing, and the Division of Local Governments.

Summary: FY 2014-15 Appropriation and Recommendation

Department of Local Affairs: Recommended Changes for FY 2014-15						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2014-15 Appropriation						
HB 14-1336 (Long Bill)	\$308,503,775	\$20,751,294	\$209,046,471	\$8,410,418	\$70,295,592	167.8
Other legislation	<u>1,754,143</u>	<u>904,145</u>	<u>(352)</u>	<u>850,350</u>	<u>0</u>	<u>0.6</u>
Current FY 2014-15 Appropriation	\$310,257,918	\$21,655,439	\$209,046,119	\$9,260,768	\$70,295,592	168.4
Recommended Changes						
Current FY 2014-15 Appropriation	\$310,257,918	21,655,439	\$209,046,119	\$9,260,768	\$70,295,592	168.4
Building Regulation Fund Structural Deficit Resolution	0	0	0	0	0	0.0
Common policy supplementals	<u>378,178</u>	<u>232,324</u>	<u>0</u>	<u>96,219</u>	<u>49,635</u>	<u>0.0</u>
Recommended FY 2014-15 Appropriation	\$310,636,096	\$21,887,763	\$209,046,119	\$9,356,987	\$70,345,227	168.4
Recommended Increase/(Decrease)	\$378,178	\$232,324	\$0	\$96,219	\$49,635	0.0
Percentage Change	0.1%	1.1%	0.0%	1.0%	0.1%	0.0%
FY 2014-15 Executive Request	\$310,636,096	\$21,951,763	\$208,982,119	\$9,356,987	\$70,345,227	168.4
Request Above/(Below) Recommendation	\$0	\$64,000	(\$64,000)	\$0	\$0	(0.0)

Note: Common policy supplemental amounts reflect *request* pending a staff common policy recommendation and committee action.

Request/Recommendation Descriptions

Building Regulation Fund Structural Deficit Resolution: The request is to: (1) introduce legislation to enable programs for inspecting and regulating the manufactured building industry (currently supported by the Building Regulation Fund) to also be supported by the General Fund; and (2) appropriate \$64,000 General Fund to the program for FY 2014-15 and decrease the cash funds appropriation from the Building Regulation Fund by the same amount. A similar decision item has been submitted for FY 2015-16. The staff recommendation is to introduce legislation to transfer \$500,000 from the General Fund to the Building Regulation Fund to partially repay the Fund for amounts transferred to the General Fund during the recession.

Common policy supplementals: The request includes: \$332, 120 (including \$184,229 General Fund) for the CORE Common Policy True-up, \$49,113 General Fund for the Capitol Complex Leased Space Supplemental, and a reduction of \$3,055 (including a reduction of \$1,018 General Fund) for the Annual Vehicle Lease Payments Adjustment. *These items are pending the Committee’s common policy decisions.*

Prioritized Supplemental Requests

SUPPLEMENTAL REQUEST, DEPARTMENT PRIORITY #1 BUILDING REGULATION FUND STRUCTURAL DEFICIT RESOLUTION

	Request	Recommendation
Total	<u>\$0</u>	<u>\$0</u>
FTE	0.0	0.0
General Fund	64,000	0
Cash Funds	(64,000)	0
Reappropriated Funds	0	0
Federal Funds	0	0

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	NO
<p>The Department has requested the supplemental on the basis that new information on Building Regulation Fund revenues and expenses indicate that revenue won't fully support expenses in FY 2014-15. Staff believes this situation could probably have been foreseen when the original appropriation was made, as revenues have been relatively flat and expenditure increases in FY 2013-14 and FY 2014-15 largely reflect amounts that were borne by a federal grant from FY 2010-11 to FY 2012-13. <i>Although staff is not certain the request meets supplemental criteria, as discussed further below, the staff recommendation on new legislation would enable the Department to address its deficit for FY 2014-15, as well as FY 2015-16.</i></p>	

Department Request: The Department requests an increase of \$64,000 General Fund and a corresponding decrease in cash fund spending authority to address a structural deficit in the Building Regulation Cash Fund. *(Note: The following information was reviewed in the staff budget briefing but has been updated based on further discussion with the Department.)*

- The Department of Local Affairs serves as the statewide building department for factory-built residential and commercial structures. It inspects planning, construction, and installation for compliance with building codes and certifies that manufactured homes and commercial buildings are safe for occupancy. Inspection and certification fees, deposited in the Building Regulation Fund, support the direct and indirect costs of the program.

- The Department has requested an appropriation of \$64,000 General Fund for FY 2014-15 and \$250,000 General fund in FY 2015-16 to address a structural shortfall in the Building Regulation Fund. A statutory change is required to appropriate General Fund for this program, since current law requires that fees support the program's direct and indirect costs.
- The Department has explained the need for the supplemental and decision item requests based on the a number of considerations, including the following:
 - Fees for this program have been flat for 10 years in response to the economic pressures on consumers and producers.
 - Annual staff salary and benefit adjustments have increased costs. In addition, federal funding from the American Recovery and Reinvestment Act to improve statewide building codes, which helped to support staff for several years, is no longer available.
 - The section has taken steps to improve efficiency and took FTE reductions during the recession.
 - The Department has planned some fee increases. However, the building industry will not tolerate large increases. Further, more recently the Department has been instructed by the Governor's Office that it may not raise fees in FY 2014-15 based on the OSPB projection that the State will be in a TABOR refund posture starting in FY 2014-15.

Staff Recommendation: As discussed during the briefing, **in lieu of authorizing ongoing General Fund support for this program, staff recommends the Committee introduce a bill to repay the Building Regulation Fund a portion of the \$1.1 million transferred from the Fund to the General Fund in FY 2009.** *A transfer of \$300,000 would address the Department's structural deficit in FY 2014-15 and FY 2015-16. A transfer of \$500,000 General Fund would address the structural deficit through FY 2016-17 and would enable the Department to bring its costs and fees into alignment over a longer period of time.*

Staff Analysis: The staff recommendation is based on the following considerations:

- The General Assembly transferred \$1,101,349 from the Building Regulation Fund to the General Fund on June 1, 2009 to address statewide revenue shortfalls at the start of the recession. This represented virtually the entire fund balance. Transferring moneys back from the General Fund to a cash fund, now that the fund balance is running short, seems appropriate since the fund balance originated from participant fees.
- A transfer should provide sufficient revenue to cover shortfalls in the near term, to provide a cushion for revenue fluctuations, and to phase-in additional fee increases that may be needed.
- Staff believes it is reasonable for the size of this program to change based on changes in the housing market. The most efficient way to ensure this is to tie expenditures to fee revenue.

- Staff also believes that the program has various medium-term options for aligning expenditures and revenues.
 - Based on the history of the program, it seems likely that demand for manufactured structures will increase in the coming years, which is likely to increase revenue due to increased volume.
 - Given that there have not been fee increases in ten years, staff also believes fee increases would be appropriate.
 - Staff acknowledges that increases in cash fund revenue, whether from increased volume or increased fees, may be problematic to the extent such revenues drive increased TABOR General Fund refunds. The Department has other options for aligning revenue and expenditures that might not drive *net* revenue increases.

For example, through a statutory change or a change to rules or fees, the Department could require or strongly encourage more manufacturers to use 3rd party, rather than Department, certification and inspection services. Statute already allows building manufacturers to use 3rd party certification in lieu of Department certification, and this is the approach used for most out-of-state building manufacturers. According to Department staff, Colorado manufacturers usually prefer to go through the Department for certification due to the skill of Department staff and because the Department's fees are typically lower than those of 3rd party inspectors. Higher Department fees could conceivably lead to greater use of 3rd party inspectors for some services *and* reduce workload, allowing the Department to fully cover costs for the services it continues to provide.

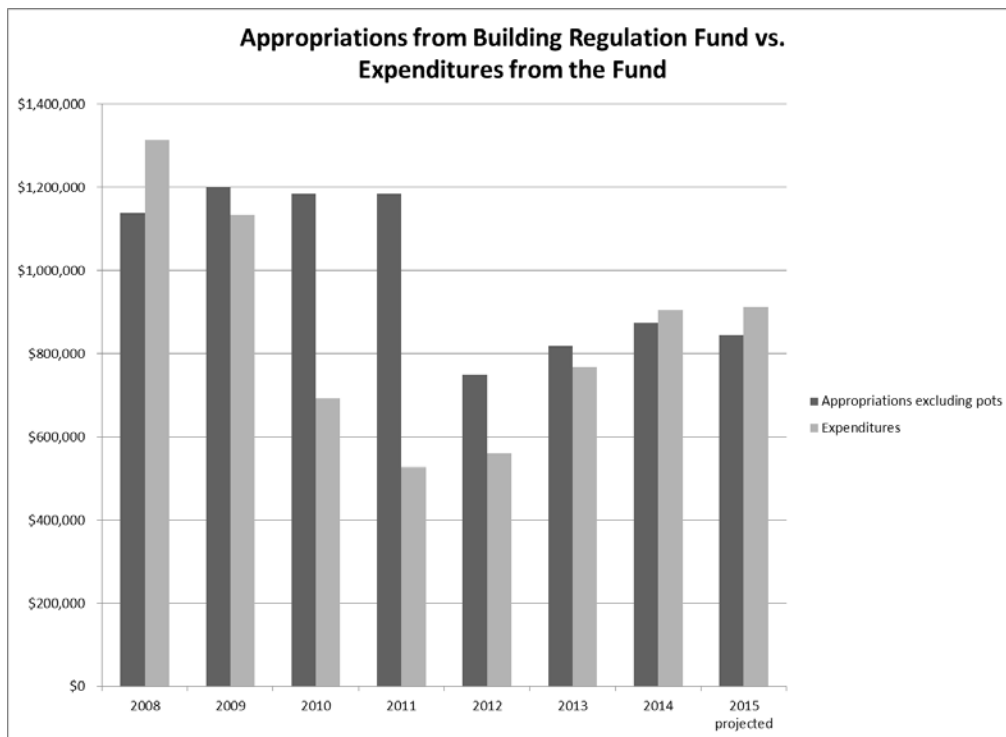
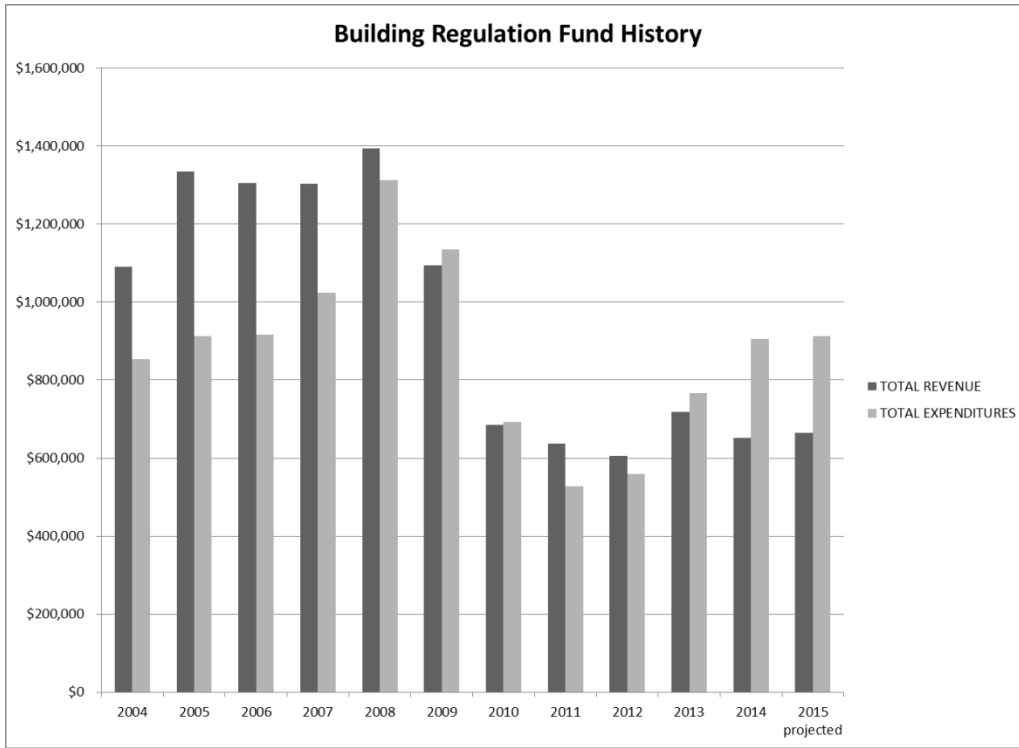
- The Department's hearing response indicated that it supports the staff proposal for a transfer from the General Fund to the Cash Fund as an alternative to its proposal to change statute to authorize General Fund appropriations for the program.

Additional Background: The following charts (also updated from the staff budget briefing issue) provide historical background on the Fund. As shown:

- Both revenue to and expenditures from the Fund have varied considerably with business cycles.
- Appropriations have been adjusted far less quickly than both revenue and expenditures.

Overall, staff believes these charts support the staff recommendation that the manufactured building program should continue to be supported by fees, rather than the General Fund, since this is the most efficient way to ensure the program responds to workload and revenue changes. In light of the speed with which revenue, expenses, and workload may adjust, staff also believes the program should be allowed to maintain some fund balance cushion to enable it to adjust to market changes in an orderly manner.

*JBC Staff Supplemental Recommendations: FY 2014-15
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*Note: expenditures may exceed appropriations based on the Department’s authority to expend “various cash sources” in some centrally-appropriated line items.

Statewide Common Policy Supplemental Requests

These requests are not prioritized and are not analyzed in this packet. The JBC will act on these items later when it makes decisions regarding common policies.

Department's Portion of Statewide Supplemental Request	Total	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Capitol Complex Leased Space Supplemental	\$49,113	\$49,113	\$0	\$0	\$0	0.0
Annual Vehicle Lease Payments Adjustment	(3,055)	(1,018)	0	(2,037)	0	0.0
CORE Common Policy True-up	<u>332,120</u>	<u>184,229</u>	<u>0</u>	<u>98,256</u>	<u>49,635</u>	<u>0.0</u>
Department's Total Statewide Supplemental Requests	\$378,178	\$232,324	\$0	\$96,219	\$49,635	0.0

Staff Recommendation: The staff recommendation for these requests is pending Committee approval of common policy supplementals. Staff asks permission to include the corresponding appropriations in the Department's supplemental bill when the Committee approves this common policy supplemental. If staff believes there is reason to deviate from the common policy, staff will appear before the Committee later to present the relevant analysis.

JBC Staff Supplemental Recommendations - FY 2014-15
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Appendix A: Number Pages

	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2014-15 Requested Change	FY 2014-15 Rec'd Change	FY 2014-15 Total W/ Rec'd Change
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DEPARTMENT OF LOCAL AFFAIRS
Reeves Brown, Executive Director

Building Regulation Fund Structural Deficit Resolution

(3) DIVISION OF HOUSING

(B) Field Services

Affordable Housing Program Costs	4,118,080	0	0	4,118,080
FTE	26.7	0.0	0.0	26.7
General Fund	284,432	64,000	0	284,432
Cash Funds	783,757	(64,000)	0	783,757
Reappropriated Funds	278,128	0	0	278,128
Federal Funds	2,771,763	0	0	2,771,763

Total for Building Regulation Fund Structural

Deficit Resolution

FTE	26.7	0.0	0.0	26.7
General Fund	284,432	64,000	0	284,432
Cash Funds	783,757	(64,000)	0	783,757
Reappropriated Funds	278,128	0	0	278,128
Federal Funds	2,771,763	0	0	2,771,763

JBC Staff Supplemental Recommendations - FY 2014-15
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	FY 2013-14 Actual	FY 2014-15 Appropriation	FY 2014-15 Requested Change	FY 2014-15 Rec'd Change	FY 2014-15 Total W/ Rec'd Change
Totals Excluding Pending Items					
LOCAL AFFAIRS					
TOTALS for ALL Departmental line items	271,490,394	310,257,918	0	0	310,257,918
<i>FTE</i>	<u>151.6</u>	<u>168.4</u>	<u>0.0</u>	<u>0.0</u>	<u>168.4</u>
General Fund	10,617,302	17,360,686	64,000	0	17,360,686
General Fund Exempt	4,117,770	4,294,753	0	0	4,294,753
Cash Funds	180,575,681	209,046,119	(64,000)	0	209,046,119
Reappropriated Funds	8,611,673	9,260,768	0	0	9,260,768
Federal Funds	67,567,968	70,295,592	0	0	70,295,592