DEPARTMENT OF NATURAL RESOURCES
FY 2015-16 JOINT BUDGET COMMITTEE HEARING AGENDA

Monday, January 5, 2015
1:30 pm – 5:00 pm

1:30-1:50 INTRODUCTIONS AND OPENING COMMENTS

1:50-2:10 QUESTIONS COMMON TO ALL DEPARTMENTS

(The following questions require both a written and verbal response.)

1. SMART Government Act:
   a. Please describe how the SMART Government Act is being integrated into the Department's existing processes (both in terms of service delivery and evaluating performance).
   b. How is the data that is gathered for the performance management system used?
   c. Please describe the value of the act in the Department.

   Response: The SMART Government Act is primarily used as a performance reporting tool by the Department of Natural Resources. The Department's SMART Act document is roughly 180 pages long and provides the General Assembly, interested groups, and the general public with a basic description of each of DNR's major programs, as well as a significant number of metrics to help understand the challenges, outputs, and impacts of each program. Five years of actual data are reported to give a clearer picture of long term trends and programmatic results.

   Most DNR divisions have their own strategic plans, generally created with input from both the public and from citizen boards and commissions. It is these strategic plans which often guide the vision of the agency, prioritizing programmatic resources and goals in ways that drive service delivery. As much as possible, the Department attempts to capture the high-level spirit of these individual strategic plans in the DNR Performance Plan submitted in compliance with the SMART Act.

   Similarly, prior to the SMART Act, data gathered by DNR divisions often were already tracked and reported to division management, the public, and boards and commissions. For example, many of the metrics reported by the Oil and Gas Conservation Commission (OGCC) have long been contained in the monthly Oil and Gas Staff Reports, published on the OGCC website. However, the SMART Act has created an opportunity for DNR to examine all of its metrics, improving and expanding upon the measures it utilizes to discuss program performance. In this regard, creation of the DNR Performance Plan has allowed for more information and comprehensive discussions of programmatic performance with boards and commissions, with the public, and with the General Assembly. As another example, during the last few years, the OGCC has started to report on the average inspection frequency (average years between inspections of oil and gas wells, which is calculated as the number of

active wells divided by the number of well inspections performed in a given year). This inspection frequency has become a major and important metric to certain legislators and constituencies. Regular reporting on this metric has helped guide a more informed discussion about OGCC staffing with the General Assembly, with industry, and with concerned interest groups.

The Department of Natural Resources is committed to customer services. Indeed, the Department's largest division (Colorado Parks and Wildlife) operates as an enterprise and would not be able to operate at its current level if customers were not satisfied with the services that CPW offers. Colorado Parks and Wildlife must truly "earn" its revenue. For example, customers have the choice of staying at private campground and recreating on other (non-state park) public lands. Similarly, out-of-state hunters and fishers have the choice of traveling to other states to recreate. The DNR Performance Plan certainly gives some high level measures of customer satisfaction when it reports on state park visitors, the number of hunting license applications received, and on the number of fishing licenses sold. However, beyond this high level data, CPW's customer service also goes beyond the Performance Plan and include regular customer surveys, interacting with customers daily in the field, meeting regularly with sportsmen and outdoor recreation interest groups, and through testimony at Parks and Wildlife Commission meetings. All of this input and interaction helps to guide CPW policy and efforts to improve customer service.

To summarize, the main value of the SMART Act to the Department of Natural Resources is to develop a performance plan, complete with metrics and narrative analysis, to inform discussion and evaluation of Department performance as well as to inform discussion of programmatic challenges and opportunities. While many of the metrics and analysis existed prior to the SMART Act, the process has become more comprehensive and refined under the SMART Act.

Under the direction of both the General Assembly (through the SMART Act) as well as Governor Hickenlooper, the Department has also initiated a Lean Program. Lean has been very beneficial to the Department, resulting in a number of process improvements. Given the initial successes of the Department in its first lean process evaluations, the Department now has assigned an existing position to also be a Lean Process Coordinator.

2. Do you have infrastructure needs (roads, real property, information technology) beyond the current infrastructure request? If so, how do these needs fit in with the Department's overall infrastructure priorities that have been submitted to the Capital Development Committee or Joint Technology Committee? If infrastructure should be a higher priority for the Department, how should the Department's list of overall priorities be adjusted to account for it?

   Response: The Department of Natural Resources has a wide variety of infrastructure needs. First and foremost are the needs to maintain state parks, state wildlife areas, and other properties and assets owned by Colorado Parks and Wildlife (CPW). Given the large number of properties and building owned by CPW, these needs are ongoing. The Division's capital

request covers everything from maintaining roads and buildings, to keeping dams in safe operating condition, to building new infrastructure at state parks. CPW's needs in this regard are consistent with the FY 2015-16 capital construction request submitted to the Capital Construction Committee by the Department of Natural Resources.

On top of these infrastructure needs, there are two other areas of need that fall entirely outside of the DNR capital construction budget. First, the State Land Board is a major property owner in the state. Currently, the State Land Board is appropriated only $75,000 for property maintenance, which is inadequate to maintain the 2.8 million surface acres managed by the State Land Board. Maintenance needs include upkeep and replacement of buildings, agricultural sprinklers, fences, windmills, and water wells. To address this need, the Department will be seeking legislation in the 2015 legislative session to amend statutes and allow a small portion of the State Land Board's annual $5 million in Investment and Development funding (continuously appropriated to the State Land Board by statute) to be utilized for asset maintenance.

Although it is not exactly a direct need of the Department of Natural Resources, the other infrastructure need that is worth briefly discussing is the need for additional water supply infrastructure to provide for the municipal, industrial, agricultural, recreational, and environmental water supply needs of the State. Almost all of this infrastructure will be funded entirely by local water providers and other entities (some using low interest loans from the Colorado Water Conservation Board or "CWCB"). None the less, the CWCB is the state entity charged with planning for the State's water supply future. The CWCB is currently projecting that Colorado will need between 600,000 and 1,000,000 acre feet of additional water supply by 2050 to meet projected municipal and industrial water. Funding the construction of this water infrastructure will cost billions of dollars, with the majority of funding likely to be provided by local water providers. The recently released draft Colorado Water Plan has established a path toward meeting Colorado's water supply needs, including the building of additional water infrastructure. While the Department does not have a specific funding request related to this issue that goes before the Capital Development Committee, critical water supply projects are annually funded through the CWCB Projects Bill. Critical infrastructure needs are largely addressed through loan authorizations contained in the Projects Bill. While the details for 2015 are still being finalized, the Department anticipates legislation again in 2015 to provide loans to one or more critical water projects.

3. Describe the Department's experience with the implementation of the new CORE accounting system.

   a. Was the training adequate?

   Response: Preparation and training for the new system began in the Fall of 2013, well before implementation of the new system. While the Department would call the training adequate, that doesn't mean there weren't bumps in the road when implementing a new system. Even with considerable training and a chance to experiment with the new system in a training environment, there were some unanticipated events and system changes that happened after

the trainings. Further, there were several months that elapsed between the trainings in the Spring of 2014 and actual use of the system in July. Unfortunately, this meant that some of what was learned in training was lost from the Department's collective memories when the system went live. Finally, there is still an unmet need for ongoing training. After the introductory training provided in the Spring of 2014, we are now at the point of needing intermediate and advanced CORE training (as well as a continuing schedule of basic training for new hires and other employees who need such training).

b. Has the transition gone smoothly?

Response: The Department realistically expected that the transition to a large, new financial system would involve significant bumps in the road. Information regarding conversion of financial data from COFRS to CORE has not been received from the CORE vendor and from the State Controller's Office in a timely manner, creating some issues (confusion, duplicate work, delays) in processing accounting transactions. One outcome of this is that some of the Department's vendors have suffered delays in receiving payments owed to them. However, the Department is using other processes ("work arounds") to minimize this impact.

CORE's interaction with the "One Card" still has several issues that must be ironed out including the fact that CORE does not recognize duplicate payments to vendors.

There have also been issues with CORE interfacing with the State's payroll system. Foremost among several issues that this has created is that the State is behind in booking monthly payroll expenses, meaning the system does not accurately reflect real-time expenditures (which causes delays in federal reporting and third party grant reporting).

Another issue is that the Department has yet to enjoy all of the functionality and special features of the new accounting system. We believe and hope this is simply a matter of time as the State learns to efficiently and effectively utilize the new system.

The Department believes the transition period will be at least three years long. As such, it is worth noting that this response covers only the earliest stages of the transition. And, again, while the specific problems above were generally not anticipated, the Department is not surprised that problems have been encountered.

c. How has the implementation of CORE affected staff workload during the transition?

Response: Workload has increased for accounting, budget, and payroll staff. Again, the Department would say that this impact was foreseen. Until all of the functionality of the system is implemented, not all of the efficiencies of the system will be realized. The Department's hope is that some of the workload will be reduced as the Department's employees gain experience with the new system and as the State financial processes under the new system are finalized.

d. Do you anticipate that CORE will increase the staff workload on an ongoing basis? If so, describe the nature of the workload increase and indicate whether the Department is requesting additional funding for FY 2015-16 to address it.

Response: The Department believes that the grants and project management functionalities of the new system have greatly increased the workload of administering the new system. The new functionality in these areas requires more details (which is a plus, but requires more work). In this regard, the Department has already re-allocated a position internally within the Executive Director's Office to address this workload, which the Department foresees as permanent. Having done this, the Department is not requesting any additional resources related to CORE in FY 2015-16.

The Department would like to close by saying that it is generally supportive of the conversion to both CORE and the automated budget module ("Performance Budgeting" or "PB"). Although there have been bumps in the road and perhaps some elements of the rollout could have been performed better, the current systems are clearly better than the alternative of operating with an inefficient, out-dated system (COFRS). The COFRS system was no longer supported and the risk of an entire system crash necessitated the move to a new system.

2:10-3:00 GENERAL OVERVIEW

Oil and Gas Development

4. Please provide a series of maps showing the progression of oil and gas development as growth in the number of oil and gas wells over the last ten years.

   Response: The maps have been prepared as images in a separate file named "Colorado Active Wells 2000-2014".

5. House Bill 14-1356 revised the OGCC penalty structure, increasing the maximum daily fine per violation and removing the cap on the maximum total penalty.
   a. What is the status of the rulemaking process to implement this legislation?
   b. What kinds of rules have been enacted to administer these penalties?
   c. How does the Commission intend to apply these rules going forward (e.g. a graduated fee structure)?

   Response to both (a) and (b): The Oil and Gas Conservation Commission ("Commission") met on December 15 and 16, 2014 to consider additions and amendments to Rules 522 and 523 of the Commission's Rules of Practice and Procedure. This "Enforcement and Penalty Rulemaking" seeks to revise the Commission's penalty structure and other Rules, consistent with H.B. 14-1356. The Commission heard testimony on Staff's proposed changes to Rules 522 and 523, closed the rulemaking record and, late on December 16, elected to defer deliberation until a later date. The Commission will reconvene on January 5, 2015 to

deliberate and vote on proposed changes to Rules 522 and 523. Assuming new rules are adopted on that date, they will become effective in March 2015.

c. How does the Commission intend to apply these rules going forward (e.g. a graduated fee structure)?

Response: To ensure a penalty is appropriate to the nature of a violation and that penalties are applied uniformly over time, Staff's proposed revisions to Rules 522 and 523 seek to establish a range of potential base penalties. The Commission's Penalty Schedule is based upon: (1) the Commission's Rule Classification (found in the Commission's Enforcement Guidance and Penalty Policy), which establishes rule classes for Commission Rules based on the nature of the violation; and (2) the degree of threatened or actual adverse impact to public health, safety, welfare, the environment, or wildlife caused by the violation. These factors form the vertical and horizontal axes of the Penalty Schedule. The proposed base penalties follow on page 7:

		Rule Classification		
		Class 1: Paperwork or other ministerial rules, a violation of which presents no direct risk or threat of harm to public health, safety, and welfare, including the environment and wildlife resources.	**Class 2**: Rules related at least indirectly to protecting public health, safety, and welfare, including the environment and wildlife resources, a violation of which presents a possibility of distinct, identifiable actual or threatened adverse impacts to those interests.	**Class 3**: Rules directly related to protecting public health, safety, and welfare, including the environment and wildlife resources, a violation of which presents a significant probability of actual or threatened adverse impacts to those interests.
Degree of threatened or actual impact to public health, safety, welfare, the environment, or wildlife	**Major**: Actual significant adverse impacts	**$5,000**	**$10,000**	**$15,000**
	Moderate: Threat of significant adverse impacts, or moderate actual adverse impacts	**$1,500**	**$5,000**	**$10,000**
	Minor: No actual adverse impact and little or no threat of adverse impacts	**$500**	**$2,500**	**$5,000**

The Penalty Schedule will serve as a guideline for the Director and Commission when considering the appropriate range of a penalty for a particular rule violation. The final amount of a penalty will be determined on an individual case-by-case basis for each violation, and may vary from the amounts shown in the schedule. The Commission may increase a penalty (up to the new statutory maximum daily amount of $15,000) or decrease a penalty from the base amount in the Penalty Schedule if it finds that certain aggravating or mitigating factors listed in Rule 523 exist. In its discretion, the Commission may also decrease the daily penalty amounts for violations of long duration to ensure the total penalty is appropriate to the nature of the violation.

State Land Board

6. Please provide updated projections on State Land Board mineral lease revenue for the next two years and discuss the impact of future reductions in bonus and royalty payments.

   Response: With the recent oil and gas boom in Colorado, ninety percent (90%) of State Land Board revenues now come from mineral development. However, oil and gas prices and production are extremely variable across years and changes have significant impact on state trust revenues. A $20 dollar reduction in the price of oil results in a $1.5 million reduction in monthly oil royalty revenues for the State Land Board. Extended periods of lower prices will lead to a reduction in drilling and consequently a reduction in oil and gas production. It has been suggested that oil prices are currently at breakeven prices for many oil fields, and anecdotal evidence suggests operators are already starting to scale back drilling operations.

   The State Land Board estimates FY 2014-15 mineral revenues to be around $160 million, which is about $6 million higher than FY 2013-14, but more than $10 million short of initial projections made prior to the drop in oil prices. Revenues for the first half of the fiscal year outperformed projections. However, there is a two-three month lag between when the oil and gas is produced and when the royalties are paid and a significant reduction in royalty payments has not yet been realized. Given the current lower oil prices and predictions that prices will stay at this level for the near future, the State Land Board expects a significant decline in oil royalty revenues during the second half of FY 2014-15.

   While it is difficult to project oil prices and production years into the future, there is no evidence that the current trend will dramatically reverse or that prices will continue to drop. Futures markets anticipate continued low oil prices for some time. Therefore, mineral revenues could drop to around $125 million in FY 2015-16 and even further beyond that. It is also important to note that $40 million in annual mineral leasing bonus revenues will end between FY 2016-17 and FY 2017-18 resulting in mineral revenues dropping to a projected $80 million, their lowest level in almost a decade.

7. What is the status of the transfer of lands from the federal government to the State Land Board? Will the transfer have an impact on trust revenue?

   Response: The federal government still owes the State of Colorado about 10,000 acres of trust land valued at approximately $70 million, with a substantial portion of this debt being surface (not mineral) acreage. The State Land Board and Bureau of Land Management (BLM) have agreed on a potential set of federal properties primarily located adjacent to existing state trust land to satisfy this debt. Currently, the State Land Board and BLM are working cooperatively to complete the transaction following the federally mandated National Environmental Protection Act (NEPA) process. NEPA requires Threatened and Endangered Species, Cultural, and Hazardous Materials assessments of each parcel.

   In an effort to choose the 10,000 acres owed to the State, the State Land Board is performing the NEPA studies on a larger list of parcels and thus has not yet selected exactly which

properties to receive. Nevertheless, most of the properties will have grazing as their primary revenue opportunity. As grazing rates are generally less than one percent of the property value, it seems reasonable to assume that revenues will increase by less than $500,000 per year within a year or two of receiving the properties.

Division of Parks and Wildlife

8. Please provide a general update on species conservation programs in CPW and the potential economic impact of species protection in Colorado, as well as a detailed discussion of conservation efforts specific to the sage grouse.

   Response: The Division of Parks and Wildlife maintains an ongoing program aimed at protecting and enhancing Colorado's native wildlife species, beyond those species managed in part for hunting and fishing recreation. This program is funded with Great Outdoors Colorado, federal, state (STAX) and wildlife cash funds. For convenience sake, CPW's efforts can be grouped into federally listed and non-federally listed species. In round terms, CPW invests about $800,000 per year on efforts related to listed species and $6.5 million per year on non-listed species.

   The listing of a species as Threatened or Endangered under the Federal Endangered Species Act (ESA) occurs under a process managed at the federal level. This process is dictated by federal statutes and occurs in a highly litigious environment. Generally speaking, states have a limited and indirect role in listing decisions. While the states have management authority over wildlife within their borders, considerable authority shifts to the federal government once a species is listed. A key objective of CPW's species conservation program is to insure the health of species such that federal listing is unnecessary and precluded. The agency does this through habitat protection, habitat enhancement projects, research into population dynamics, inventory and assessment of the status of populations, and in some instances, rearing and propagation of species. In part through CPW's efforts, potential listing decisions have been avoided for a number of species, including Mountain Plover, Blacktailed Prairie Dog, and the Swift Fox.

   Several listing decisions have been made in recent months (including Gunnison Sage Grouse and Lesser Prairie Chicken), as a result of a lawsuit against the US Fish and Wildlife Service that was settled in 2011. Under the terms of that settlement, the USFWS committed to making listing decisions for nine Colorado species by 2015.

   CPW is not the authority on economic impact of federal listings, and does not have expertise in that area. We are aware of some published efforts, such as:

   http://www.westernenergyalliance.org/sites/default/files/Sage%20Grouse%20Economic%20Report%20-%20Final%20from%20Minuteman%20Press.pdf

CPW prepares status reports annually for Gunnison Sage Grouse and Greater Sage Grouse (in addition to other species) and these reports provide a detailed discussion of conservation efforts. Highlights of CPW activities during FY 13-14 for Gunnison Sage Grouse include:

- Compiled and presented supplemental and updated data on 7/2014 to the USFWS to provide information to facilitate their final listing determination.
- Conducted lek counts in all populations.
- Conducted radio telemetry monitoring of birds in the Poncha Pass, San Miguel, Piñon Mesa, and Crawford populations.
- Continued an aggressive trap and transplant effort for priority satellite populations. The San Miguel and Poncha Pass populations received birds in fall 2013 and spring 2014. All transplanted birds are trapped from the core Gunnison Basin population and fitted with radio-transmitters. Monitoring continues as long as radios continue to transmit in order to document habitat use and survival rates.
- As of December 22, 2014, CPW had completed 40 certificates of inclusion encompassing over 94,000 acres across the Gunnison Sage Grouse populations.
- Held Local Working Group meetings at least annually in five satellite populations, and the Gunnison Strategic Committee continues to meet monthly.
- Participated in and provided funding for The Nature Conservancy project "Enhancing resilience of Riparian/Wet Meadows in the Upper Gunnison Basin". This is a pilot climate adaptation project of the Gunnison Basin Climate Working Group which is a collaborative effort to reduce the effects of climate change. One of the main objectives is to restore and enhance resilience of priority brood rearing habitat. Similar projects are planned in the Crawford and San Miguel populations as well.
- Conducted habitat improvement projects in Gunnison Sage Grouse habitat. For example, in the Dove Creek population the Coal Bed State Wildlife Area is continuing the fallow field seeding and reclamation project (multi-phase, 700 acres project) and in the San Miguel population the Dry Creek riparian restoration efforts are continuing.
- Signed on as a Cooperating Agency on the BLM Gunnison Sage-Grouse RMP Amendment/EIS and continue to work with other federal agencies and counties on grouse conservation.
- Solicited proposals from landowners who want to place conservation easements on their property to protect grouse habitat; evaluated, selected and funded conservation easements accordingly.

<u>2013 Flood Recovery</u>

9. What is the status of the recovery of water projects and infrastructure affected by the 2013 floods?

Response: The following information on pages 11-12 provides a summary of the 2013 flood recovery tasks for which the Colorado Water Conservation Board (CWCB) is responsible.

Grants

- CWCB awarded 77 grants from the Water Supply Reserve Account totaling $2,224,000 for ditch reconstruction/repair. Grants were administered by Northern Water Conservancy District.

- Two million dollars were appropriated to the CWCB from the Colorado Department of Public Safety, Division of Homeland Security and Emergency Management and was spent on nine watershed master plans to support the capacity in nine watershed coalitions. Master planning focused on conceptual plans for river channels at flood flows, bankfull flows, and low flows. Plans include a list of prioritized projects and cost estimates.

- Senate Bill 14-179 authorized a $2.5 million transfer from the Disaster Emergency Fund to the Stream and Restoration Grant Account. CWCB staff have allocated $2.5 million in grants to 20 river restoration projects and technical support through S.B. 14-179. Contract support was hired to assist with the administration of the program, and many of these projects are already contracted and underway.

Loans

- Total Number of Approved Emergency Loans for Flood Recovery: 24
  Total Approved Loan Amount: $23,575,957

  - Number of Loans Under Contract: 18
    Total Loan Under Contract Amount: $17,695,737
    Number of Projects Completed: 14
    Number of Projects Still Under Construction: 4
  - Number of Loans Pending Contract: 2 (total value $4,666,200)
  - Number of Loans Borrower Later Declined: 4 (total value $1,214,020)

Programmatic Partnerships

- Department of Local Affairs (DOLA)/CWCB partnership to develop the HUD-approved Watershed Resilience Pilot Program. The program was funded with $25 million of HUD Community Development Block Grant - Disaster Recovery (CDBG-DR) funds. Funding was used to support implementation of projects identified in master plans and to support capacity building in watershed coalitions. CWCB staff will facilitate the implementation of projects in master plans with HUD funding and other available funds.

- Colorado Department of Transportation (CDOT), CWCB, Colorado Parks and Wildlife (CPW) staff participated in permanent road repairs as technical advisers for stream corridor restoration. CWCB staff acted as liaison between CDOT and the watershed coalitions.

- CDOT/CWCB – CWCB staff conducted full-scale indirect flow estimates of the flood that occurred in each affected watershed (i.e. 100-year, 500-year, etc.). CWCB staff are conducting revised and updated flood hydrology for seven flood-affected watersheds.

Phase I (headwaters to canyon mouths) was completed in August 2014. Phase II (canyon mouths to South Platte River) is underway with anticipated completion in mid-2015. This updated flood hydrology will be used for floodplain map revisions.

- CWCB/U.S. Army Corps of Engineers – CWCB staff in consultation with the U.S. Army Corps of Engineers are preparing Lidar basemapping for flood affected areas. This topography will be shared with local governments for their use and will also be used as a basis for floodplain map revisions.

- CWCB/Colorado Recovery Office (CRO) – CWCB staff have been very active in support of the Colorado Resiliency Working Group (CRWG), being facilitated by CRO. CWCB staff participate on the CRWG Steering Committee, lead the Watershed and Natural Resources Sector, and are participants on the Infrastructure and Community sectors. The CRWG is tasked with drafting the Colorado Resiliency Plan as well as preparing the application for the $1 billion HUD resiliency challenge grant.

- Colorado Water Plan – Flood recovery work performed by CWCB staff conforms to plans set forth in the recently released draft version of Colorado's Water Plan. In this plan, Watershed Health and Natural Disaster sections promote responsible activities relating to overall watershed health as well as natural disaster mitigation and recovery. The plan can be found at coloradowaterplan.com

The tables on page 13 indicate the status of the diversion and dam infrastructure affected by the 2013 floods.

Diversion Structure Status			
Structure	**Number Damaged**	**Number Repaired (1)**	**% Repaired**
Stream Gages	23	20	87%
Gravel Pits/Metro Pumps	8	0	0%
Ditches	215	203	94%
Total	**246**	**223**	**91%**
Diversion Structure Status - by County			
Adams	9	6	67%
Boulder	95	88	93%
Denver	1	1	100%
Jefferson	6	6	100%
Larimer	41	31	76%
Logan	14	14	100%
Morgan	14	14	100%
Sedgwick	5	5	100%
Weld	61	58	95%
Total	**246**	**223**	**91%**
Notes			
	(1) Two structures may no longer be required; one cannot be repaired until final highway alignment is completed in 2015-16.		

Dam Structure Status			
Structure	**Number Damaged**	**Number Repaired**	**% Repaired**
Dams (Note 1)	27	18	67%
	(1) Repair of remaining nine dams projected for 2015 completion.		

CPW infrastructure was significantly impacted by the 2013 floods. Six state parks and 26 State Wildlife Areas suffered varying degrees of damage, with an estimated total recovery cost of over $8 million, potentially as high as $10 million. Damage included water inundation of facilities and infrastructure, roads washed away, facilities damaged, fences destroyed or damaged, debris piled onto property, streambank erosion and rechannelization, damage to utilities, and vegetation destroyed. Two parks (Eldorado and St. Vrain) had to be closed completely immediately after the floods because roads were washed out and/ or facilities were under water. Eldorado was reopened within two months, with the temporary repair of the main access roadway. St. Vrain was reopened in May 2014. One State Wildlife Area, Brower SWA, remains closed due to damage in the form of debris, destruction of fencing and parking areas.

Recovery efforts are expected to continue through 2015. To date about 60 percent of the recovery work has been completed. The majority of the recovery costs will be reimbursed by either State Risk Management or through FEMA grants.

Transfer of Colorado Geological Survey to the Colorado School of Mines

10. Please discuss the Department's experience with the transfer of the Colorado Geological Survey to the Colorado School of Mines.

Response: The Colorado Geological Survey ("CGS") is an important and beneficial program with whom the Department of Natural Resources shares many interests. The Department's original intent in moving the Survey to the Colorado School of Mines, and continued hope, is that the Colorado Geological Survey will benefit from the new opportunities for collaboration and funding sources available at this institution. As the Colorado Geological Survey is no longer overseen by the Department of Natural Resources, the Department does not have any comments on the direct operation of the Colorado Geological Survey since the transfer. However, the Department is aware that Karen Berry was named as State Geologist in early November of this year. Given Karen's long and proven history working for the Colorado Geological Survey – including work as the Deputy Division Director when the Survey was still located in the Department of Natural Resources – the Department believes that the Colorado Geological Survey will continue to provide valuable services to citizens of the State. Two recent examples of times when the Department of Natural Resources worked with the Colorado Geological Survey are:

- CGS provided technical assistance to the Division of Water Resources with high groundwater issues in the South Platte River Basin. CGS completed a Hydrogeologic Characterization Report for the Gilcrest\LaSalle Groundwater Pilot Project.

- CGS is participating in the Colorado Resiliency Working Group and is helping the Colorado Water Conservation Board identify and mitigate hazards from debris flows and mud floods across the Front Range.

On the Department of Natural Resources side of the equation, the Department has used the transfer as a chance to re-analyze the operations of the Colorado Avalanche Information Center ("CAIC"). The Department has already made or is currently requesting to make a number of changes to the management, staffing, equipment usage, and administrative support provided to the CAIC. The requested changes have all come out of recent studies analyzing the operations and effectiveness of the CAIC. In this regard, the "transfer" has been very positive because it forced CAIC to go through a period of change and that opportunity was used by DNR, CAIC, and the Colorado Department of Transportation (CAIC's biggest customer) as a chance to examine the program and look for ways to make the program more effective. Although the CAIC was originally proposed to be sent to the School of Mines along with the CGS, the Department believes that the decision to retain the CAIC within the Department of Natural Resources was still the right decision given these positive changes to the CAIC operations.

3:00-3:30 SEVERANCE TAX REVENUES

11. Does the Department of Revenue, or any other department, track severance tax revenue by county? If so, please provide a county-by-county breakdown of how much severance tax revenue is generated in each county, and how much severance tax revenue each county receives.

    Response: The Department of Natural Resources does not track revenue by county. The Department of Revenue was consulted about this response and provided the following answer:

    (1) The Department does not track severance tax revenue by county. The Department would have to put in a SQR request to determine **if** GenTax (the Department's computer system) can extract county-by-county data from taxpayer data. According to a spokesperson from the Department of Local Affairs, no state agency collects information on county-by-county severance tax data. In addition, there are limitations on the ability of the Department's severance taxpayer information that makes it difficult to link the county location of drilling operations with a taxpayer's filing location. However, using a methodology that employed rural average mill levies, Legislative Council Staff provided information on county-level severance taxes in 2013 to the Water Resources Review Committee but the Department does not have access to this information.

    (2) State law governs the distribution of state severance taxes. Starting in FY 2012-13 and through FY 2016-17, the first $1.5 million of annual severance tax revenue is transferred to the Colorado Energy Office for innovative energy efficiency projects. The remaining proceeds are then distributed evenly between the Department of Local Affairs and the Department of Natural Resources. The proceeds are used for various programs and purposes. Thirty percent of the Department of Local Affairs' allocation is distributed directly to local governments impacted by mineral and energy development via a statutory formula. The formula is based on measures of mineral extraction activity in local jurisdictions, such as the number of industry employees, mine and well permits, mineral production levels, as well as a jurisdiction's population and road miles. The remaining 70 percent is allocated to local governments via competitive grants under the Mineral and Energy Impact grant program. Grants are used by local governments to provide services and infrastructure to areas impacted by mineral and energy development.

    The Department of Local Affairs recently published data for severance tax distributions to Colorado counties for 2014 based on the statutory formula and can be found at:

    https://dola.colorado.gov/sdd/ddSDDTier1.jsf

    On the spending side, the Department of Natural Resources does not track severance tax expenditures by county. Tracking expenditures in such manner would be extremely difficult to do for several reasons. First, Operational Account moneys are spent by a number of

Executive Branch agencies, including the Department of Agriculture, the Department of Human Services, the Colorado Energy Office, and the Department of Natural Resources. A certain amount of severance tax funding is also managed by the non-profit Energy Outreach Colorado. Second, money is spent on programs, not on localities. To take an example, severance tax helps support the operation of the Colorado Oil and Gas Conservation Commission. It does not support a specific function; instead, Operational Account funding provides general support of all OGCC operations. It would be difficult and possibly arbitrary to assign counties to work performed by administrative staff and permitting staff, for example. Although almost all of these staff are based in Denver, the projects they work on affect a large number of oil and gas producing counties. How would DNR count time, on a county-by-county basis, for time spent by OGCC budget staff preparing the budget? Given the amount of time it would take to generate a somewhat arbitrary estimate, the Department has never undertaken an analysis of Operational Account spending by county.

12. The Aquatic Nuisance Species mitigation program in the Division of Parks and Wildlife is supported by Tier II expenditures from the Severance Tax Operational Fund. Please provide:
    a. an update on the performance and impact of this program to date;
    b. information on the plan for this program going forward; and
    c. the number of FTE currently associated with this program.

Response a): With the first appropriation of STAX funds in 2008, CPW launched an aggressive Aquatic Nuisance Species ("ANS") program. Colorado's program is built on a multi-jurisdictional partnership involving intercepting infested watercraft through physical inspections together with watercraft decontamination and public education. Seventy-five infested watercraft have been caught at boat inspection stations, and decontaminated, prior to entering state waters. In 2014, over 428,000 boats were inspected at 72 locations throughout Colorado. The state and their partners have inspected over 2.5 million boats since the program's inception in 2008. Over 34,000 watercraft have been decontaminated for mussels, standing water which transports invisible juvenile zebra or quagga mussels, and other invasive plants or animals, since 2008.

These efforts appear to have been very successful. When the ANS program was implemented in 2008, a total of eight bodies of water statewide tested positive (for veligers or DNA) for zebra or quagga mussels. After six years of inspections and education efforts, the only body of water in Colorado still classified as positive for quagga mussels is Pueblo Reservoir, where veligers were last detected in 2011. No new Colorado waters have tested positive for zebra or quagga mussels since the program was implemented, and no waters in the state have been closed to recreation due to the presence or threat of aquatic nuisance species. Adult zebra or quagga mussels have never been detected in a Colorado water body.

Response b): CPW has made alterations to the program annually since its inception six years ago in order to improve efficacy. CPW recently completed a revised risk assessment utilizing data collected at boat inspection and decontamination stations in 2012 and 2013 to prioritize prevention efforts focusing on the highest risk waters. Working together with the Colorado Department of Public Health and the Environment in 2013, CPW also examined water quality

information to assess habitat suitability for invasive zebra or quagga mussels. This information coupled together provides data to inform future management to mitigate the highest risk of both invasion and introduction. CPW's standing objective is to prevent zebra and quagga mussel establishment in waters of the state. CPW is also currently going through a lengthy process to examine risk for other ANS (besides zebra or quagga mussels) to help inform refinements to the overall ANS program.

Response c): CPW has two full time employees dedicated to statewide management of the ANS program. There is also a full time employee dedicated to ANS at each of Lake Pueblo, Cherry Creek and Chatfield State Parks. Watercraft inspection and decontamination stations at other locations are operated by existing CPW staff, partner agencies in local or federal governments, or private industry partners or contractors.

13. Please provide an update on projected severance tax revenues for the Department based on the December 2014 Legislative Council Staff revenue forecast, and discuss the impact of any changes in revenue on Department divisions and programs.

Response: Due to higher than anticipated collections so far this year, both Legislative Council Staff (LCS) and the Office of State Planning and Budgeting (OSPB) increased the projection for severance tax revenue collections in FY 2014-15. Unfortunately, severance taxes are disproportionately increasing and contributing to a TABOR refund from the General Fund. As such, the Governor is proposing that the Joint Budget Committee sponsor legislation that would exempt $47.0 million of severance tax collections, above $278.0 million in FY 2014-15 from the current statutory formula distribution. The $278 million figure represents the amount of FY 2014-15 severance tax revenue projected by OSPB in September of 2014, such that all increases above this amount have not been programmed or awarded for other purposes.

Based on both the new December forecast and the Governor's proposed policy, the Department of Natural Resources projects that there will be sufficient funding in both FY 2014-15 and FY 2015-16 to fund all Tier 1 and Tier 2 programs, as well as to maintain all the required reserves in the Operational Account.

On the Perpetual Base Account side, the amount of funding available in FY 2014-15 will be unchanged from September given the impact of the Governor's proposal to exempt severance tax revenue above $278 million from the statutory formula distribution. For FY 2015-16, Legislative Council Staff has lowered their severance tax revenue forecast by $74.4 million. With twenty five percent of severance tax deposited into the Perpetual Base Account, this will reduce the amount of funding available for water projects by an estimated $18.6 million (compared to the September 2014 LCS forecast). Although this decrease is unfortunate, it is worth noting that severance tax revenue projections for FY 2015-16 are still projected at $190 milllion (excluding interest income). In contrast, actual severance tax revenue over the last five fiscal years has averaged $151.3 million. Further, the decrease in the December 2014 LCS forecast does not affect any part of the Department's FY 2015-16 operating budget request. As always, the latest economic projection is something that will need to be

considered by the Colorado Water Conservation Board and its staff as it puts together the FY 2015-16 Water Projects Bill.

3:30-4:10 OGCC PERMITTING AND HEARINGS UNITS FTE

14. Please provide information on the relationship between permitting approval times and production. What is the effect of a permitting backlog on production in the field?

    Response: Production in the field is the successful result of an oil and gas company performing a series of tightly scheduled operational steps. Permitting a new well is one of the early steps in this process, and operators rely on the OGCC to promptly process their permit applications so that the operator's drilling teams can efficiently use equipment provided by support services contractors. A drilling rig is one example of a high-cost capital resource that an operator must schedule in advance and typically will not schedule without an approved drilling permit. Operators also need to book construction teams for tank batteries and other facilities in advance of a well producing oil and/or gas for the first time.

    To the OGCC's knowledge, permit approval times in FY 2013-14 and year-to-date FY 2014-15 have not caused an operator to miss a scheduled drilling rig commitment. However, if drilling permit processing timeframes, which have climbed to 190 percent of the OGCC goal of 30 days (median approval time), were to continue increasing, operators are likely to suffer delays in their schedules and potentially incur penalties from breaking contracts with drilling rigs, construction contractors, etc.

    Similarly, the permit backlog that recently grew to larger than 700 applications has probably not yet reduced production levels for oil and gas, but it is entirely conceivable that if the backlog continues to grow, the agency's role in the exploration and production process could become a costly bottleneck for the industry. The FTE request is designed to avoid these scenarios.

15. When is a hearing required? What caused the significant increase in the number of hearings applications starting in 2011 onward?

    Response: Oil and gas operators file a hearing application to obtain a Commission Order. Commission orders are required to establish drilling and spacing units; to statutorily pool mineral interests within a drilling and spacing unit; to request additional wells within an established drilling and spacing unit; and for exception locations. The Commission's Hearings Staff process all hearing applications, which includes reviewing written testimony and evidence submitted by the applicant in support of an application. Most applications include evidence concerning geology, engineering, and surface and mineral ownership. A contested hearing is held before the Commission if staff recommends denial of an unprotested application, or if an interested party protests an application and the protest cannot be resolved. In the latter case, staff conducts prehearing conferences to identify and narrow the issues to be presented to the Commission.

The recent increase in hearing applications has been driven largely by operators' development of the Niobrara Shale using horizontal drilling and hydraulic fracture stimulation, which have made development economical. Establishing drilling and spacing units is an essential first step in the development of a new field or play, and requests for pooling orders often accompany or quickly follow spacing orders. Spacing units for horizontal well development are larger than for vertical wells and often include a greater number of mineral interest and working interest owners.

16. What does the OGCC hope to achieve with the request for an additional hearings officer (1.0 FTE)? Is the intent to speed up the process of reviewing applications, to increase the quality of review by staff, or both?

    Response: An additional FTE will allow for a more thorough review of hearing applications, and will increase the overall efficiency of the Hearings Unit. In addition to reviewing testimony and evidence for each application as noted above, hearings staff draft notices of hearing, preside over prehearing conferences and administrative hearings, serve as hearings officers in enforcement matters, draft prehearing and scheduling orders in contested matters, draft orders of the Commission, work with Commission staff for analysis to defend staff's position, prepare the agenda for the hearing, and plan for presentations to the Commission. At current staffing levels the Hearings Staff is struggling to accomplish all of these tasks effectively with a hearing every five to six weeks, which requires processing an average of 90 new applications plus applications continued from a prior hearing.

17. Please discuss the ability of the Oil and Gas Conservation and Environmental Response Fund to support required expenditures and the requested increase if low oil prices continue. Does the OGCC have any revisions to workload projections after taking the current trend in oil prices into account?

    Response: The Oil and Gas Conservation and Environmental Response Fund ended FY 2013-14 with a record high balance of about $10.7 million. This cash reserve should allow the agency to support its current expenditures and requested increase for at least two years of low oil prices (*i.e.* about $55 to $65 per barrel) without raising its levy rate. Higher than anticipated penalty revenue and/or Emergency Response line item expenditures could extend or shorten the amount of time the agency is able to weather low prices.

    The OGCC has not revised its workload projections, as low oil prices have yet to have a perceptible impact on industry activity. Wells will continue to be drilled, and the number of active wells, the OGCC's most important workload metric, will continue to grow. With backlogs of work existing throughout the agency, a potential temporary slowdown of one metric, such as permitting, would allow the agency to make some progress on that backlog, as well as multi-month backlogs in other areas. Any significant slowdown in one area, however, is likely to be offset by workload increases elsewhere, such as environmental response and enforcement, as some operators cut corners or abandon their properties altogether.

18. Please provide information on how the OGCC ensures oil and gas operators have enough revenue in reserve to fund reclamation and clean-up at well sites and other facilities, and address the following questions:
    a. What are the surety requirements that operators must meet?
    b. Do bonds have forfeiture provisions for pollution or the violation of environmental health and safety laws?
    c. Does the OGCC set aside or use mill levy revenue to address reclamation issues if a well is abandoned?

    Response: OGCC Rules require operators to provide financial assurance at specified levels for specific activities. These activities are: surface owner protection; centralized E&P waste management facilities; seismic operations; soil protection and plugging and abandonment; inactive wells; natural gas gathering, processing and storage facilities, and Class II commercial Underground Injection Control. The amount of financial assurance required for these activities is established through public rule making. Apart from surety requirements contained in OGCC Rules, the Division does not independently monitor operators' finances to ensure they have reserves available to fund reclamation or cleanup.

    The current financial surety rules are summarized below.

    703. Surface owner protection:
    - $2,000 per well for non-irrigated land,
    - $5,000 per well for irrigated land, or
    - $25,000 statewide blanket financial assurance.

    704. Centralized E&P waste management facilities: financial assurance in an amount equal to the estimated cost necessary to ensure the proper reclamation, closure, and abandonment of such facility

    705. Seismic operations: $25,000 statewide blanket financial assurance

    706. Soil protection and plugging and abandonment:
    - $10,000 per well for wells less than 3,000 feet,
    - $20,000 per well for wells greater than or equal to 3,000 feet,
    - $60,000 statewide blanket financial assurance for drilling and operation of less than 100 wells, or
    - $100,000 for the drilling and operation of 100 or more wells.

    707. Inactive wells:
    - $10,000 per well for wells less than 3,000 feet, or
    - $20,000 per well for wells greater than or equal to 3,000 feet.

708. General Liability Insurance: All operators shall maintain general liability insurance coverage for property damage and bodily injury to third parties in the minimum amount $1,000,000 per occurrence.

711. Natural gas gathering, natural gas processing and underground natural gas storage facilities:

- $50,000 statewide blanket financial assurance, or
- $5,000 for systems gathering or processing less than 5 MMSCFD.

712. Surface facilities and structures appurtenant to Class II Commercial Underground Injection Control wells:

- $50,000 for Class II commercial Underground Injection Control (UIC) wells.

b. Do bonds have forfeiture provisions for pollution or the violation of environmental health and safety laws?

Response: The OGCC can claim a bond when an operator pollutes or otherwise violates environmental health and safety laws. OGCC Rule 709 provides: "Whenever an operator fails to fulfill any statutory obligation described herein, and the Commission undertakes to expend funds to remedy the situation, the Director shall make application to the Commission for an order calling or foreclosing the operator's financial assurance."

However, the mere act of violation or pollution does *not* lead to forfeiture of the bond.

c. Does the OGCC set aside or use mill levy revenue to address reclamation issues if a well is abandoned?

***Response*:** Yes, the OGCC has an annual allocation from the Oil and Gas Conservation and Environmental Response Fund (Response Fund), § 34-60-124, C.R.S., specifically for plugging and reclaiming abandoned wells. The General Assembly currently authorizes $445,000 annually for the Plugging and Reclaiming Abandoned Well ("PRAW") Program. Monies for the PRAW Program are used only after the Division has claimed and used any available financial surety posted by the operator.

The Division also has a $1,000,000 Emergency Response line item that can be used to investigate, prevent, monitor, and mitigate impacts related to oil and gas activity that require immediate action by the OGCC.

The orphaned and abandoned well plugging and site reclamation program was established in the early 1990s to use funds provided by the regulated industry to prevent impacts to the environment and public health, safety, and welfare potentially posed by abandoned wells. Most abandoned wells pre-date modern oil and gas regulation in Colorado. Currently, there are 41 orphaned wells and 100 reclamation sites in the program. In FY 2013-14, the OGCC completed 12 well plugging and abandonment and site-reclamation projects. Over the last 10

years the average cost to plug a well has been $53,000; site reclamation cost has averaged $21,000. The OGCC has set a goal of completing 18 projects in both fiscal years 2014-15 and 2016-17, but much depends on the complexity and cost of particular projects.

Process / Output Measure	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Actual	FY 2014-15 Estimate	FY 2016-17 Estimate
Wells Plugged and Abandoned and Sites Reclaimed by the OGCC	9	2	25	19	12	18	18

19. What has been the effect of new setback rules? What has been the impact of hiring additional FTE over the past three years?

Response: OGCC staff has identified the following positive effects of the new setback rules:

- Operators are giving more scrutiny to (and looking at alternatives to) locations less than 1,000' from residences, based on initial land planning discussions with OGCC staff.
- No operator has sought to permit a new oil and gas location within 1,000' of a High Occupancy Building Unit.
- More Best Management Practices (BMPs) are being developed for Designated Setback Locations.
- More outreach, communication, and meetings are being conducted by operators and OGCC with residents who live in proximity to new oil and gas operations.
- More public comments are being made on Applications for Permits to Drill (APDs) and Location Assessments as a result of increased notification requirements.

The new setback rules have also impacted OGCC staff workload. For example, the identification and evaluation of mitigation measures, as required by regulation or on the Location Assessment (Form 2A), requires additional review time in the office and field. Permit technicians, location specialists, and field inspectors are spending more time on APDs, Form 2As, and site inspections, respectively, ensuring compliance with the new rules and with additional BMPs, which has added a new level of complexity to their work.

Impacts of hiring additional FTE over the past three years include:

- An increase in the number of wells and locations inspected on an annual basis. At the current inspection rate, every active well in the state would be inspected once every 1.8 years. The rate in FY 2011-12 was once every 3.2 years.

- Detailed and high quality inspections, even as active well count and complexity increases. For example, the industry is developing new and complex operations such as simultaneous operations (SIMOPS), in which multiple phases of operations, such as construction, drilling, hydraulic fracturing, completion, production, and reclamation, are all occurring at the same time on a large multi-well pad. These are extremely time consuming to inspect, as the inspector must determine the phase of operation for each well and inspect accordingly.

- More attention to reclamation and stormwater compliance. For example, the agency's backlog of bond release requests is being actively addressed, which can lead to multiple visits per site and interaction with other agencies, such as the State Land Board, Bureau of Land Management, and State Weed Coalition.

- More site inspections by environmental specialists.

- More timely, frequent, and thorough follow-up on environmental issues.

- More enforcement on environmental issues.

- Increased technical review of horizontal wells through the OGCC's Adjacent Horizontal Offset Policy.

- More thorough post construction reviews of Completion Reports.

- Increased compliance reviews and enforcement of mechanical integrity testing for inactive wells.

20. Is the process of drying up ponds that do not have augmentation plans or water rights part of a statewide plan, or is it limited to Division 2? How does the process of drying up of ponds in Division 2 contribute to the DWR's plan to fulfill Arkansas River Compact obligations? Describe the observed impact of or benefit from drying up ponds in Division 2. Provide an update on the status of that process that includes a complete list of ponds that have been, or are going to be, dried up.

    Response: The Division of Water Resources ("DWR") enforces the Colorado water laws across the state and maximizes the beneficial use of water in Colorado through intrastate water administration and compliance with interstate compacts. The process of drying up ponds that do not have augmentation plans or water rights is not limited to Division 2. Ponds (or other diversions) anywhere in the state diverting or consuming water in a manner that injures a calling water right causes loss to other Colorado citizens. Most water rights owner/users rely on the water delivered legally to their water right for their income and livelihood. When water is intercepted (in a pond, for example), the true owner of the water right may not receive their entitled water amount, which often leads to detrimental economic impacts to that owner.

    The State of Colorado is in compliance with the Arkansas River Compact, and Kansas is receiving the water to which it is entitled. By requiring owners of wells and ponds to replace their depletions, DWR keeps Colorado senior water users whole. This is in accordance with the priority system as established in Colorado's Constitution and statutes. This protects the property rights of those senior water users from takings or theft by illegal users. The Arkansas basin in Colorado is a water short basin and is 'on-call' 365 days per year. On-call means a water user somewhere in the basin is not getting enough water to fulfill their right. Any illegal diversions exacerbate the impact to that water user. Therefore, illegal ponds create injury by collecting water that should be delivered to rightful water right owners. DWR has been contacted both verbally and in writing by surface water rights owners requesting that DWR curtail the illegal pond uses that are injuring their property/water rights.

    By having illegal ponds either release the stored water or augment the impact to the stream, more water is available to satisfy the legal water rights who should be receiving the water. For example, an illegal two acre surface pond may store 10 acre-feet of water. Water intercepted illegally by a pond does not make it to the river. As a result, that 10 acre-feet comes out of a legal water right owners' share. Further, ponds are subject to evaporation which decreases the amount of water stored in a pond. By keeping water in a pond, the river ends up being depleted by the 'evaporated' amount. Using National Hydrological Data Set information it has been estimated that there are 6,755 unnamed perennial ponds in Water Division 2. The surface area of these ponds totals 5,583 acres. <u>Assuming</u> all of these ponds lack any water right and an average evaporation of 3 acre-feet/acre, the water depletion to the river equates to approximately 16,749 acre-feet of out of priority evaporation annually.

Attachment A contains a list of ponds in Division 2 where DWR has been contacted regarding the impoundment of water and the resolution of the issue. This is a small fraction of the total number of potential illegal ponds, and DWR continues to work on the issue as particular impoundments are brought to our attention. DWR presently does not have staff to investigate the large number of potential illegal ponds; however, when a specific potential violation is brought to DWR's attention, DWR will investigate. DWR then works with the owners to find resolution to the issue, if possible.

21. Please provide information on DWR policy on the installation of emergency flood water and sediment containment ponds in Division 2. How do these ponds impact downstream water rights? Were any efforts made in the last year to keep ponds in place for the purpose of fighting forest fires? Is it possible for the state to retain some water for fighting forest fires?

    Response: DWR recognizes the need for sediment containment structures and erosion control structures in the state. DWR worked with and continues to work with the City of Colorado Springs and Colorado Springs Utility on implementation of sediment control installations in Division 2 in response to the recent wildfires. DWR advised both the City of Colorado Springs and Colorado Springs Utility that structures that do <u>not</u> expose groundwater or retain water for more than 72 hours require no regulation from DWR.

    Installers in some cases did not adhere to the advice provided by DWR and dug deep enough to expose groundwater in these installations. The exposed water evaporates rather than making its way to the stream, thus making less water available for senior water users who have a right to that water. As noted above, those new depletions impact a water right owner's legal water right without compensation. To remedy the injury caused by the new depletions, the Division is working with the agencies to determine how to augment or replace the water that is being lost because of these particular installations.

    Again, DWR is addressing particular ponds as they come of issue. In cases when fire protection is a concern, efforts have been made to inform homeowners of other alternatives including the statutory provisions for firefighting wells [37-92-602 (1)(d) C.R.S.]

    Retention of ponds for firefighting would require that the operation of the pond not damage other Colorado water rights owners. There were many ponds and reservoirs that supplied water to fight the wildfires in 2012 and 2013. Some ponds already have legal water rights; some are already in augmentation plans or have stored water in priority. For ponds that are illegally taking water from other Colorado water users, their impact must be mitigated by finding sources of augmentation or replacement water and operating in a way that does not intercept water from legal users.

22. If the DWR is acting to enforce the Arkansas River Compact, are specific actions (e.g. drying up ponds) being directed in accordance with the Attorney General's rules on water law?

    Response: DWR is acting to enforce all the water laws of Colorado including the Arkansas River Compact. The statutes and case law are clear in regards to injury to Colorado water rights, and DWR administers water in compliance with those statutes. DWR consults with the Attorney General's office as needed on legal issues regarding administration of water.

23. Does the Division 6 request for a deputy water commissioner represent a change in policy? Is this a policy change that is being applied uniformly statewide wherever there is irrigation and water scarcity and, if so, does it require more inspectors?

    Response: Colorado, pursuant to the State Constitution and statutes, has been actively administering water for over 130 years. The request for a new Deputy Water Commissioner does not represent a change in policy regarding administration of water in Colorado. Rather the request recognizes the growth in demand for water in the Division 6/Steamboat Springs area. Historically, this area had water supplies that generally exceeded demand. With growth and new water rights that is no longer the case. With demand exceeding supply it has become necessary to engage in higher level administration similar to that experienced in much of the South Platte, Arkansas, and Rio Grande basins.

    Areas with higher levels of administration (where demand exceeds supply) generally need and have more commissioners. DWR allocates its FTE to meet the administration demands and only requests additional FTE when the current FTE levels are insufficient to address growing administration needs.

4:40-5:00 RECLAMATION OF FORFEITED MINE SITES

24. Please discuss whether a Tier I appropriation from the Severance Tax Operational Fund for the Reclamation of Forfeited Mine Sites is necessary, and provide the Department's position on funding this request with Tier II expenditures.

    Response: The Department does not currently have a position on the proposal to fund the forfeited mine site proposal as a Tier II expense. The Department understands and agrees with the concept that this program could more easily survive proportional reductions (which, by itself, would make this program more appropriate as a Tier II program). Tier II, although not legislatively defined, also carries a connotation that the programs are either: (1) less directly tied to the specific natural resources programs and Low Income Energy Assistance Programs intended to be funded through severance tax revenues, as described in Section 39-29-109 (1), C.R.S., and/or; (2) they were newer programs, that were not meant to put the older programs at increased risk of not being fully funded, but instead were intended to be funded if and when excess funds were available to fund them. Conceptually, the Division of Reclamation, Mining, and Safety was also one of the original DNR divisions to be funded when the basic severance tax allocation structure was first created by S.B. 96-170. The concept of using severance taxes (including a specific severance tax on coal and other

minerals) to clean up forfeited mine sites seems squarely within the intent of how severance taxes are to be used. So, to summarize, the forfeited mine site proposal has characteristics of both a Tier I and a Tier II expense.

As a final thought, if the Joint Budget Committee does decide to pursue legislation related to this issue, the Department would suggest taking a wider look at Tier I and Tier II expenses. As was briefly referenced at the DNR Staff Briefing a few weeks ago, permanent staff for CPW's Aquatic Nuisance Species Program are currently funded out of Tier II funds. As with above, there are arguments for leaving this funding as Tier II, but there are certainly also arguments for moving all or a portion of the associated appropriation to Tier I. A broader look at Tier I and Tier II expenses, perhaps including the creation of statutory definitions that create general guidance or definitions of the two tiers, might warrant inclusion in any JBC legislation related to this issue.

25. Please describe how bond failure or bond loss occurs. Who has liability if bonds are lost? Do mine operators still have a legal responsibility or requirement to reclaim sites if the bond has failed?

Response: The mine operator is not allowed to commence mining operations until a financial warranty is in place per CRS 34-32-123, 34-32.5-123 and 34-33-113 [2014]. The operator is responsible for maintaining the financial warranty in good standing throughout the duration of the mine. The Minerals and Coal Regulatory Programs within the Division of Reclamation, Mining and Safety (DRMS) are responsible for assessing reclamation costs upon which the financial warranty is based, which includes periodic adjustments for inflation. With the vast majority of permits, the operator posts the financial warranty, mines the commodity, reclaims the site using proceeds from the mine, and the warranty is released. Certain events can cause mining permits to be revoked, resulting in financial warranties being paid to the State for the purpose of finalizing any incomplete reclamation at the sites. On rare occasions, these forfeited financial warranties are not adequate to cover the full cost to reclaim these sites (0.6 percent relative to the current total number of permits). The operators involved in these sites are primarily smaller businesses.

Mine operators are legally responsible to reclaim the mine sites per CRS 34-32-118(6) and 34-32.5-118(6) [2014]. Financial warranties are required to be posted and maintained over the life of the mine, but in the event that the financial warranty is forfeited to the State, DRMS assumes responsibility for reclamation. In that case, operators forego any rights to the financial warranty amount. When the financial warranty is not sufficient, DRMS can pursue legal action against the operator, but typically does not do so because the operator is in bankruptcy, deceased or cannot be located.

If the financial institution fails to maintain the financial warranty, the mine operator remains responsible to post a replacement warranty or to reclaim the site in order to close out the permit. DRMS has had some success through letters sent from the Attorney General's Office to financial institutions which cite legal actions that will be taken if the bond amount is not

paid to the State. In most instances, however, the deficient bond amounts have not warranted the cost to the State of full legal action.

The following are examples of events that have resulted in inadequate financial warranties:

- Mining activities that cause surface disturbances that vary from the original site plan submitted by the operator, such as mining outside of approved boundaries, failure to retain top soil, underground mining that caused surface subsidence, and failure to follow the approved reclamation plan. In some cases, the operators do not have sufficient funds to cover the increased warranty amounts necessitated by these events.

- Economic hardships and bankruptcies that cause operators to abandon the site (similar to homeowner foreclosures). Occasionally, the financial warranties relinquished to the State are not fully aligned with actual reclamation costs due to inflation or unpermitted activities that exceeded the approved reclamation plan.

- Although this has not happened for the last six years, recessionary stress and bankruptcies of financial institutions have caused financial warranties to be cancelled without notifying DRMS, and on rare occasions, lost during mergers. Additionally, a few financial institutions have wrongfully relinquished bonds to mine operators, despite DRMS's listing as an "assignee" on the warranty.

  The requested severance tax funding allows timely reclamation to continue at the revoked sites through coverage of any difference between the warranty amount and actual reclamation costs. Severance taxes are paid by industry and are an appropriate source of revenue to use on the reclamation of industry disturbances. The vast majority of the time, site reclamation includes re-grading the soils, reseeding, and safeguarding mine openings. Rarely, sites may involve contamination, in which case DRMS hires third party contractors to clean up the site. In extreme cases, responsibility may fall to the U.S. Environmental Protection Agency. In the small minority of sites where operators use toxic chemicals, such as cyanide, DRMS calculates the cost of waste management and disposal into the financial warranty.

26. Describe the process of securing and supervising contractors to complete reclamation projects. Who is actually doing the reclamation work?

    Response: All bond forfeiture reclamation construction work is coordinated by the Inactive Mines Reclamation Program (IMRP) within DRMS. The actual site reclamation work is performed by private contractors, working under various types of competitive contracts with the State of Colorado.

    Reclamation construction contracts issued by the Department are subject to the Colorado Procurement Code and Procurement Rules, Colorado Revised Statutes, State fiscal rules, DRMS General Bid Specifications [2009] and all other relevant regulations. Generally the work is awarded to the low bid received from a responsive and responsible bidder.

IMRP implements the reclamation plan by putting it out for competitive bid using the state's established procurement process. After the bid is awarded to the successful contractor, management and scheduling of project construction become the responsibility of IMRP Project Managers and Senior Project Managers. The Project Manager will also contact landowners, project partners, other agencies and officials specific to the project area regarding when and where the project activities will occur.

The DRMS Project Manager is responsible for inspecting and verifying that all contract work meets established specifications and that all quality control and quality assurance requirements of the contract documents have been met. No payment for work can be made until the Project Manager has inspected and signed off on the work

27. Does the Department consult with the State Geologist on reclamation projects? If not, would there be an advantage to collaborating with the Colorado Geological Survey and the State Geologist?

    Response: The IMRP does not normally consult with the State Geologist on routine mine reclamation projects where there are no significant geologic issues. The IMRP does consult with Colorado Geological Survey (CGS) staff on reclamation projects where unusual or potential geologic hazards are encountered during project design or during construction. These have included landslides, potentially unstable slopes, and coal mine subsidence features. The collaborative relationship between IMRP and CGS on coal mine subsidence and mine reclamation continues under the Colorado School of Mines.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implement or has partially implemented the legislation on this list.

   Response: The Department is not aware of any recent legislation that it has not implemented or partially implemented. However, in reviewing information for this question, the Department has flagged two areas that could either be considered obsolete and/or not implemented.

   - Powers of the Executive Director: The enabling statutes of the Department include a section that defines the powers and duties of the Executive Director, and 24-33-102 (5) states that "*The executive director has the power and duty to develop, encourage, promote, and implement programs for the prevention, abatement, and control of litter within the state of Colorado. The executive director may enter into such contracts as may be appropriate for the implementation of any such program.*" Though the Department does take steps to control litter on the properties it owns or controls, it has not undertaken a statewide program of litter abatement. There are numerous litter control programs in the State, including those run by local governments and the

Colorado Department of Transportation, but the DNR Executive Director has not consulted on those programs.

- Requirements of the Division of Reclamation, Mining, and Safety: Additionally, the Department has identified three sections of law related to the regulation of mining that could be considered "not implemented."

Statutory Citation	Description	Partially or Not Implemented	Why not Fully Implemented **OBSOLETE STATUTES**
34-21-101 (1)(j)	Office of active and inactive mines – reporting on annual mining industry activity	Not implemented	Operators are not required to submit the required mining information to the Division of Reclamation, Mining and Safety to enable the division to produce the report described in this statute; therefore the Division Director (Commissioner of Mines) has not produced the report since the 1980's. Currently, the University of Colorado's Leeds School of Business discusses the mining economy in their annual "Colorado Business Economic Outlook" report.
34-22-102(1)(e)	Certification of belt examiners, cable splicers or lamp and gas attendants.	Not implemented	The certification of these specific job positions has been consolidated under the mine foreman, fireboss or other coal mine employees, which continue to be certified through the state's Coal Mine Board of Examiners.
34-34-103 (5) (a-b)	Diesel permits	Not implemented	Federal permit regulations supersede state statutes on diesel equipment permits. The U.S. Department of Labor, Mine Safety and Health Administration issued regulatory requirements on manufacturers of the equipment to comply with exhaust emission standards and instituted a federal permitting process. The state permits are no longer required.

2. What is the turnover rate for staff in the department? Please provide a breakdown by office and/or division, and program.

   Response: The Department of Personnel and Administration provided a number of tables looking at the turnover in departments as part of the hearing responses. That data for the Department of Natural Resources is included below. Additionally, the Department has assessed which program the identified employees separated from. This information is appended to the information provided by the Department of Personnel and Administration.

Department of Natural Resources: Job Class Turnover Rate by Number of Separations										
Class & Separations				Separation Type			Employees in Quartile of Class Salary Range			
Class Title	**Separations**	**Employees in Class**	**Turnover Rate**	**Voluntary**	**Involuntary**	**Retire**	**1st**	**2nd**	**3rd**	**4th**
WILDLIFE MANAGER III	9	183	4.9%	2	0	7	1	1	0	7
ENGR/PHYS SCI TECH II	9	88	10.2%	7	1	1	0	1	5	3
GENERAL PROFESSIONAL III	8	52	15.4%	5	2	1	0	2	3	3
ADMIN ASSISTANT III	6	72	8.3%	4	0	2	3	2	1	0
TECHNICIAN III	5	68	7.4%	3	1	1	5	0	0	0
GENERAL PROFESSIONAL IV	5	74	6.8%	3	0	2	1	0	0	4
PARK MANAGER II	5	47	10.6%	5	0	0	4	1	0	0
Top Classes Total	**47**	**584**	**8.0%**	**29**	**4**	**14**	**14**	**7**	**9**	**17**
Department Total	**105**	**1,535**	**6.8%**	**49**	**9**	**47**	**28**	**15**	**23**	**39**

Department of Natural Resources: Job Class Turnover Rate by Total Employees in Class										
Class & Separations				Separation Type			Employees in Quartile of Class Salary Range			
Class Title	**Separations**	**Employees in Class**	**Turnover Rate**	**Voluntary**	**Involuntary**	**Retire**	**1st**	**2nd**	**3rd**	**4th**
WILDLIFE MANAGER III	9	183	4.9%	2	0	7	1	1	0	7
TECHNICIAN IV	4	126	3.2%	1	0	3	0	1	1	2
ENGR/PHYS SCI TECH II	9	88	10.2%	7	1	1	0	1	5	3
GENERAL PROFESSIONAL IV	5	74	6.8%	3	0	2	1	0	0	4
ADMIN ASSISTANT III	6	72	8.3%	4	0	2	3	2	1	0
Top Classes Total	**33**	**543**	**6.1%**	**17**	**1**	**15**	**5**	**5**	**7**	**16**
Department Total	**105**	**1,535**	**6.8%**	**49**	**9**	**47**	**28**	**15**	**23**	**39**

Department of Natural Resources: Summary of Classified Staff Turnover for FY 2013-14 by Agency										
FY 2013-14 Separations By Agency				Separation Type			Employees in Quartile of Class Salary Range			
Agency	Separations	Total Employees	Turnover Rate	Voluntary	Involuntary	Retire	1st	2nd	3rd	4th
BOARD OF LAND COMMISSIONERS	3	44	6.8%	0	0	3	0	1	2	0
DIV RECLAMATION,MINING,SAFETY	6	70	8.6%	1	1	4	0	1	2	3
DIVISION OF WATER RESOURCES	19	270	7.0%	5	2	12	5	2	3	9
DNR - EXECUTIVE DIRECTOR	1	59	1.7%	1	0	0	1	0	0	0
OIL AND GAS CONSERVATION COMM	13	102	12.7%	10	1	2	0	1	8	4
PARKS AND WILDLIFE	62	950	6.5%	31	5	26	21	10	8	23
WATER CONSERVATION BOARD	1	44	2.3%	1	0	0	1	0	0	0
Department Total*	**105**	**1,539**	**6.8%**	**49**	**9**	**47**	**28**	**15**	**23**	**39**

*The "Total Employees" count may differ slightly between Department and Agency based reports. This is due to employees who are in multiple agencies within one department. In this scenario, the employee would be counted in each Agency's headcount, but only once in the Department's headcount.

FY 2013-14 Separations By Program	
Agency	**Separations**
BOARD OF LAND COMMISSIONERS	
Trust Administration	3
DIV RECLAMATION,MINING,SAFETY	
Minerals	2
Coal	1
Inactive Mines	2
Administration	1
DIVISION OF WATER RESOURCES	
Water Administration	16
Well Inspection	1
Management	2
DNR - EXECUTIVE DIRECTOR	
Accounting	1
OIL AND GAS CONSERVATION COMM	
Regulation of Oil and Gas	13
PARKS AND WILDLIFE	
Director's Office	2
Financial Services	6
Information and Education	5
Northeast Region Administration	3
Northeast Region State Parks	8
Northeast Region Wildlife Areas	2
Northwest Region Administration	3
Northwest Region State Parks	1
Parks, Outdoor Recreation and Capital Development	1
Research, Policy and Planning	5
Southeast Region Administration	3
Southeast Region State Parks	3
Southeast Region Wildlife Areas	3
Southwest Region State Parks	1
Southwest Region Wildlife Areas	3
Wildlife and Natural Areas Administration	3
Wildlife and Natural Resources	10
WATER CONSERVATION BOARD	
Administration	1
Department Total*	**105**

3. Please identify the following:
    a. The department's most effective program;
    b. The department's least effective program (in the context of management and budget);
    c. Please provide recommendations on what will make this program (2.b.) more effective based on the department's performance measures.

Response: The Department of Natural Resources' most effective program is the Outdoor Recreation Program in the Division of Parks and Outdoor Recreation. With essentially no General Fund revenue provided to this program ($500,000 of one-time General Fund was provided to the Division in FY 2013-14), the State of Colorado reaps tremendous benefits from this program each year. The benefits of the Outdoor Recreation Program include:

#1 Outdoor Recreation is Part of Colorado's Identity: The high quality of life enjoyed by Coloradoans comes in part from our great natural resources and outdoor landscapes. Recent research indicates that nearly 95 percent of Colorado residents participate in the types of recreation provided by CPW. About 46 percent of Coloradans reported that they visited state parks regularly, while more than one out of every three Colorado residents are anglers and about 16 percent are hunters. Public surveys over the past two decades consistently indicate that trails are a top priority for recreation enjoyment. The more recent of these studies all indicate that between 80 to 90 percent of Colorado residents hike, bike, ride or enjoy other types of trail recreation, making trail recreation the most popular outdoor recreation activity in the state. Furthermore, more than 95 percent of participants in a 2009 focus group indicated that they viewed state parks as very important to Colorado, even if they did not generally visit state parks.

#2 Outdoor Recreation is Important to Colorado's Economy: Outdoor recreation is an important part of Colorado's economy and a major reason why people travel to Colorado from other states and from other countries. A 2014 study for CPW by Southwick Associates on the economic impact of outdoor recreation found that 1) hunting, fishing and wildlife viewing generated more than $5 billion in economic activity and supported nearly 50,000 jobs; 2) the full range of 38 outdoor recreation activities identified in the report (e.g. skiing, recreational shooting, white water rafting, hiking, fishing, etc.) accounted for $21 billion in direct expenditures and supported more than 200,000 jobs across the state; 3) taking the multiplier effect into account, outdoor recreation is responsible for $34.5 billion in economic activity and supports 310,000 jobs; and 4) more than 9 out of every 10 Coloradoans participate in one of the identified outdoor activities every year. The study also documented the major economic role of outdoor recreation in rural areas, noting, for example, that nearly 92,000 jobs in the northwest area of the state are tied to outdoor recreation, representing one-third of the region's adult population.
More specifically, outdoor recreation at state parks (including the wide variety of recreational activities such as boating, hiking, camping, bike riding, rock climbing, wildlife watching, and photography) generates roughly $571 million annually in direct spending in local communities and a total of $1.7 billion annually when secondary expenditures are factored in. Non-local visitors (people who travel 50+ miles to visit a

state park) generate about 70% of that economic impact, contributing an estimated $396 million toward local economies.

#3 Outdoor Recreation Programs Largely Pay for Themselves: While lottery dollars, GOCO funds, severance tax dollars, and federal funds assist in the funding of the outdoor recreation program, user fees pay the majority of the annual operating costs of the program. The fees paid by state park visitors, hunters, fishers, and other outdoor recreationalists speak to the public's interest in outdoor recreation and allow the State to achieve the public benefits of the program with minimal support from state other sources of state funding. Indeed, funding provided by hunters and anglers is also used, on a limited extent, to also fund species conservation programs and wildlife viewing programs (again providing broader public benefits that transcend the direct benefits of hunting and fishing).

If the Joint Budget Committee had asked what the Department's most challenging program is, the Department would have identified the Hunting Program as the most challenging program. Despite the tremendous benefits discussed above, the long term viability of this program is in question. Indeed, Colorado Parks and Wildlife is in the midst of implementing a plan to close an estimated $10 million annual revenue shortfall in the Wildlife Cash Fund. One of the reasons behind this revenue shortfall is the long-term decline in hunting participation. For example, despite population growth in the State, the number of licensed hunters in Colorado has declined each and every one of the last five years (from 294,186 hunters in FY 2009-10 to 281,201 hunters in FY 2013-14). Much of this decline appears to be tied to the U.S. demographic trends and the fact that an increasing number of citizens now live in urban areas. Given these trends, Colorado Parks and Wildlife has placed a major focus on recruiting and retaining new hunters and anglers, especially among younger generations.

Which brings us to the Department's least effective program: the Wildlife Management Public Education Advisory Council (PEAC). In 1999, the General Assembly created PEAC to develop and implement a comprehensive, media-based program to education the general public about the benefits of wildlife, wildlife management, and wildlife-related recreation. Funding for this program comes from a $0.75 surcharge on hunting and fishing licenses, which generates close to $900,000 per year. While the Advisory Council has been successful over the years in helping to educate the public about the a variety of wildlife management issues, this program may now be failing to address what may be the single biggest threat to hunting and fishing in Colorado today. Namely, the PEAC program is not addressing the societal trends that have less and less young people learning to hunt and to fish. If the Advisory Council and its $900,000 per year public information program could be leveraged to address these more modern and potentially more challenging problems, significant benefits could be achieved. Specifically, it may make sense to amend the PEAC statutes and provide the Advisory Council with the flexibility to spend its money on information programs designed at recruiting and retaining the next generation of hunters and anglers.

4. How much capital outlay was expended using either operating funds or capital funds in FY 2013-14? Please break it down between the amount expended from operating and the amount expended from capital.

Response: Section 24-75-112(1)(a)(I), C.R.S. defines "capital outlay" to mean:

1. Equipment, furniture, motor vehicles, software, and other items that have a useful life of one year or more;
2. Alterations and replacements, meaning major and extensive repair, remodeling, or alteration of buildings, the replacement thereof, or the replacement and renewal of the plumbing, wiring, electrical, fiber optic, heating, and air conditioning systems therein;
3. New structures, meaning the construction of entirely new buildings, including the value of materials and labor, either state-supplied or supplied by contract; or
4. Nonstructural improvements to land, meaning the grading, leveling, drainage, irrigation, and landscaping thereof and the construction of roadways, fences, ditches, and sanitary and storm sewers.

In addition, Section 24-75-112(1)(a)(II), C.R.S. clarifies that capital outlay does not include expenses defined as capital construction, capital renewal, or controlled maintenance.

In FY 2013-14, the Department expended $11,655,228 from operating funds and $11,188,908 from capital construction funds for capital outlay-related expenditures. The Department interpreted the statutory definition of capital outlay contained in Section 24-75-112(1)(a)(I), C.R.S. broadly. For example, the Department included expenditures coded as "non-capitalized it – PCs" because the equipment purchased likely will have a lifetime of one year or more. Thus, the Department included expenditures coded as both non-capitalized and capitalized in an attempt to adhere to the statutory definition of capital outlay. Table one below contains a specific list of object codes included in the Department's calculations.

Table 1: Object Codes Used for Capital Outlay Calculation

OPERATING EXPENSES	
2180	GROUNDS MAINTENANCE
2210	OTHER MAINTENANCE/REPAIR SVCS
2220	BLDG MAINTENANCE/REPAIR SVCS
2230	EQUIP MAINTENANCE/REPAIR SVCS
2231	IT HARDWARE MAINT/REPAIR SVCS
2232	IT SOFTWARE MNTC/UPGRADE SVCS
2240	MOTOR VEH MAINT/REPAIR SVCS
CONSTRUCTION SERVICES	
2310	PURCHASED CONSTRUCTION SVCS
2311	CONSTRUCTION CONTRACTOR SVCS
2312	CONSTRUCTION CONSULTANT SVCS
SUPPLIES AND MATERIALS	
3112	AUTOMOTIVE SUPPLIES

3115	DATA PROCESSING SUPPLIES
3116	NONCAP IT - PURCHASED PC SW
3126	REPAIR & MAINTENANCE SUPPLIES
3127	ROAD MAINTENANCE MATERIALS
3128	NONCAPITALIZED EQUIPMENT
3131	NONCAPITALIZED BUILDING MAT'LS
3132	NONCAP OFFICE FURN/OFFICE SYST
3139	NONCAP FIXED ASSET OTHER
3140	NONCAPITALIZED IT - PC'S
3141	NONCAPITALIZED IT - SERVERS
3142	NONCAPITALIZED IT - NETWORK
3143	NONCAPITALIZED IT - OTHER
3146	NONCAPITALIZED IT - PURCHASED SERVER SW
3147	NONCAPITALIZED IT - PURCHASED NETWORK SW
CAPITALIZED PROPERTY PURCHASES	
6110	BUILDINGS-DRECT PURCHASE
6120	LAND- DIRECT PURCHASE
6130	LAND IMPROVEMENTS - DIR PURCHASE
6140	LEASEHOLD IMPROV- DIR PURCHASE
6180	OTHER REAL PROPERTY- DIR PURCHASE
6211	IT PC'S - DIRECT PURCHASE
6212	IT SERVERS - DIRECT PURCHASE
6213	IT PC SW - DIRECT PURCHASE
6214	IT OTHER - DIRECT PURCHASE
6215	IT NETWORK - DIRECT PURCHASE
6216	IT SERVER SW - DIRECT PURCHASE
6217	IT NETWORK SW- DIRECT PURCHASE
6222	OFFICE FURN/ OFF SYSTEM - DIR PURCHASE
6224	OTHER FURN & FIXTURES - DIR PURCHASE
6230	MOTOR VEH/BOATS/PLANES - DIR PURCHASE
6280	OTHER CAPITAL EQUIPMENT - DIR PURCHASE
6330	LAND IMPROVEMENTS - LEASE PURCHASE
6510	CAPITALIZED PROFESSIONAL SVSC
6511	CAP PERSONAL SVSC - IT/HARDWARE
6512	CAP PERSONAL SVSC - IT/SOFTWARE

5. Does Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office on June 30, 2014? What is the department doing to resolve the outstanding high priority recommendations?

http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf

Response: The Department of Natural Resources has one outstanding performance audit recommendation and four outstanding financial audit recommendations identified in the "Annual Report of Audit Recommendations Not Fully Implemented." The outstanding performance audit recommendation pertains to a cash fund that is not in compliance with its target reserve and is the only outstanding recommendation identified as high priority. The four financial audit recommendations are related to financial statements, and of the four financial audit recommendations, three are considered significant deficiencies and one is considered a deficiency in internal controls.

The outstanding performance audit recommendation related to cash fund reserves is in regard to the Oil and Gas Conservation Commission's Oil and Gas Conservation and Environmental Response Fund. Prior to FY 2014-15, this fund had a requirement that "the two-year average of the unobligated portion of the fund does not exceed four million dollars." This fund exceeded its target reserve for the last four years. To address the OGCC's excess cash fund balance starting in FY 2014-15, the Department supported H.B. 14-1077, which increased the cap on the uncommitted reserve balance from $4 million to $6 million, effective July 1, 2014. The Department will discuss additional steps with the Governor and General Assembly to ensure compliance with the new cap on the uncommitted reserve balance by the end of FY 2014-15. For FY 2015-16 and beyond, the Department has requested an increase of approximately $404,000 from the Oil and Gas Conservation and Environmental Response Fund to fund 2.0 FTE, contract services, and leased space.

While the Department's outstanding financial audit recommendations are not labeled as high priority, the Department is making progress toward completing each recommendation. Fiscal year 2013-14 and FY 2012-13 Audit Recommendations included three significant deficiencies and one deficiency in internal controls related to the State Land Board (SLB).

Fiscal year 2013-14 and FY 2012-13 Audit Recommendation No. 13 included three significant deficiencies related to the proper recording of land value, which included land donated to the State through Federal Land grants, since the early 1900s. The SLB initiated a GIS project utilizing Bureau of Land Management data and SLB records to create listings of deeded land, severed mineral rights, and purchased land assets. In addition, the SLB is working towards reconciling the updated asset list to CORE values. Revised completion date is expected to be June 30, 2015.

Fiscal year 2013-14 and FY 2012-13 Audit Recommendation No. 14 included a deficiency in internal control related to the SLB and the proper use of contract templates and compliance with the State Fiscal Rule regarding contract use. SLB staff have created three contract templates: acquisition agreement (NSE), sale agreement (NSE), and land-of-land exchange agreement (LLE). Templates for the unique types of SLB expenditure contracts have been reviewed by the OSC. This audit recommendation is complete.

Attachment A: Ponds Investigated by the Division of Water Resources in Water Division 2

Year Investigated	Pond Location	Resolution
2010	WD12 Pathfinder Regional Park pond	Release water & modify structure to prevent future storage or get SWSP/Aug plan. Order rescinded and re-issued in 2011.
	WD19 Gagliardi Reservoir	Cease all out-of-priority diversions immediately; Install staff gage on reservoir; provide surface area capacity table; develop accounting system; install measuring & recording devices; provide suitable route for releases to reach Purgatoire River. Requirements met. In compliance.
	WD15 Savage LSWT	Install spillways and controllable/lockable outlet or breach. Out-of-priority waters pumped out. Compliance met.
	WD15 Lake Isabel	Ordered to apply for SWSP by 12/31/10 or replace all out-of-priority depletions caused by storage of water in lake or develop area capacity table, install gage, develop accounting and begin making releases to bypass out-of-priority flows. Still pending.
2011	WD12 Pathfinder Regional Park Pond	Release stored water & modify structure to prevent future storage & apply for aug plan & apply for SWSP. Compliance met by a share swap/City of Florence.
	WD12 McKee – 2 ponds	No water rights so release inflows and evap & cease and desist storage until aug plan approves water right. Dams breached. Compliance met.
	WD12 Jordon Reservoir at B Lazy M Ranch	No water right or aug plan (but has SWSP). Reduce storage level by releasing inflows and evap. Cease & Desist storage until there is a court approved water right or aug plan or operate per conditions of approved SWSP. Compliance met.
	WD12 Shenk – 3 ponds	No water rights so release inflows and evap & cease and desist storage until aug plan approves water right. Reduced water levels, submitted SWSP. Compliance met.

Year Investigated	Pond Location	Resolution
2011 (Continued)	WD12 German – Stage Stop Llamas	No water rights so release inflows and evap & cease and desist storage until aug plan approves water right. Retracted Order & reissued. Dam breached. Compliance met.
	WD12 Tracy – 1 pond	No water rights so release inflows and evap & cease and desist storage until aug plan approves water right. Released waters. Compliance met.
	WD12 Dome Rock State Wildlife Area	No water rights so release inflows and evap & cease and desist storage until aug plan approves water right. Ponds drained, one eliminated. Compliance met.
	WD12 Lichdoe Reservoir #1	Out-of-priority storage and no replacement for evaporative losses. Drained. Compliance met.
	WD13 J.L.Schwab #1 & Antelope Valley Ranch Reservoir	Agree to share or establish a means of inlet conveyance from Antelope Creek/appropriate method to measure inflow; restore at least 1 outlet to operable condition; install staff gauge referencing new stage area capacity table; establish accounting. Non compliance by Livingston caused restriction of dam use, not allowed to fill. Homeowners Association breached, installed outlet, submitted accounting resulting in compliance met.
	WD12 Barnard Creek Ponds	Cease all diversions of inflow & begin releasing for evap. Ponds drained. Went to Complaint (13CW0003)
	WD11 Jess Lee Pit	Submit SWSP application; backfill exposed groundwater; & cease mining activities. SWSP filed. Compliance met.
	WD12 Cherry Creek Spring & Pond	Cease & desist diversion and collection of spring water, return water to Cherry Creek, curtail all future spring diversions in filling & maintaining pond. Ponds drained. Compliance met.
	WD13 Christianson LSWT	Denied LSWT application so breach dam or file for SWSP. Pond breached. Went to Complaint (13CW0016)

Year Investigated	Pond Location	Resolution
2011 (Continued)	WD12 Cathedral Pond	Begin releasing inflows & evap and permanently cease and desist storage unless have approved water right and aug plan. Drained. AG involved but Complaint not filed. Compliance met.
	WD12 Dragon pond	Release inflows plus amount equal to evap and permanently cease & desist storage until court approved water right or aug plan is obtained. Water released. Compliance met.
2012	WD14 Pueblo Side Detention Pond	Still pending
	WD12 Broken Shamrock Pond	Lack of water right or augmentation plan for pond at 7998 County Road 11. Ordered to submit plan on how water will be released, how future storage will be prevented. Complaint filed and still pending (13CW3032)
	WD14 Zacher – 3 ponds	Out of priority storage of 3 ponds with no water right and expired SWSP. Settlement reached through Complaint 13CW3050
2013	WD12 ponds at Holcim Wetlands & Nature Trail	Lack of water right and augmentation. Ordered to backfill exposed groundwater by 4/1/2013 OR apply for SWSP by 3/1/2013 AND apply to water court for aug plan and renew SWSP applications by 12/31/2013. Still pending.
	WD12 Dewberry Pond	Lack of water right or aug plan. Ordered to release water from pond to empty it and allow future inflows to flow freely through the empty impoundment structure. Pond drained. Compliance met.
	WD12 Eggleston Pond	Release stored water in pond due to lack of water right. Pond drained. Compliance met.
	WD12 Mathews Pond	Lack of storage right or augmentation. Ordered to immediately release water to empty and, once empty, inflows must freely flow through. Pond drained. Compliance met.

Year Investigated	Pond Location	Resolution
2014	WD18 Apishapa Dam	Install outlet structure, provide surface area capacity table, develop accounting, install measuring structures and recording devices, provide route for released waters OR obtain SWSP OR breach. Still pending.
	WD12 East Riss Reservoir (King)	Release water, breach. Order rescinded and reissued (involves Howe now too). Still pending.
	WD12 Jordan Reservoir at B Lazy M Ranch	Release water and breach or get aug plan. Pond drained. Compliance met.
	WD12 North & South Riss Reservoirs (Anderson)	Orders cancelled and reissued. No aug plan and denied SWSP. Still pending.
	WD11 Harvard Lakes Estates Lot 3 Pond	Release water or get SWSP/aug plan. Not due for compliance yet.
	WD11 Harvard Lakes Estates Lot A Pond	Release water or get SWSP/aug plan. Not due for compliance yet.

*WD = Water District

Orders Issued related to (Ponds)
Parenthesis indicates the # ponds if more than one per order

	2010	2011	2012	2013	2014	Total
WD 10						0*
WD 11		1			2	3
WD 12	1	12 (18)	1	4	3 (4)	21 (28)
WD 13		2				2
WD14			2 (4)			2 (4)
WD 15	2					2
WD 16						0
WD 17						0
WD 18					1	1
WD 19	1					1
WD 67						0

	2010	2011	2012	2013	2014	Total
WD 79						0
Total	4	15 (21)	3 (5)	4	6 (7)	32 (41)

*A letter was sent to numerous entities including the City of Colorado Springs, El Paso County Public Services Dept., Colorado State Department of Transportation, and the United States Forest Services advising that if certain actions are not accomplished in relation to 24 structures by April 1, 2015, it is intended that orders will be issued, but no orders have been issued to date.

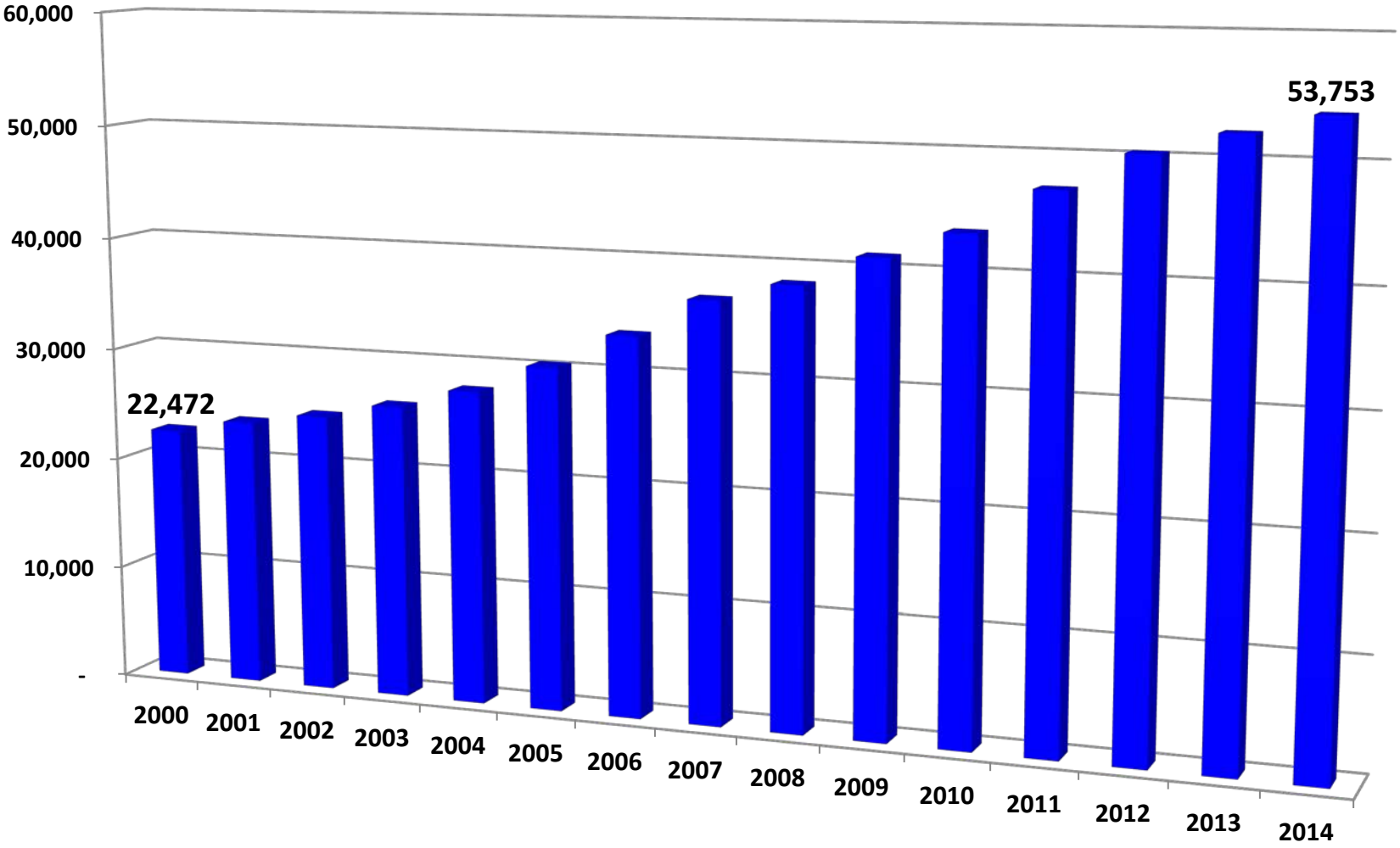
Disposition: Approximately 17 orders were resolved by draining, 6 by augmentation, and 9 remain pending.

Colorado Active Oil & Gas Wells

2000 - 2014

COLORADO
Oil & Gas Conservation Commission

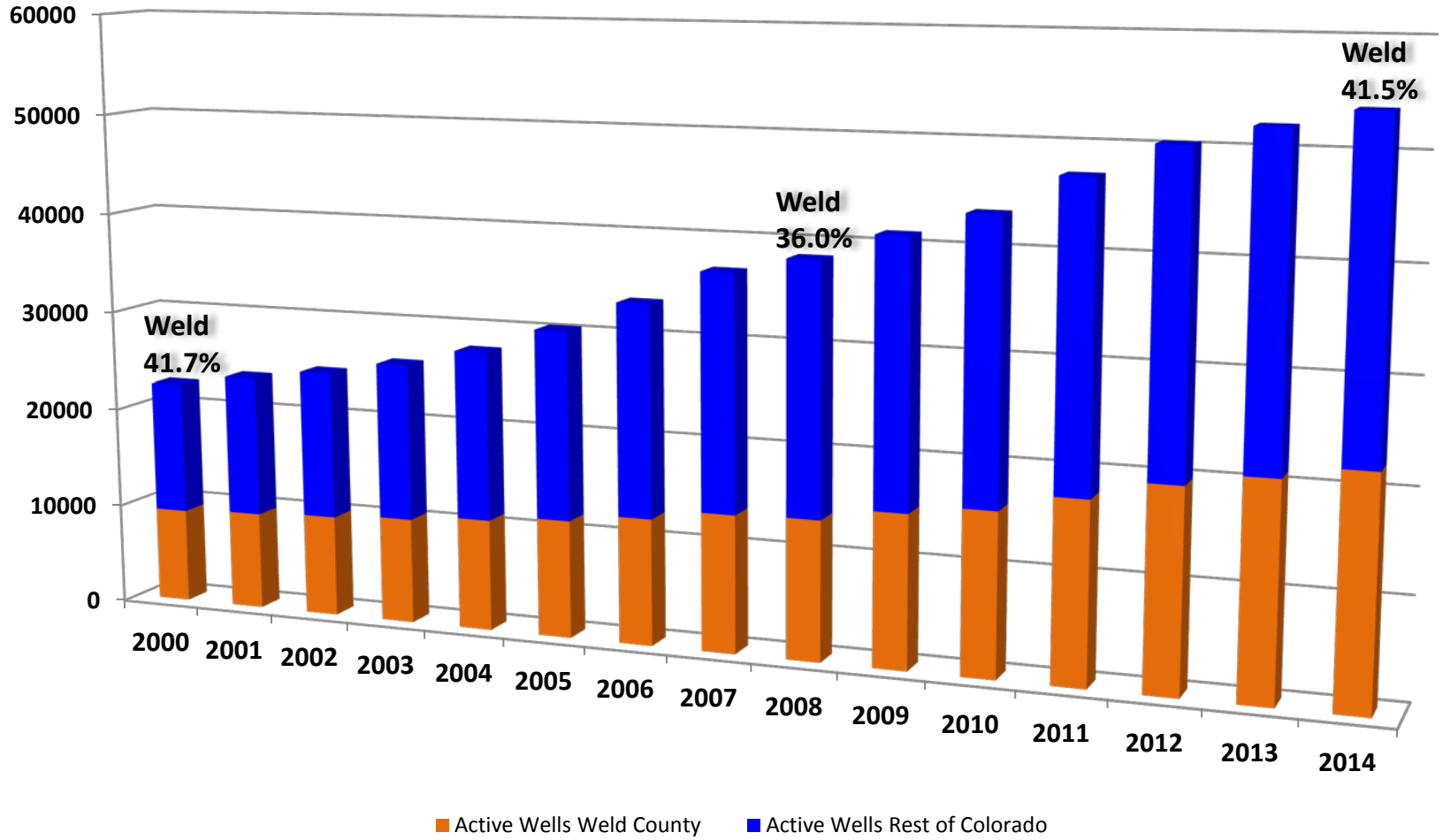
Colorado Annual Active Well Count
2000 – 2014



The COGCC considers the following well status as active:
DG - Drilling, DM - Domestic, IJ - Injection, PR - Producing, SI - Shut-In, TA - Temporarily abandoned, WO - Waiting on completion, and AC - Active gas storage or monitor

COLORADO
Oil & Gas Conservation Commission

Weld County vs. Rest of Colorado
Annual Active Well Count
2000 – 2014



The COGCC considers the following well status as active:
DG - Drilling, DM - Domestic, IJ - Injection, PR - Producing, SI - Shut-In, TA - Temporarily abandoned, WO - Waiting on completion, and AC - Active gas storage or monitor

COLORADO
Oil & Gas Conservation Commission

Colorado Active Oil & Gas Wells

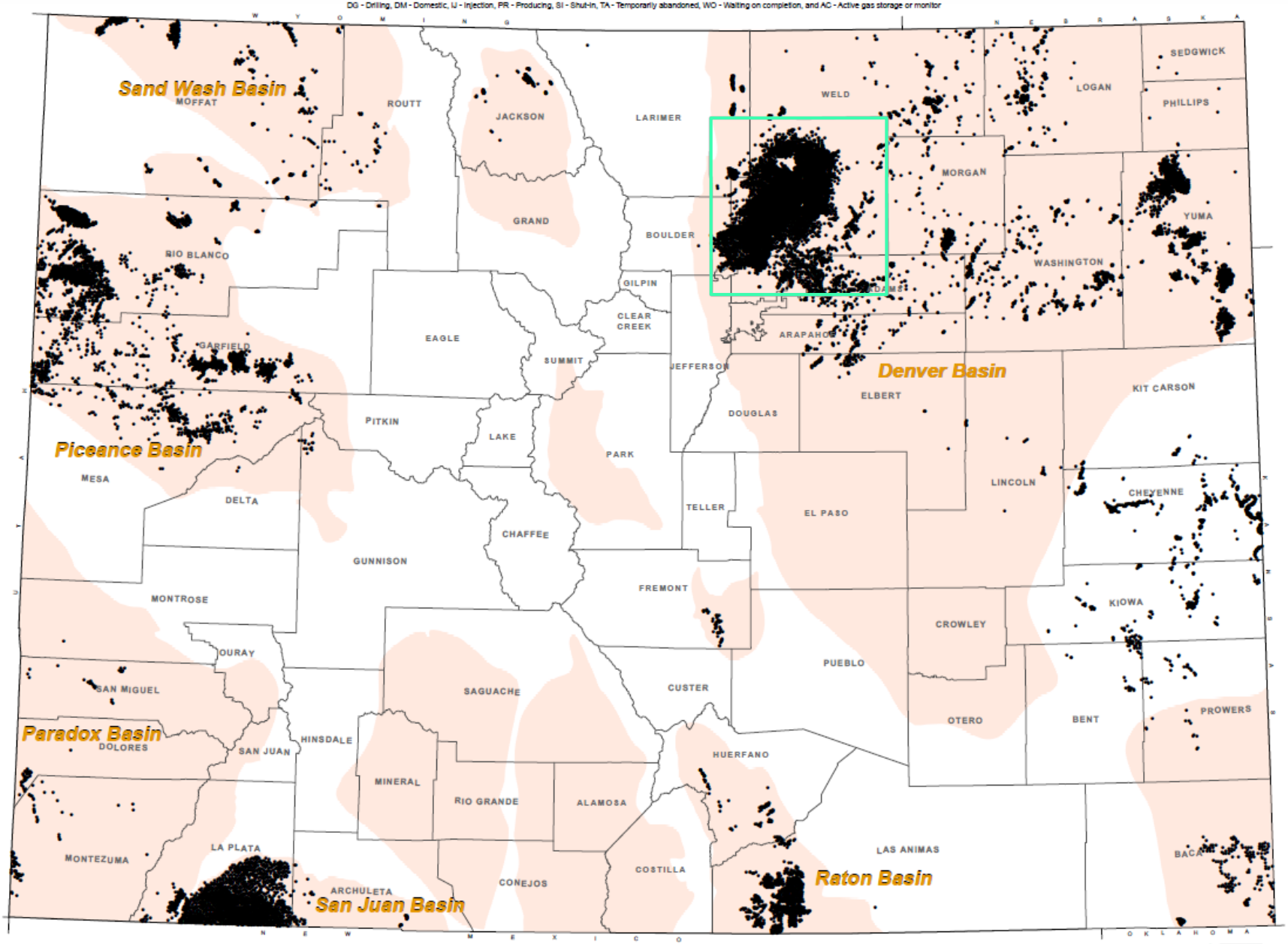
2000, 2005, 2010, and 2014 Snapshot Maps (Cumulative)

- 2000 – 2004 (Active Wells)
- 2005 – 2009 (New Active Wells)
- 2010 – 2014 (New Active Wells)

COLORADO
Oil & Gas Conservation Commission

Colorado Active Oil and Gas Wells

*The COGCC includes the following well statuses as active:
DG - Drilling, DM - Domestic, IJ - Injection, PR - Producing, SI - Shut-In, TA - Temporarily abandoned, WO - Waiting on completion, and AC - Active gas storage or monitor



2000: 22,472

Wells shown are cumulative

SCALE 1:500,000

10 5 0 10 20 30 40 50 Miles

10 5 0 10 20 30 40 50 60 70 80 90 100 Kilometers

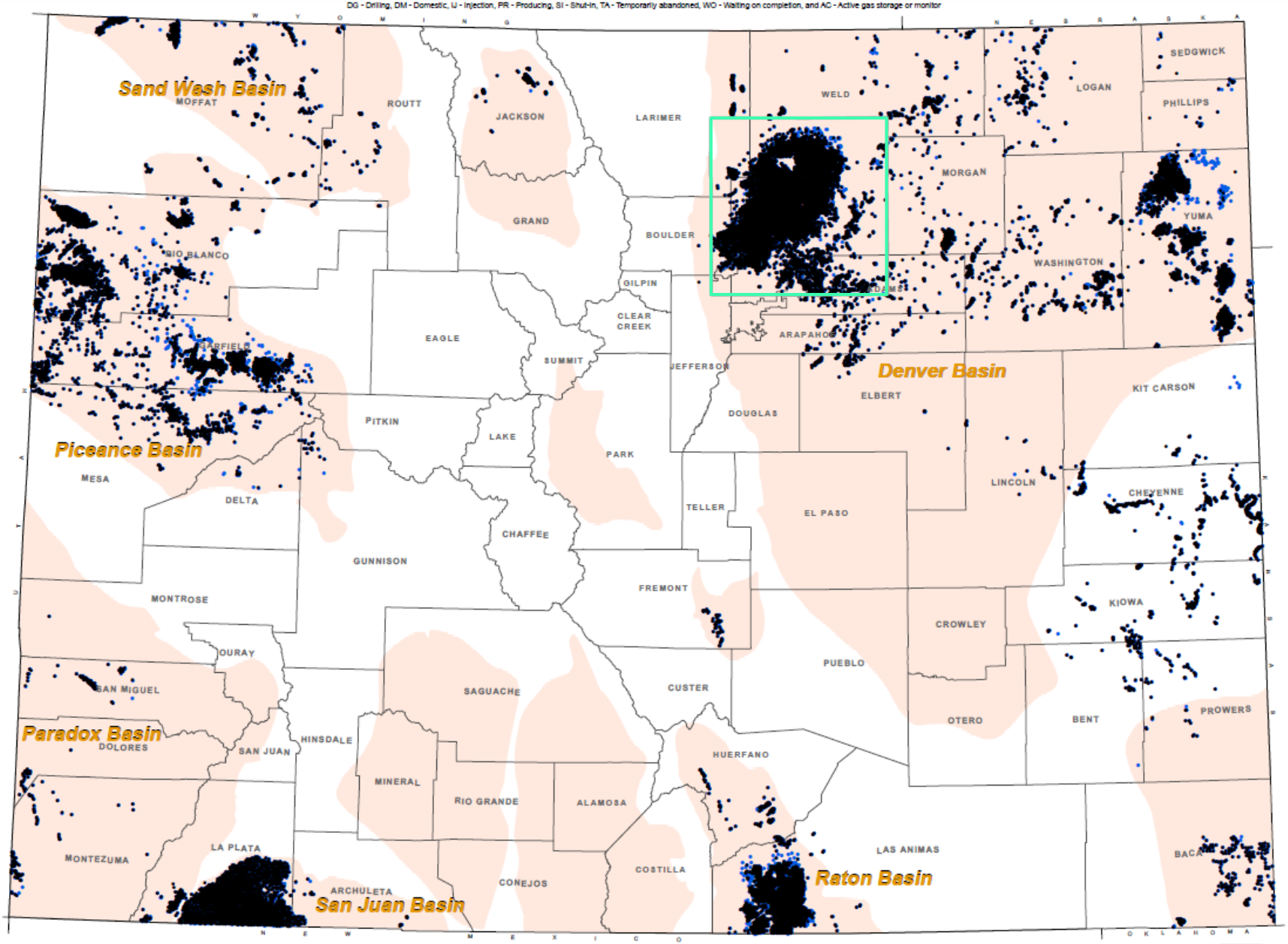
Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

- 2000
- Greater Wattenberg Area

COLORADO
Oil & Gas Conservation Commission

Colorado Active Oil and Gas Wells

*The COGCC includes the following well statuses as active:
DG - Drilling, DM - Domestic, IJ - Injection, PR - Producing, SI - Shut-In, TA - Temporarily abandoned, WO - Waiting on completion, and AC - Active gas storage or monitor



2005: 30,356

Wells shown are cumulative

SCALE 1:500,000

10 5 0 10 20 30 40 50 Miles

10 5 0 10 20 30 40 50 60 70 80 90 100 Kilometers

Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

- 2000 - 2004
- 2005
- Greater Wattenberg Area

COLORADO
Oil & Gas Conservation Commission

Colorado Active Oil and Gas Wells

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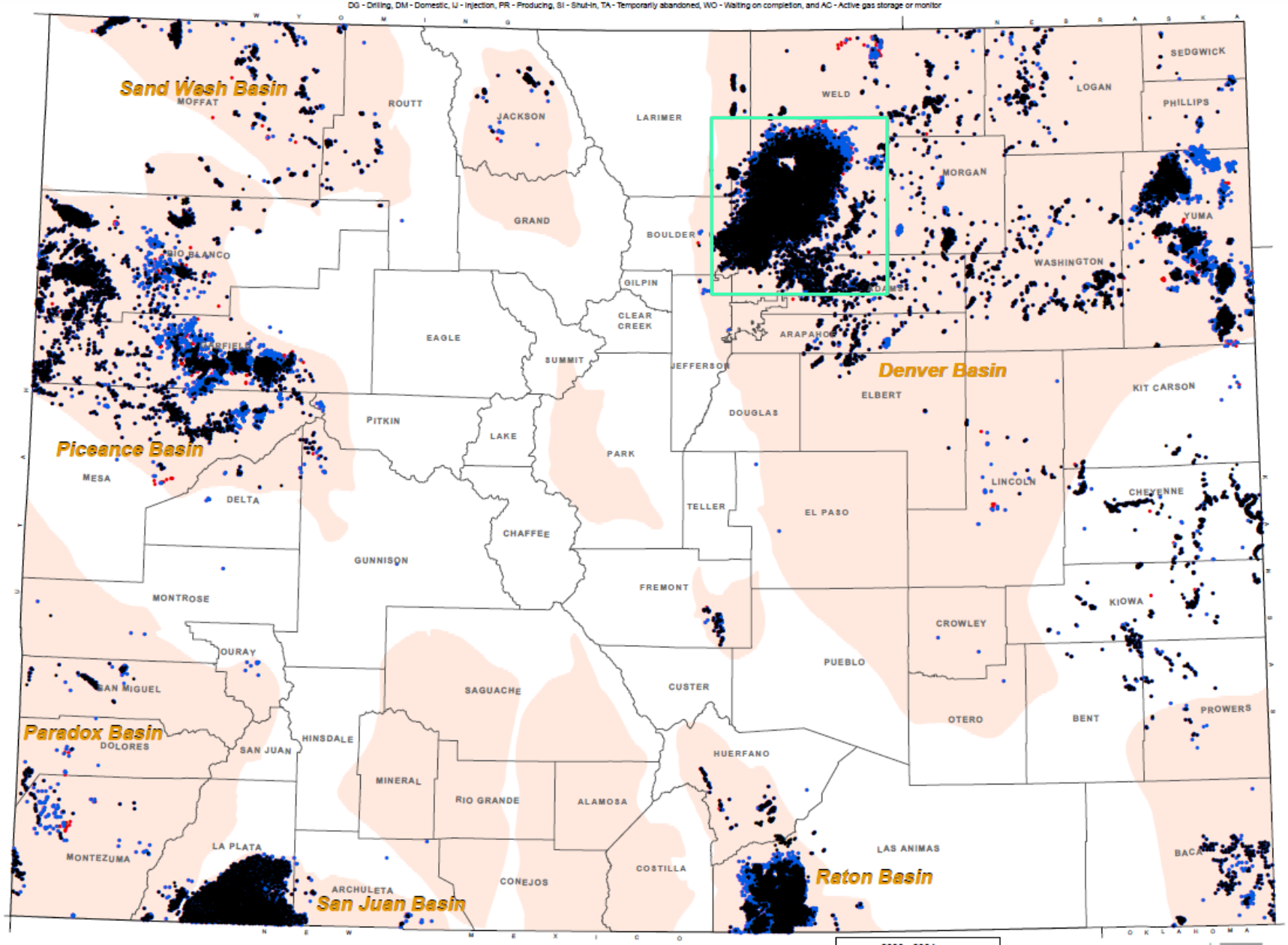

2010: 43,439

Wells shown are cumulative

SCALE 1:500,000

10 5 0 10 20 30 40 50 Miles

10 5 0 10 20 30 40 50 60 70 80 90 100 Kilometers

Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

- 2000 - 2004
- 2005 - 2009
- 2010
- Greater Wattenberg Area

COLORADO
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Colorado Active Oil and Gas Wells

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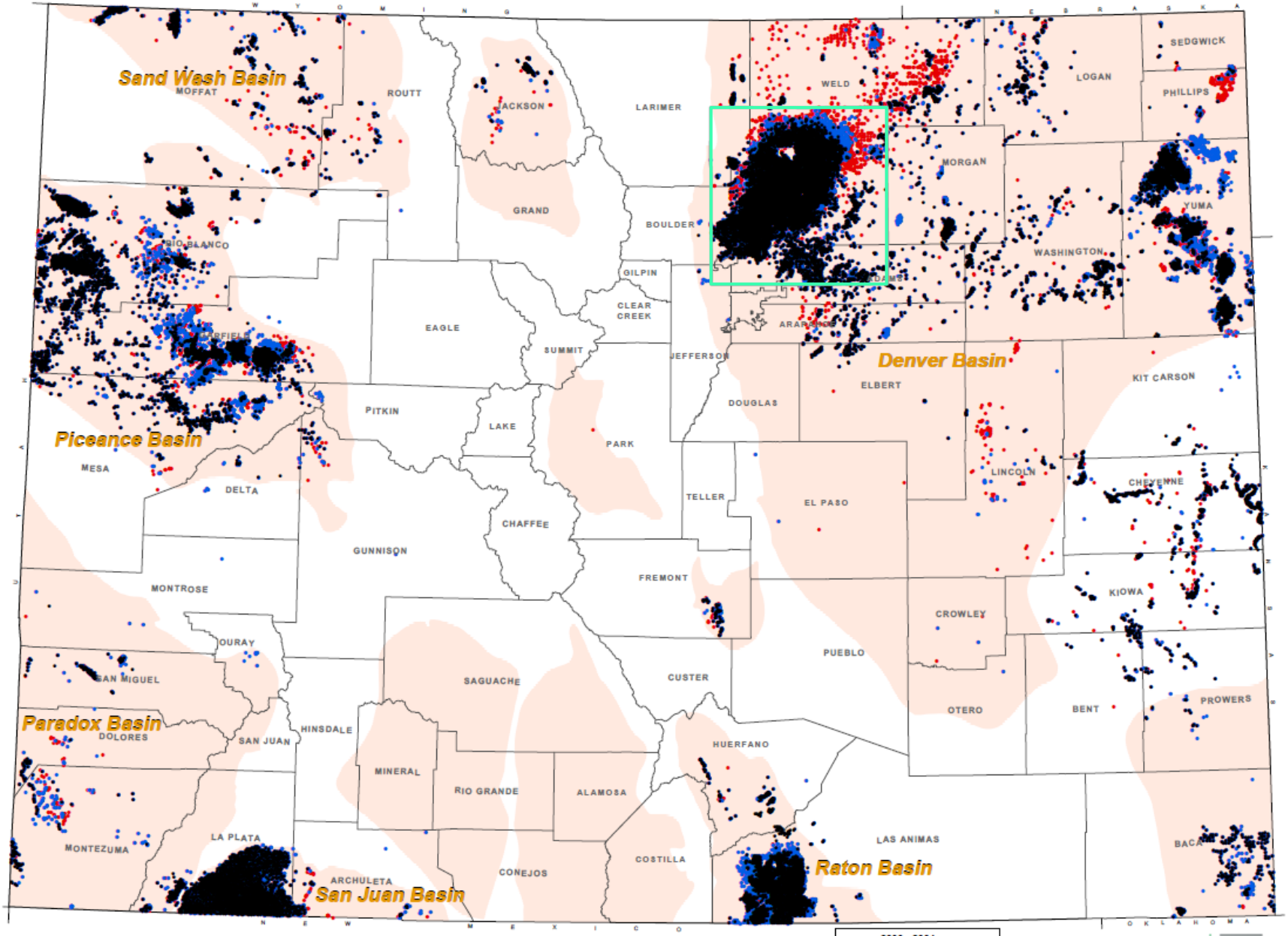

2014: 53,753

Wells shown are cumulative

SCALE 1:500,000

10 5 0 10 20 30 40 50 Miles

10 5 0 10 20 30 40 50 60 70 80 90 100 Kilometers

Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

- 2000 - 2004
- 2005 - 2009
- 2010 - 2014
- Greater Wattenberg Area

COLORADO
Oil & Gas Conservation Commission

Denver Basin Active Oil & Gas Wells

2000, 2005, 2010, and 2014 Snapshot Maps (Cumulative)

- 2000 – 2004 (Active Wells)
- 2005 – 2009 (New Active Wells)
- 2010 – 2014 (New Active Wells)

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Denver Basin Active Oil and Gas Wells

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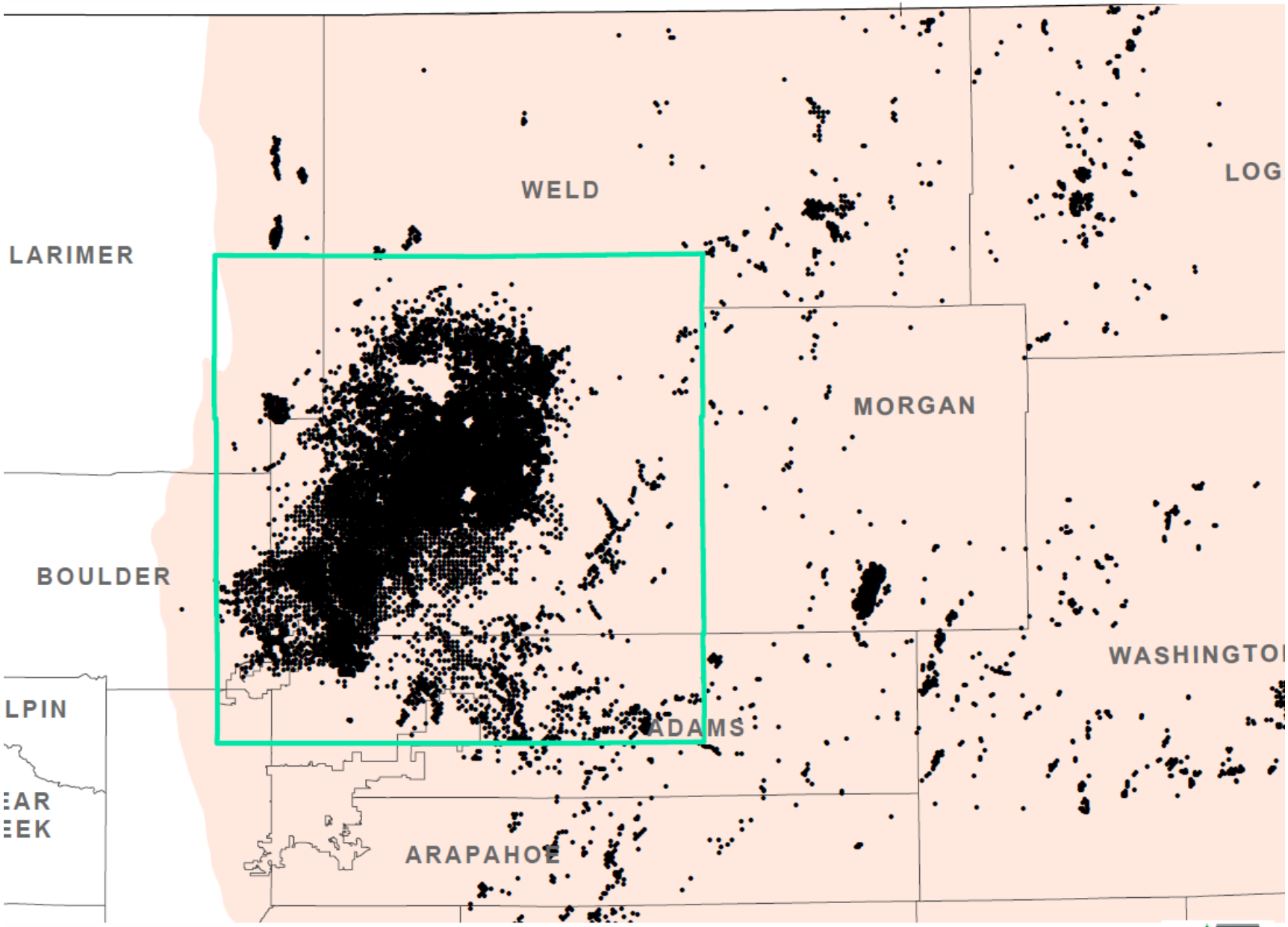

2000

Cumulative well layers shown

SCALE 1:190,000

5 2.5 0 5 10 15 20 25 Miles

5 2.5 0 5 10 15 20 25 30 35 40 45 50 Kilometers

Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

2000
Greater Wattenberg Area

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Oil & Gas Conservation Commission

Denver Basin Active Oil and Gas Wells

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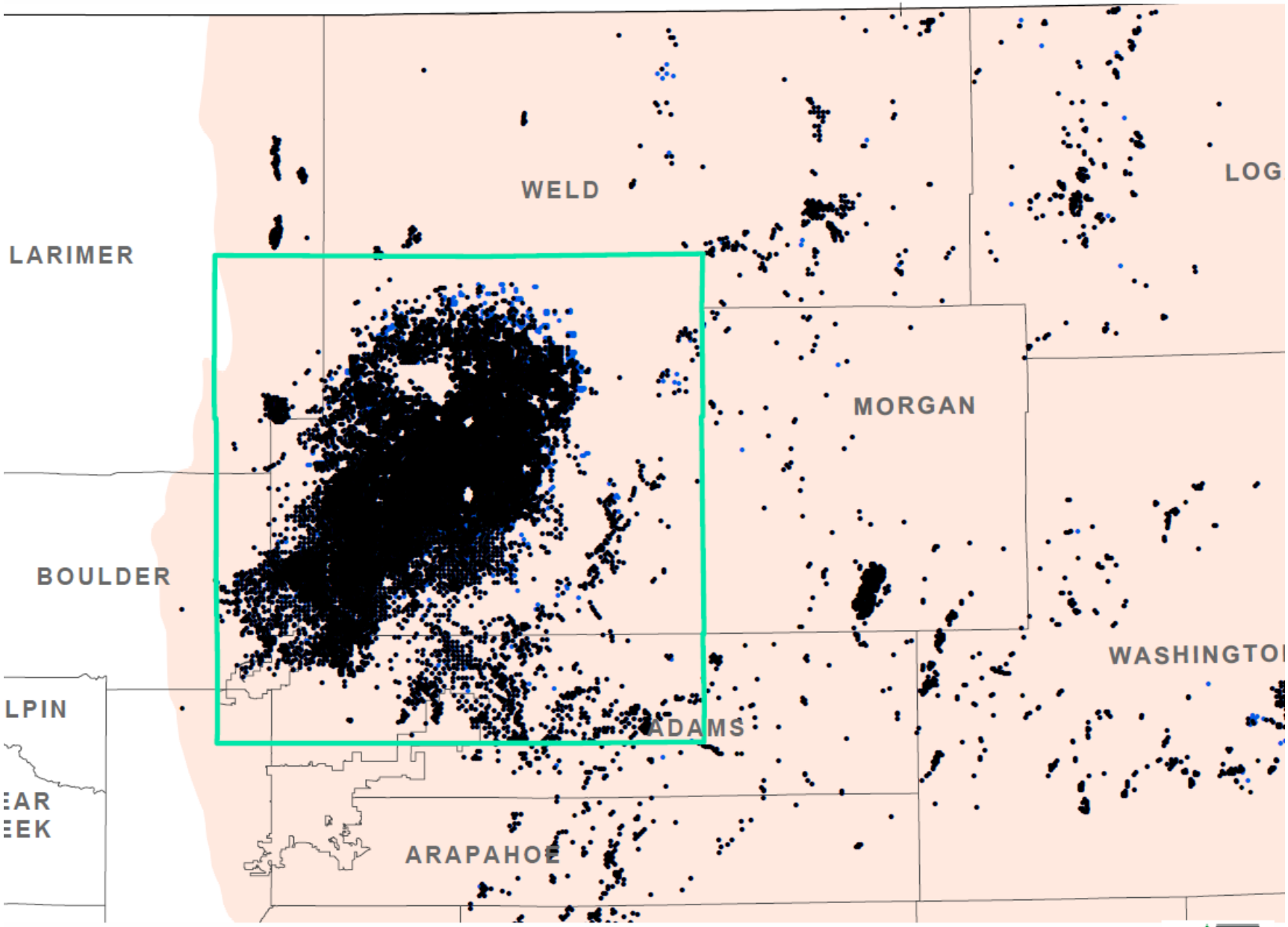

2005

Cumulative well layers shown

SCALE 1:190,000

5 2.5 0 5 10 15 20 25 Miles

5 2.5 0 5 10 15 20 25 30 35 40 45 50 Kilometers

Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

2000 - 2004
2005
Greater Wattenberg Area

COLORADO
Oil & Gas Conservation Commission

Denver Basin Active Oil and Gas Wells

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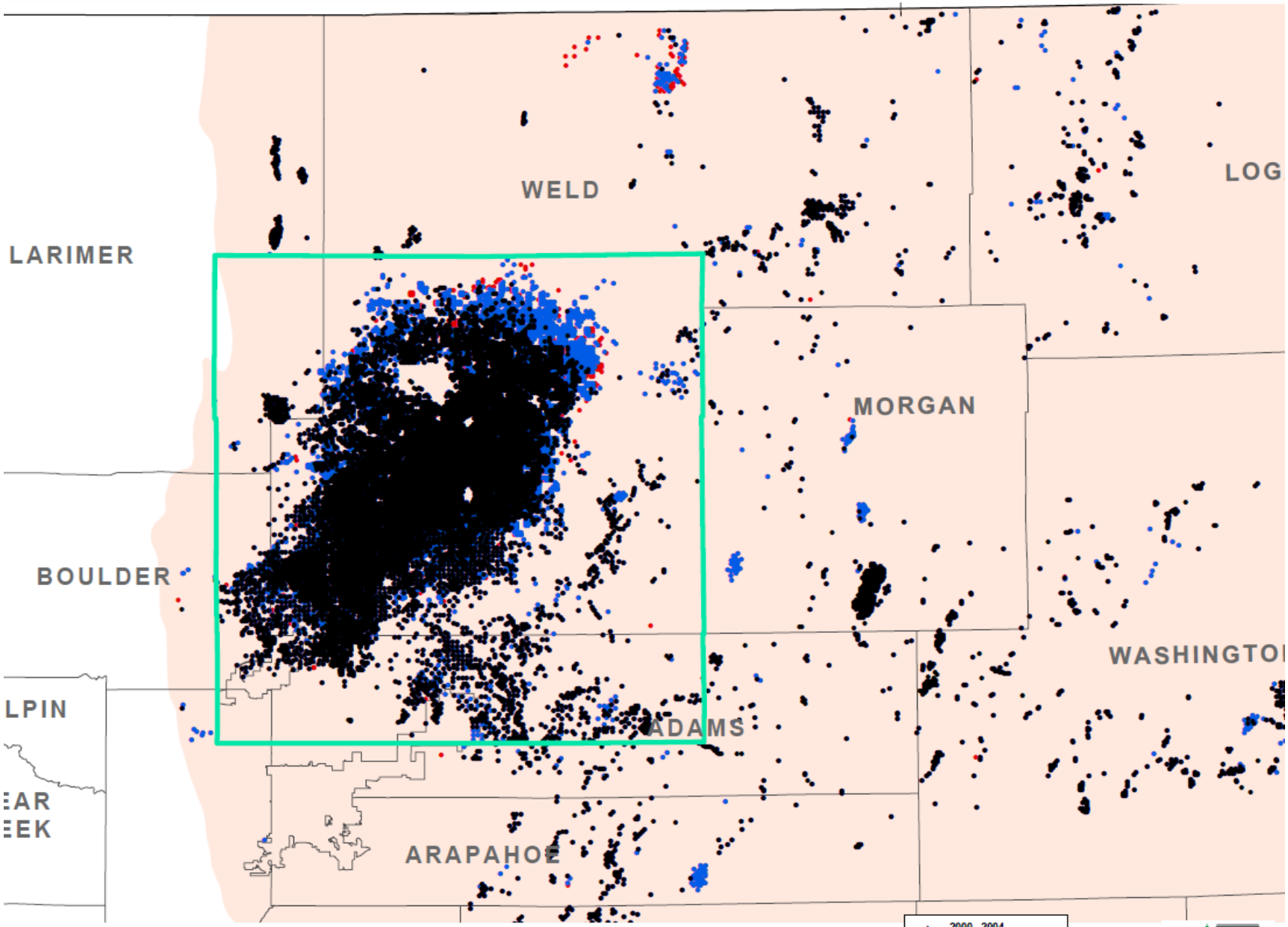

2010

Cumulative well layers shown

SCALE 1:190,000

5 2.5 0 5 10 15 20 25 Miles

5 2.5 0 5 10 15 20 25 30 35 40 45 50 Kilometers

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COLORADO
Oil & Gas Conservation Commission

Denver Basin Active Oil and Gas Wells

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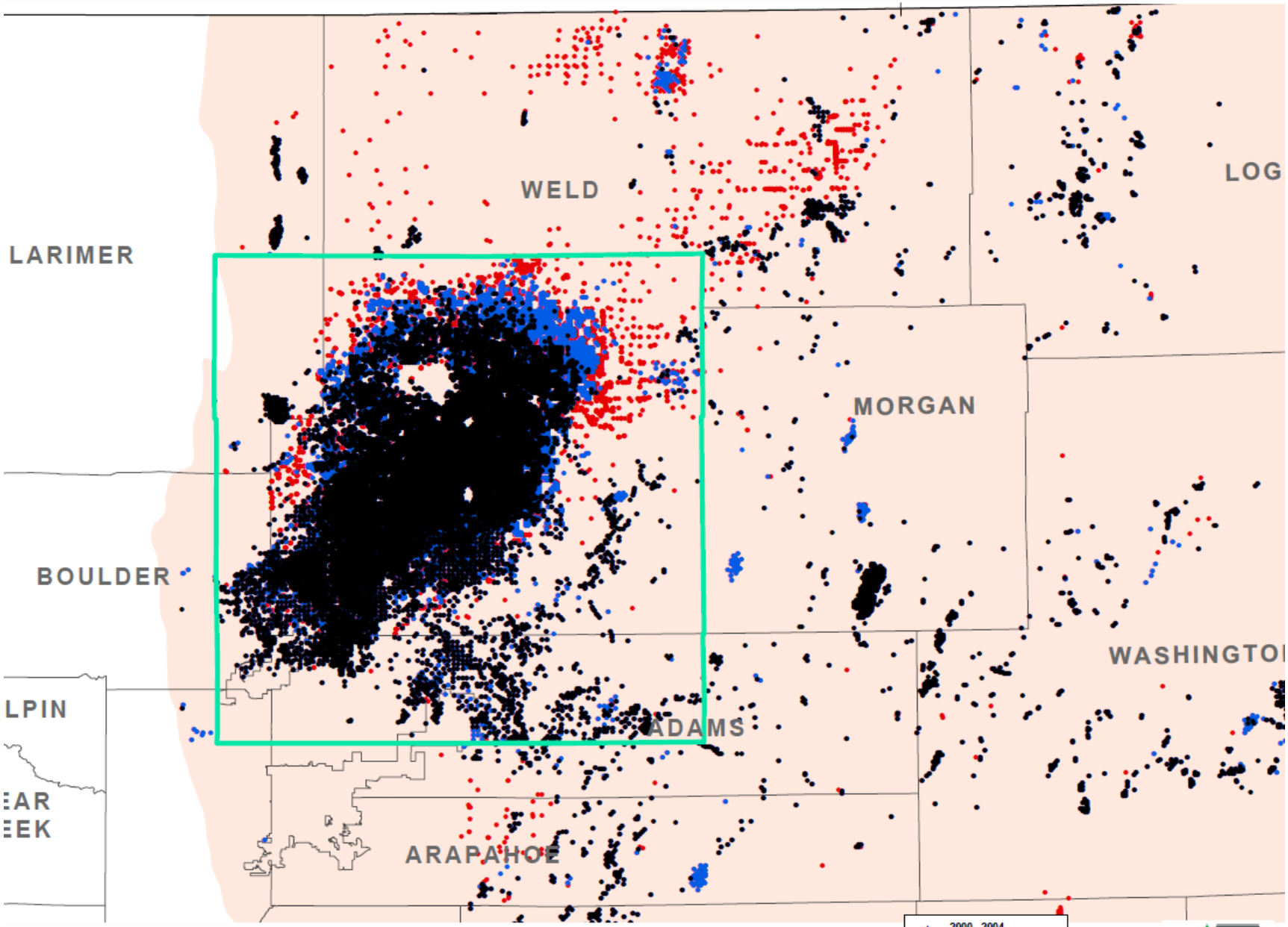

2014

Cumulative well layers shown

SCALE 1:190,000

5 2.5 0 5 10 15 20 25 Miles

5 2.5 0 5 10 15 20 25 30 35 40 45 50 Kilometers

Projection: Universal Transverse Mercator, Zone 13
Datum: North American Datum 1983

- 2000 - 2004
- 2005 - 2009
- 2010 - 2014
- Greater Wattenberg Area

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Industry Activity and Oil Prices

2014

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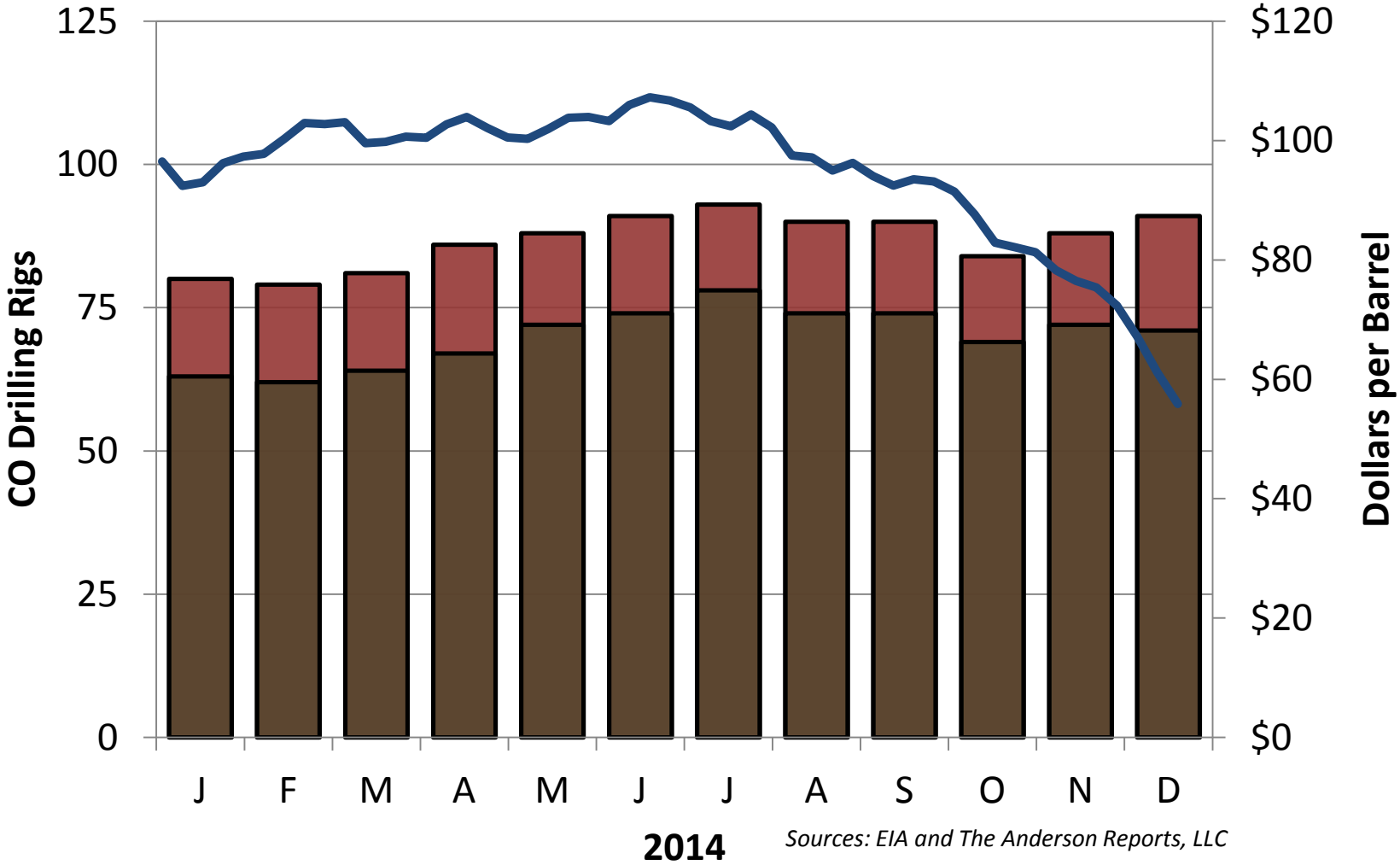
Oil & Gas Conservation Commission

Drilling Rigs in Colorado vs. Oil Prices



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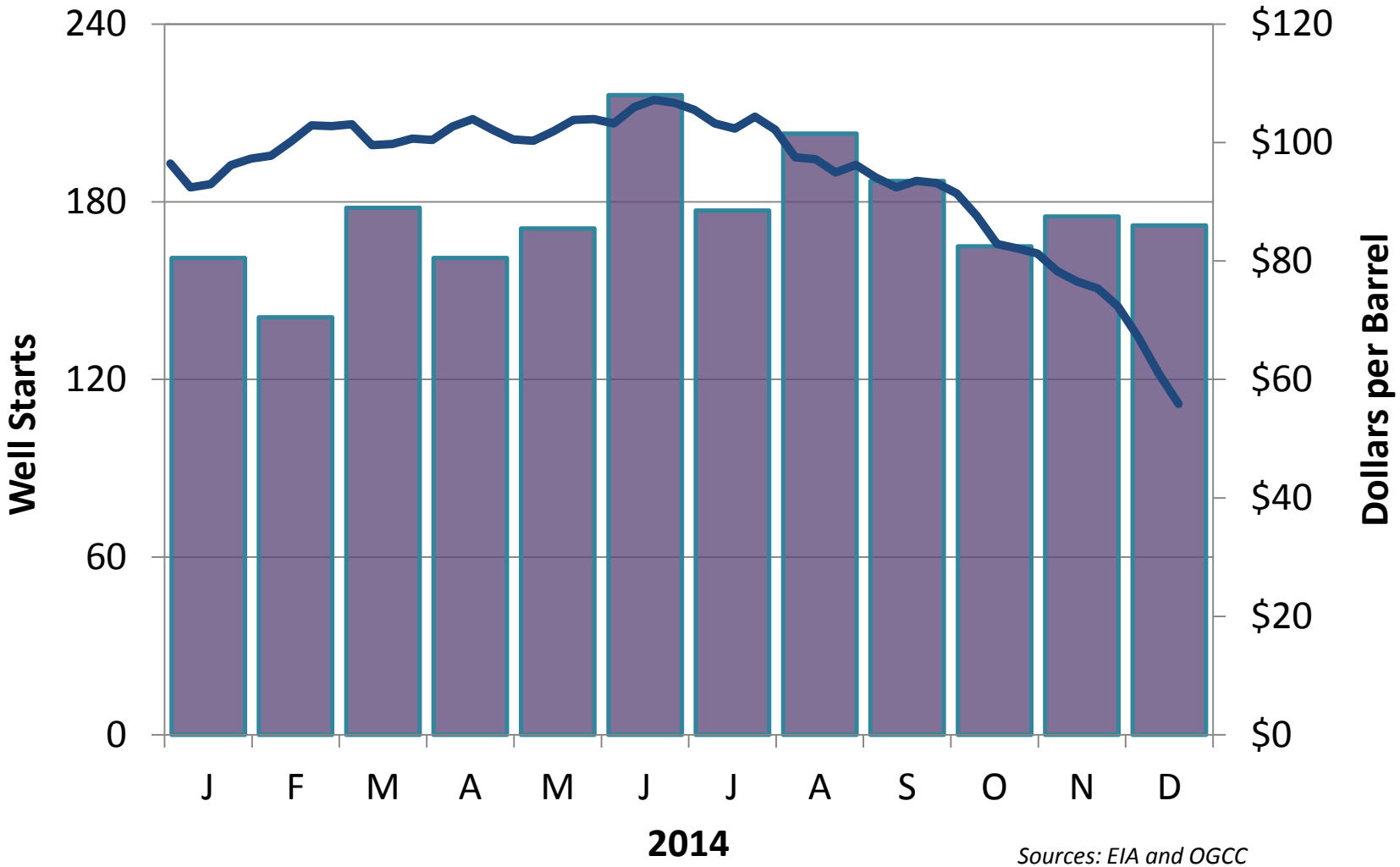
Well Starts vs. Oil Prices



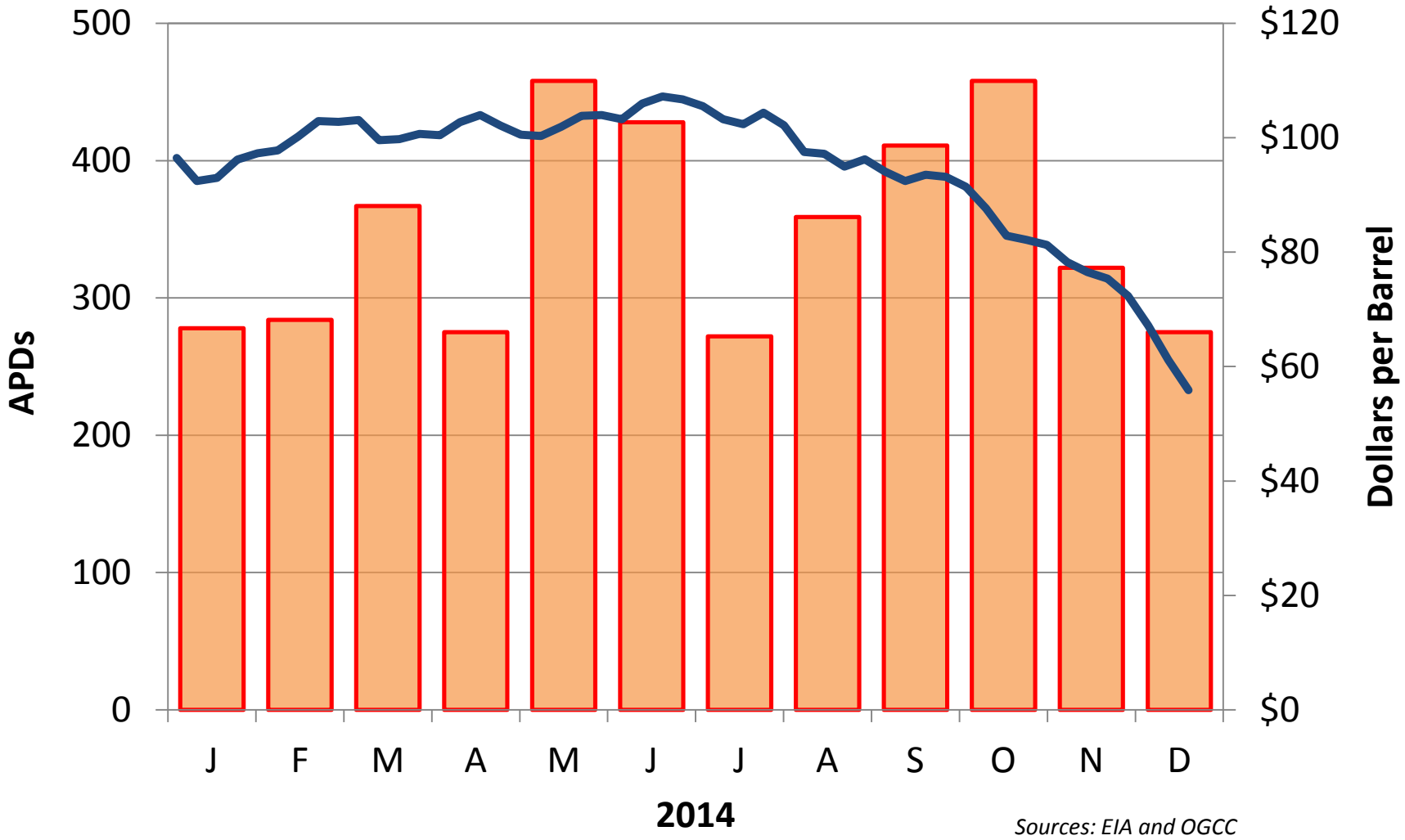
Sources: EIA and OGCC

Well Starts

Weekly Crude Oil Spot Prices (West Texas Intermediate)

COLORADO
Oil & Gas Conservation Commission

Permits to Drill vs. Oil Prices



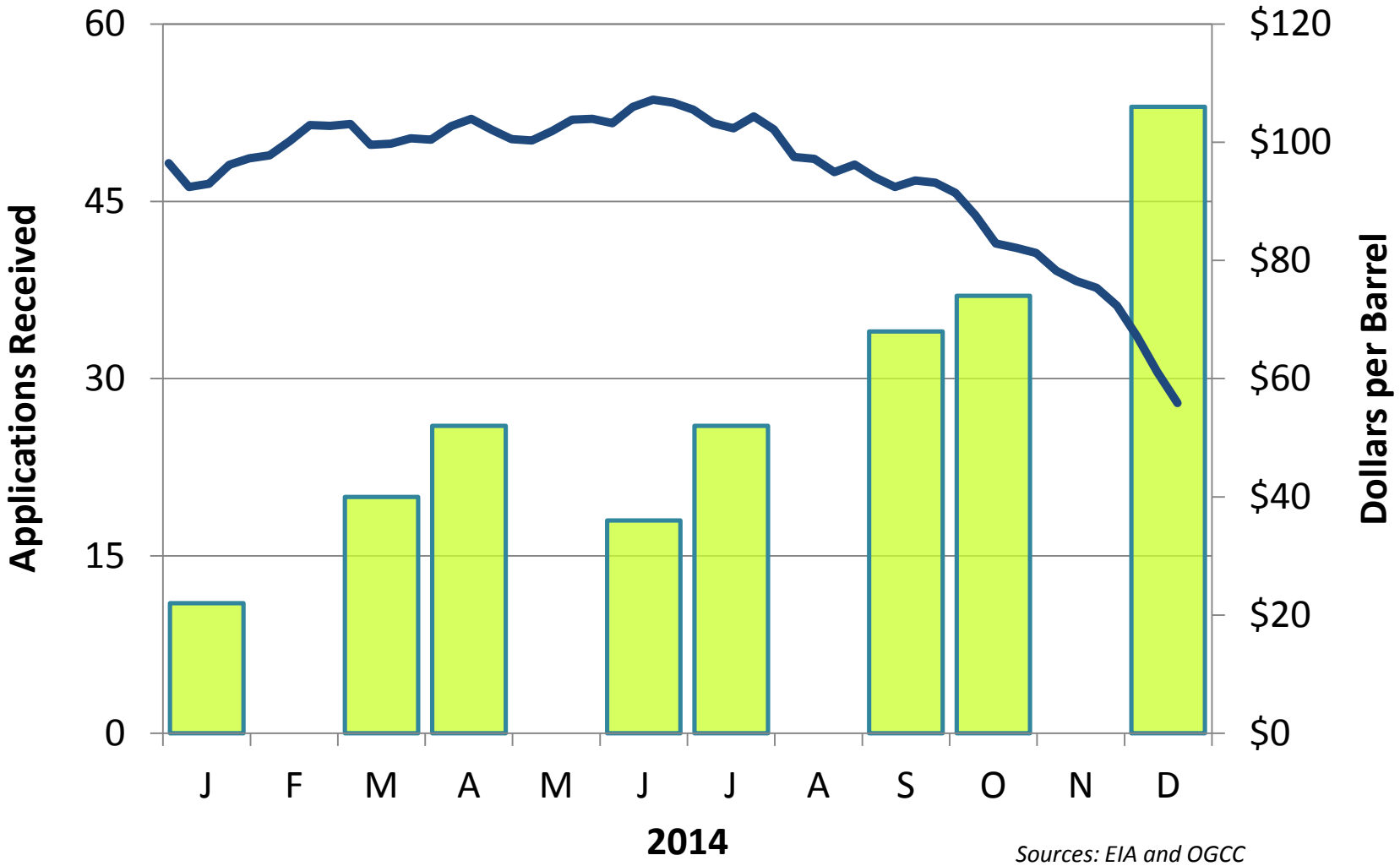
Sources: EIA and OGCC

Applications for Permit to Drill (APDs)

Weekly Crude Oil Spot Prices (West Texas Intermediate)

COLORADO
Oil & Gas Conservation Commission

Drilling and Spacing Applications vs. Oil Prices



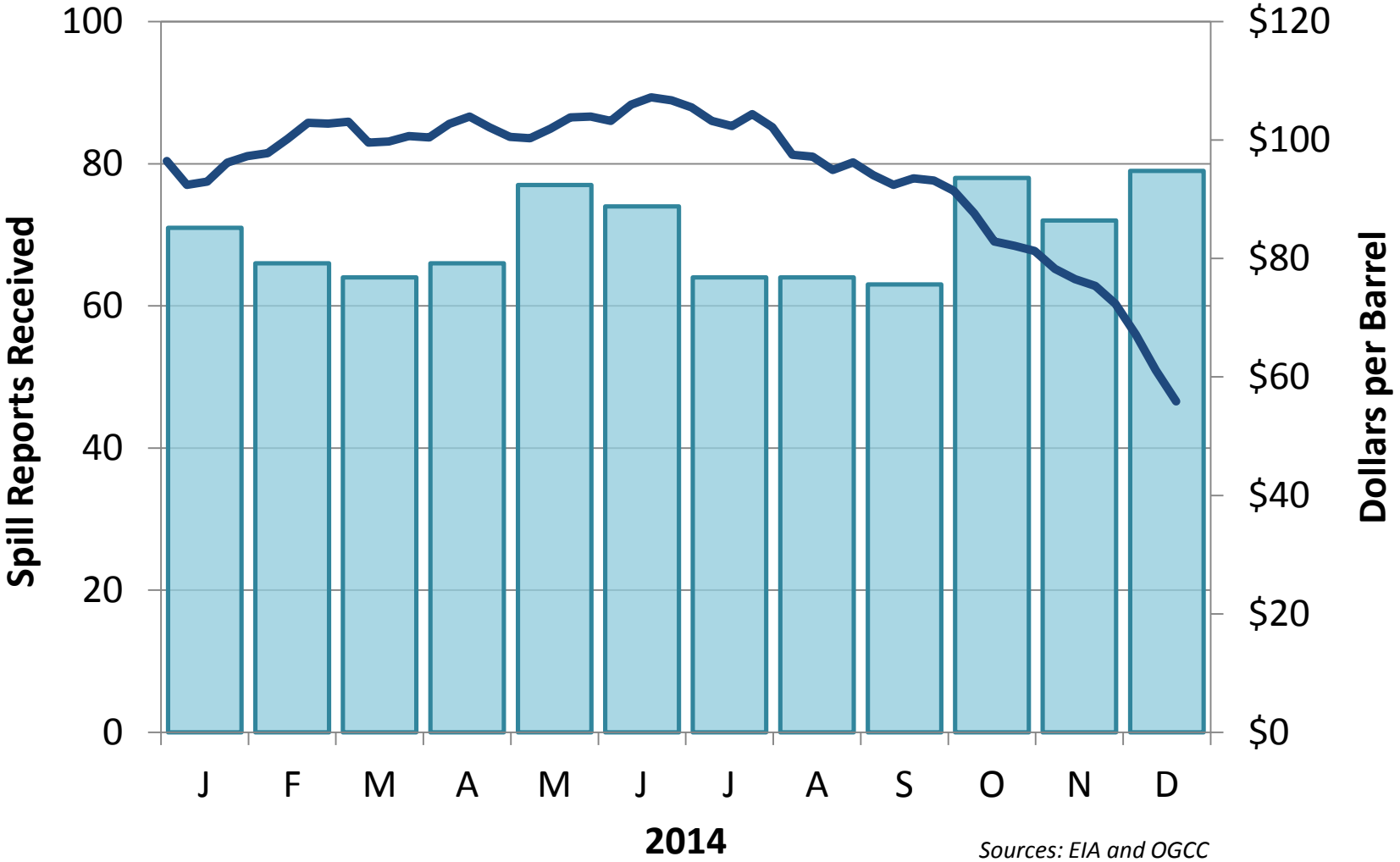
Sources: EIA and OGCC

Drilling and Spacing Applications Received per Hearing

Weekly Crude Oil Spot Prices (West Texas Intermediate)

COLORADO
Oil & Gas Conservation Commission

Spill Reports vs. Oil Prices



Sources: EIA and OGCC

Spill Reports Received

Weekly Crude Oil Spot Prices (West Texas Intermediate)

COLORADO
Oil & Gas Conservation Commission

DEPARTMENT OF NATURAL RESOURCES
FY 2015-16 JOINT BUDGET COMMITTEE HEARING AGENDA

Monday, January 5, 2015
1:30 pm – 5:00 pm

1:30-1:50 INTRODUCTIONS AND OPENING COMMENTS

1:50-2:10 QUESTIONS COMMON TO ALL DEPARTMENTS

(The following questions require both a written and verbal response.)

1. SMART Government Act:
   a. Please describe how the SMART Government Act is being integrated into the Department's existing processes (both in terms of service delivery and evaluating performance).
   b. How is the data that is gathered for the performance management system used?
   c. Please describe the value of the act in the Department.

2. Do you have infrastructure needs (roads, real property, information technology) beyond the current infrastructure request? If so, how do these needs fit in with the Department's overall infrastructure priorities that have been submitted to the Capital Development Committee or Joint Technology Committee? If infrastructure should be a higher priority for the Department, how should the Department's list of overall priorities be adjusted to account for it?

3. Describe the Department's experience with the implementation of the new CORE accounting system.
   a. Was the training adequate?
   b. Has the transition gone smoothly?
   c. How has the implementation of CORE affected staff workload during the transition?
   d. Do you anticipate that CORE will increase the staff workload on an ongoing basis? If so, describe the nature of the workload increase and indicate whether the Department is requesting additional funding for FY 2015-16 to address it.

2:10-3:00 GENERAL OVERVIEW

<u>Oil and Gas Development</u>

4. Please provide a series of maps showing the progression of oil and gas development as growth in the number of oil and gas wells over the last ten years.

5. House Bill 14-1356 revised the OGCC penalty structure, increasing the maximum daily fine per violation and removing the cap on the maximum total penalty.
   a. What is the status of the rulemaking process to implement this legislation?
   b. What kinds of rules have been enacted to administer these penalties?
   c. How does the Commission intend to apply these rules going forward (e.g. a graduated fee structure)?

State Land Board

6. Please provide updated projections on State Land Board mineral lease revenue for the next two years and discuss the impact of future reductions in bonus and royalty payments.

7. What is the status of the transfer of lands from the federal government to the State Land Board? Will the transfer have an impact on trust revenue?

Division of Parks and Wildlife

8. Please provide a general update on species conservation programs in CPW and the potential economic impact of species protection in Colorado, as well as a detailed discussion of conservation efforts specific to the sage grouse.

2013 Flood Recovery

9. What is the status of the recovery of water projects and infrastructure affected by the 2013 floods?

Transfer of Colorado Geological Survey to the Colorado School of Mines

10. Please discuss the Department's experience with the transfer of the Colorado Geological Survey to the Colorado School of Mines.

3:00-3:30 SEVERANCE TAX REVENUES

11. Does the Department of Revenue, or any other department, track severance tax revenue by county? If so, please provide a county-by-county breakdown of how much severance tax revenue is generated in each county, and how much severance tax revenue each county receives.

12. The Aquatic Nuisance Species mitigation program in the Division of Parks and Wildlife is supported by Tier II expenditures from the Severance Tax Operational Fund. Please provide:
    a. an update on the performance and impact of this program to date;
    b. information on the plan for this program going forward; and
    c. the number of FTE currently associated with this program.

13. Please provide an update on projected severance tax revenues for the Department based on the December 2014 Legislative Council Staff revenue forecast, and discuss the impact of any changes in revenue on Department divisions and programs.

3:30-4:10 OGCC PERMITTING AND HEARINGS UNITS FTE

14. Please provide information on the relationship between permitting approval times and production. What is the effect of a permitting backlog on production in the field?

15. When is a hearing required? What caused the significant increase in the number of hearings applications starting in 2011 onward?

16. What does the OGCC hope to achieve with the request for an additional hearings officer (1.0 FTE)? Is the intent to speed up the process of reviewing applications, to increase the quality of review by staff, or both?

17. Please discuss the ability of the Oil and Gas Conservation and Environmental Response Fund to support required expenditures and the requested increase if low oil prices continue. Does the OGCC have any revisions to workload projections after taking the current trend in oil prices into account?

18. Please provide information on how the OGCC ensures oil and gas operators have enough revenue in reserve to fund reclamation and clean-up at well sites and other facilities, and address the following questions:
    a. What are the surety requirements that operators must meet?
    b. Do bonds have forfeiture provisions for pollution or the violation of environmental health and safety laws?
    c. Does the OGCC set aside or use mill levy revenue to address reclamation issues if a well is abandoned?

19. What has been the effect of new setback rules? What has been the impact of hiring additional FTE over the past three years?

4:10-4:40 DIVISION OF WATER RESOURCES WATER ADMINISTRATION AND COORDINATION

20. Is the process of drying up ponds that do not have augmentation plans or water rights part of a statewide plan, or is it limited to Division 2? How does the process of drying up of ponds in Division 2 contribute to the DWR's plan to fulfill Arkansas River Compact obligations? Describe the observed impact of or benefit from drying up ponds in Division 2. Provide an update on the status of that process that includes a complete list of ponds that have been, or are going to be, dried up.

21. Please provide information on DWR policy on the installation of emergency flood water and sediment containment ponds in Division 2. How do these ponds impact downstream water

rights? Were any efforts made in the last year to keep ponds in place for the purpose of fighting forest fires? Is it possible for the state to retain some water for fighting forest fires?

22. If the DWR is acting to enforce the Arkansas River Compact, are specific actions (e.g. drying up ponds) being directed in accordance with the Attorney General's rules on water law?

23. Does the Division 6 request for a deputy water commissioner represent a change in policy? Is this a policy change that is being applied uniformly statewide wherever there is irrigation and water scarcity and, if so, does it require more inspectors?

4:40-5:00 RECLAMATION OF FORFEITED MINE SITES

24. Please discuss whether a Tier I appropriation from the Severance Tax Operational Fund for the Reclamation of Forfeited Mine Sites is necessary, and provide the Department's position on funding this request with Tier II expenditures.

25. Please describe how bond failure or bond loss occurs. Who has liability if bonds are lost? Do mine operators still have a legal responsibility or requirement to reclaim sites if the bond has failed?

26. Describe the process of securing and supervising contractors to complete reclamation projects. Who is actually doing the reclamation work?

27. Does the Department consult with the State Geologist on reclamation projects? If not, would there be an advantage to collaborating with the Colorado Geological Survey and the State Geologist?

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implement or has partially implemented the legislation on this list.

2. What is the turnover rate for staff in the department? Please provide a breakdown by office and/or division, and program.

3. Please identify the following:
    a. The department’s most effective program;
    b. The department’s least effective program (in the context of management and budget);
    c. Please provide recommendations on what will make this program (2.b.) more effective based on the department’s performance measures.

4. How much capital outlay was expended using either operating funds or capital funds in FY 2013-14? Please break it down between the amount expended from operating and the amount expended from capital.

5. Does Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office on June 30, 2014? What is the department doing to resolve the outstanding high priority recommendations?
http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf