

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



SUPPLEMENTAL REQUESTS FOR FY 2010-11

DEPARTMENT OF LOCAL AFFAIRS

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

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Non-Prioritized Supplementals

Statewide One Percent Across the Board General Fund Personal Services Reduction

	Request
Total	(\$27,463)
General Fund	(27,463)

Department Request: The Department requests a one percent reduction to the General Fund portion of its personal services appropriations for FY 2010-11. The following table details the request:

One Percent Across the Board General Fund Personal Services Reduction						
Division, Line Item	Total	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
(1) Division of Local Government,						
(A) Local Government and Community Services,						
Personal Services	(\$536)	(\$536)	\$0	\$0	\$0	0.0
(B) Field Services						
Program Costs	(26,927)	(26,927)	0	0	0	0.0
Total	(\$27,463)	(\$27,463)	\$0	\$0	\$0	0.0

Staff Recommendation: The staff recommendation for this request 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 common policy supplementals.** If staff believes there is reason to deviate from the common policy, staff will appear before the Committee later to present the relevant analysis.

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
Annual Fleet Vehicle Replacement	(\$3,199)	(\$3,199)	\$0	\$0	\$0	0.0
Printing of Statewide Warrants and Mainframe Documents	660	0	0	660	0	0.0

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Department's Portion of Statewide Supplemental Request	Total	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Department's Total Statewide Supplemental Requests	(\$2,539)	(\$3,199)	\$0	\$660	\$0	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.

Cash Fund Transfers

Transfer Request

Local Government Severance Tax Fund

FY 2010-11	Request	Recommendation
Transfer from the Local Government Severance Tax Fund to the General Fund	\$60,000,000	\$60,000,000

This request requires separate legislation.

Department Request:

The Department of Local Affairs (DOLA) requests that \$60.0 million be transferred from the Local Government Severance Tax Fund to the General Fund in FY 2010-11 for State budget balancing purposes.

Staff Recommendation:

As a result of the State's revenue shortfall, **staff recommends that the Committee introduce legislation to transfer \$60.0 million from the Local Government Severance Tax Fund to the General Fund in FY 2010-11** to assist with balancing the budget. Staff recognizes the difficult budgetary arena in which local governments are currently operating and that the absence of DOLA sponsored grants and loans from the Fund further burdens local governments in their own budget balancing efforts. However, the Governor's proposal maintains moneys for direct distribution from the Fund to local governments as the top priority, while sacrificing the availability of grant and loan funds.

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If the supplemental request is denied, the General Assembly will have to devise another option, such as transferring moneys from other cash funds or decreasing the General Fund appropriations for other State programs, to generate a commensurate amount of funding to assist with balancing the budget as a result of the State's revenue shortfall.

Staff Analysis:

Background

The Local Government Severance Tax Fund receives 50.0 percent of total gross receipts realized from the severance taxes imposed on extracted minerals and mineral fuels. The moneys deposited in the Fund provide direct distribution and grant opportunities for county and municipal governments, as well as qualifying political subdivisions, to compensate the entities for the loss of property tax revenue resulting from the deduction of severance taxes paid in the determination of the valuation for assessment of producing mines. Seventy percent of the moneys deposited in the Fund are distributed as grants and loans by the Department and thirty percent are directly distributed by formula to impacted localities, pursuant to Section 39-29-110 (1) (a), C.R.S.

DOLA combines moneys from severance tax revenues and federal mineral lease revenues for administrative efficiency and applicant convenience into the Local Government Mineral and Energy Impact Assistance Program. Entities eligible to receive grants and loans include municipalities, counties, school districts, special districts and other political subdivisions, and state agencies for the planning, construction, and maintenance of public facilities and public services, with priority given to schools and local governments socially or economically impacted by the mineral extraction industry on state lands.

Funded projects include water and sewer improvements, road projects, construction of fire protection buildings, purchase of fire protection equipment, local government planning, and construction of improvements to recreation centers, senior centers, hospitals, local government administrative buildings, K-12 school classrooms, and other public infrastructure.

Legislative Council Local Government Severance Tax Fund Forecast

The Local Government Severance Tax Fund is slated to receive \$88.3 million in severance tax revenue in FY 2010-10, according to the Legislative Council Staff's Economic and Revenue Forecast, dated December 20, 2010.

Actions Taken in Prior Fiscal Years

During the 2009 legislative session, S.B. 09-279 (Tapia/Pommer) transferred \$27.5 million from the Local Government Severance Tax Fund to the General Fund as a part of a budget balancing action for FY 2008-09. In addition, the legislation provided the authority for a one-day transfer of \$109.6

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million from the Fund to the General Fund on June 30, 2009, which was transferred back to the Fund on July 1, 2009.

During the 2010 legislative session, H.B. 10-1327 (Pommer/White) transferred \$50.3 from the Local Government Severance Tax Fund to the General Fund for FY 2009-10 budget balancing purposes. This action effectively halted Energy and Mineral Impact grant awards from severance tax revenues.

Additionally, during the 2010 legislative session, H.B. 10-1388 (Ferrandino/Tapia) transferred \$10.0 million from the Local Government Severance Tax Fund to the General Fund for FY 2010-11 budget balancing purposes.

Governor's Proposed Transfer

On August 23, 2010, the Governor submitted a proposal to transfer \$5.0 million from the Local Government Severance Tax Fund to the General Fund for FY 2010-11 budget balancing purposes based on the June 2010 economic forecast. In addition, the Governor directed the State Controller to withhold from distribution an additional \$30 million to be made available for budget balancing purposes, should such action be necessary later in the fiscal year for FY 2010-11.

Following the September 2010 economic forecast, the Governor submitted a proposal on October 22, 2010 to transfer \$55.0 million from the Local Government Severance Tax to the General Fund for FY 2010-11 budget balancing purposes. When combined with the \$10.0 million transfer included in H.B. 10-1388 and the \$5.0 million in the Governor's August proposal, the grand total of the transfer from the Fund to the General Fund for FY 2010-11 budget balancing purposes is \$70.0 million. The projected balance of the Fund in FY 2010-11 is \$9.1 million.

FY 2010-11 Cash Fund Balance (dollars in millions)	
FY 2010-11 Beginning Projected Balance	\$86.2
FY 2010-11 Projected Revenue	\$88.3
Transfer Pursuant to H.B. 10-1388	(\$10.0)
Mandatory Expenditures	(\$63.1)
Future Commitments	(\$32.3)
Governor's Proposed August 2010 Transfer	(\$5.0)
Governor's Proposed October 2010 Transfer	<u>(\$55.0)</u>
Projected End of Year Balance	\$9.1

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If the Governor's proposal is approved, moneys will be directly distributed by formula from the Fund to impacted localities, however, no moneys will be available from the Fund for grants and loans by DOLA.

Impact of Proposed Transfer on Local Governments

Prior to the staff briefing on the Department's FY 2011-12 budget request, staff contacted both the Colorado Municipal League (CML) and Colorado Counties, Inc. (CCI) to better understand their concerns related to the Governor's proposed budget balance actions to transfer moneys to the General Fund from the Local Government Severance Tax Fund. Key concerns these entities shared with staff include:

- Budget conditions in many local governments are as bad or worse than the State;
- The redirection of severance tax moneys to the General Fund shifts the burden of the State's budget shortfall to local governments;
- The lack of the extraction impact moneys that would have otherwise gone to local governments prohibits the mitigation of the impacts for which these moneys were intended; and
- Property tax assessments are expected to have a large impact on county budgets and the loss of other revenue streams, such as severance tax revenue, will further exacerbate the strain on local governments.

**Transfer Request
Local Government Mineral Impact Fund**

FY 2010-11	Request	Recommendation
Transfer from the Local Government Mineral Impact Fund to the General Fund	\$15,000,000	\$15,000,000

This request requires separate legislation.

Department Request:

The Department of Local Affairs (DOLA) proposes a transfer of \$15.0 million from the Local Government Mineral Impact Fund to the General Fund for budget balancing purposes in FY 2010-11. The proposal would limit the amount of moneys available in FY 2010-11 in the Fund for distribution to \$12.2 million.

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Staff Recommendation:

As a result of the State's revenue shortfall, **staff recommends that the Committee introduce legislation to transfer \$15.0 million from the Local Government Mineral Impact Fund to the General Fund in FY 2010-11** to assist with balancing the budget. Staff is cognizant of the difficult budgetary arena in which local governments are currently operating and that the absence of a DOLA sponsored grants from the Local Government Mineral Impact Fund further burdens local governments in their own budget balancing efforts. However, the Governor's proposal maintains moneys for direct distribution to local government entities and school districts as the top priority, while sacrificing the availability of grant funds.

If the supplemental request is denied, the General Assembly will have to transfer moneys from another fund or decrease the General Fund appropriations for other State programs to generate a commensurate amount of funding to assist with balancing the budget as a result of the State's revenue shortfall.

Staff Analysis:

Background

The Local Government Mineral Impact Fund provides direct distribution and grant opportunities for counties, municipalities, and school districts impacted by mineral development on federal lands. The Fund consists of 41.7 percent of "non-bonus" revenues (i.e., rents, royalties, and earnings) the State receives from the federal government. DOLA combines moneys from severance tax revenues and federal mineral lease revenues for administrative efficiency and applicant convenience into the Local Government Mineral and Energy Impact Assistance Program.

Of the total amount of non-bonus revenues received by the Fund, 48.0 percent are directly distributed by formula to impacted counties and municipalities, 48.0 percent are distributed as grants by DOLA, and 4.0 percent are distributed by formula to state school districts.

Legislative Council Local Government Mineral Impact Fund Forecast

According to the December 2010 Legislative Council Staff's Economic and Revenue Forecast, the revenue received by the Local Government Mineral Impact Fund in FY 2010-11 will be approximately \$58.2 million.

Actions Taken in Prior Fiscal Years

During the 2009 legislative session, S.B. 09-279 (Tapia/Pommer), transferred \$1.0 million from the Local Government Mineral Impact Fund to the General Fund for FY 2008-09 budget balancing purposes and \$22.6 million from the Fund to the General Fund for FY 2009-10 budget balancing purposes. In addition, the legislation provided the authority for a one-day transfer of \$14.3 million

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from the Fund to the General Fund on June 30, 2009, which was transferred back to the Fund on July 1, 2009.

The legislature did not take any action in the 2010 legislative session to adjust the amount of moneys retained in the Local Government Mineral Impact Fund.

Governor's Proposed Transfer

On August 23, 2010, the Governor submitted a proposal to transfer \$15.0 million from the Local Government Mineral Impact Fund to the General Fund for FY 2010-11 budget balancing purposes based on the June 2010 economic forecast.

FY 2010-11 Cash Fund Balance (dollars in millions)	
FY 2010-11 Beginning Projected Balance	\$35.5
FY 2010-11 Projected Revenue	\$58.2
Mandatory Expenditures	(\$49.0)
Future Commitments	(\$17.5)
Governor's Proposed August 2010 Transfer	<u>(\$15.0)</u>
Projected End of Year Balance	\$12.2

If the Governor's proposal is approved, moneys would be available from the Fund for direct distribution by formula to impacted localities and for direct distribution by formula to schools, however, only a small amount of funding would remain for grants and loans.

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**Transfer Request
 Local Government Permanent Fund**

FY 2010-11	Request	Recommendation
Transfer from the Local Government Permanent Fund to the General Fund	\$10,412,254	\$4,800,000

This request requires separate legislation.

Department Request:

The Department of Local Affairs (DOLA) proposes a transfer of \$10.4 million from the Local Government Permanent Fund to the General Fund for budget balancing purposes in FY 2010-11. The proposal would eliminate the balance of moneys in the Fund.

Staff Recommendation:

As a result of the State's revenue shortfall, **staff recommends that the Committee introduce legislation to transfer \$4.8 million from the Local Government Permanent Fund to the General Fund in FY 2010-11** to assist with balancing the budget. The amount of staff's recommended transfer differs from the Governor's proposal due to the variance in the "bonus" payment forecast between Legislative Council and the Governor's Office of State Planning and Budgeting. Staff recommends that the Committee adopt the more conservative numbers offered by Legislative Council. **If the Committee adopts staff's recommendation, be advised that the cash fund transfer total offered by the Governor to assist in balancing the FY 2010-11 budget will be \$5.6 million less than proposed.**

FY 2010-11 Cash Fund Balance (dollars in millions)	
FY 2010-11 Beginning Projected Balance	\$2.6
FY 2010-11 Projected Revenue	\$2.2
Mandatory Expenditures	\$0.0
JBC Staff Proposed Transfer	(\$4.8)
Projected End of Year Balance	\$0.0

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Staff is cognizant of the difficult budgetary arena in which local governments are currently operating and that the absence of a DOLA sponsored moneys from the Local Government Permanent Fund further burdens local governments in their own budget balancing efforts. However, the Legislative Council forecasted "bonus" payment dollar amount for FY 2010-11 does not represent a large amount of available funding when compared to the direct distribution of moneys from the Local Government Severance Tax Fund and the Local Government Mineral Impact Fund maintained under the Governor's proposals and staff's recommendations.

If the supplemental request is denied, the General Assembly will have to transfer moneys from another cash fund or decrease the General Fund appropriations for other State programs to generate a commensurate amount of funding to assist with balancing the budget as a result of the State's revenue shortfall.

Staff Analysis:

Background

The Local Government Permanent Fund, created in statute in the 2008 legislative session with the passage of S.B. 08-218 (Schwartz and Penry/Buescher and Balmer), assists local government entities in mitigating fluctuations in federal mineral lease revenues. The Fund consists of 50 percent of the State's share of all fixed and up-front payments ("bonus") made to the federal government in consideration for granting a lease. Mining rights are awarded based on a bidding process, and thus the amount of revenues collected are subject to market demand for natural resources.

Statute provides that in the event that federal mineral lease revenues deposited into the fund decline by 10 percent or more than the preceding fiscal year, the General Assembly may appropriate moneys from the fund to the Department, which then must directly distribute to localities by formula.

Legislative Council Local Government Permanent Fund Forecast

According to the December 2010 Legislative Council Staff's Economic and Revenue Forecast, the revenue received by the Local Government Permanent Fund in FY 2010-11 will be approximately \$2.2 million.

Actions Taken in Prior Fiscal Years

During the 2009 legislative session, no moneys from the Fund were transferred to the General Fund for budget-balancing purposes. However, S.B. 09-232 (Schwartz/McFadyen) transferred \$17.0 million from the Local Government Permanent Fund to the Local Government Mineral Impact Fund for use in FY 2009-10 for infrastructure projects, with priority given to communities most directly impacted by energy production, and to grant applications that were submitted jointly by multiple local governments or seek funding for multi-jurisdictional projects.

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During the 2010 legislative session, H.B. 10-1327 (Pommer/White) transferred \$14.3 from the Local Government Permanent Fund to the General Fund for FY 2009-10 budget balancing purposes. This action effectively eliminated most of the Fund's balance.

Governor's Proposed Transfer

On August 23, 2010, the Governor submitted a proposal to transfer \$11.4 million from the Local Government Permanent Fund to the General Fund for FY 2010-11 budget balancing purposes. The Governor revised the proposal on October 22, 2010 to decrease the transfer amount to \$10.4 million to accommodate an estimated decrease in revenues deposited in to the Fund for FY 2010-11. The proposed transfer would likely eliminate the Fund's balance until future bonus revenues are received.

FY 2010-11 Cash Fund Balance (dollars in millions)	
FY 2010-11 Beginning Projected Balance	\$2.6
FY 2010-11 Projected Revenue	\$7.8
Mandatory Expenditures	\$0.0
Governor's Proposed Transfer	<u>(\$10.4)</u>
Projected End of Year Balance	\$0.0

If the Governor's proposal is approved, moneys would be available from the Fund for direct distribution by formula to impacted localities and for direct distribution by formula to schools, however, only a small amount of funding would remain for grants.

Since the General Assembly must appropriate these funds, no restriction on the Fund is necessary. However, legislation would be required to implement the transfer component of the Governor's request.

	FY 2009-10	FY 2010-11	Fiscal Year 2010-11 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
DEPARTMENT OF LOCAL AFFAIRS					
Executive Director - Susan E. Kirkpatrick					
Statewide One Percent Across the Board Reduction					
(see narrative for more detail)					
Total - Various Line Items - GF	<u>N.A.</u>	<u>N.A.</u>	(27,463)	<u>Pending</u>	<u>N.A.</u>
Statewide Common Policy Supplementals					
(see narrative for more detail)					
General Fund	<u>N.A.</u>	<u>N.A.</u>	(2,539)	<u>Pending</u>	<u>N.A.</u>
Cash Funds			(3,199)		
Reappropriated Funds			0		
Federal Funds			660		
			0		
Totals Including Pending Items					
DEPARTMENT OF LOCAL AFFAIRS					
TOTALS for ALL Departmental line items	395,794,312	318,292,163	(30,002)	<u>Pending</u>	<u>N.A.</u>
FTE	<u>165.9</u>	<u>176.3</u>	<u>0.0</u>		
General Fund	11,016,748	10,561,511	(30,662)		
FTE	43.7	42.0	0.0		
Cash Funds	249,179,502	203,509,756	0		
FTE	25.7	30.0	0.0		
Reappropriated Funds	50,241,402	7,243,477	660		
FTE	50.4	64.0	0.0		
Federal Funds	85,356,660	96,977,419	0		
FTE	46.1	40.3	0.0		

Key:

"N.A." = Not Applicable or Not Available