

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



SUPPLEMENTAL REQUESTS FOR FY 2013-14

DEPARTMENT OF NATURAL RESOURCES

**(Division of Reclamation, Mining, and Safety; Oil and Gas Conservation Commission;
State Board of Land Commissioners)**

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

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DEPARTMENT OF NATURAL RESOURCES

(Division of Reclamation, Mining, and Safety; Oil and Gas Conservation Commission;
State Board of Land Commissioners)

Department Overview

The Department of Natural Resources is responsible for developing, protecting, and enhancing Colorado's natural resources for the use and enjoyment of the State's present and future residents and visitors. This document covers supplemental requests from two divisions: the **Oil and Gas Conservation Commission (OGCC)**, responsible for promoting the exploration, development, and conservation of Colorado's oil and natural gas resources; and the **State Board of Land Commissioners (State Land Board)**, which manages agricultural, mineral development, and commercial activities on state-owned lands to generate reasonable and consistent revenue for trust beneficiaries.

Summary: FY 2013-14 Appropriation and Recommendation

Department of Natural Resources: Recommended Changes for FY 2013-14						
	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2013-14 Appropriation						
SB 13-230 (Long Bill)	\$241,007,024	\$24,978,508	\$178,674,931	\$8,774,311	\$28,579,274	1,438.8
Other Legislation	<u>36,502,217</u>	<u>0</u>	<u>36,502,217</u>	<u>0</u>	<u>0</u>	<u>0.0</u>
Current FY 2013-14 Appropriation	\$277,509,241	\$24,978,508	\$215,177,148	\$8,774,311	\$28,579,274	1,438.8
Recommended Changes						
Current FY 2013-14 Appropriation	\$277,509,241	\$24,978,508	\$215,177,148	\$8,774,311	\$28,579,274	1,438.8
S1 Additional Legal Services	163,944	163,944	44,500	0	(44,500)	0.0
S2 CAIC Stabilization	80,077	0	79,547	530	0	0.3
S3 Asset Management System Footnotes*	0	0	0	0	0	0.0
S4 Vehicles for Inspectors*	15,248	0	15,248	0	0	0.0
Statewide common policy requests	<u>(71,795)</u>	<u>(15,100)</u>	<u>(64,258)</u>	<u>3,711</u>	<u>3,852</u>	<u>0.0</u>
Recommended FY 2013-14 Appropriation	\$277,696,715	\$25,127,352	\$215,252,185	\$8,778,552	\$28,538,626	1,439.1
Recommended Increase/(Decrease)	\$187,474	\$148,844	\$75,037	\$4,241	(\$40,648)	0.3
Percentage Change	0.1%	0.6%	0.0%	0.0%	(0.1%)	0.0%
FY 2013-14 Executive Request	\$277,696,715	\$25,127,352	\$215,252,185	\$8,778,552	\$28,538,626	1,439.1
Request Above/(Below) Recommendation	\$0	\$0	\$0	\$0	\$0	0.0

* Denotes supplemental requests covered in this document.

Request/Recommendation Descriptions

S3 Asset Management System Footnotes: The Department requests the addition of footnotes on the Asset Management System Upgrade line item for the State Land Board in *both* the FY 2012-13 and FY 2013-14 Long Bills to make the appropriation for the project available through FY 2015-16. Staff’s recommendation is to approve this request.

S4 Vehicles for Inspectors: The request includes a \$15,248 increase in cash fund spending authority in the Vehicle Lease Payments line item to provide vehicles for 10.0 new field inspection and environmental specialist staff added to the OGCC in the FY 2013-14 Long Bill. Staff’s recommendation is to approve this request.

Prioritized Supplemental Requests

SUPPLEMENTAL REQUEST, DEPARTMENT PRIORITY #3 ASSET MANAGEMENT SYSTEM FOOTNOTES

	Request	Recommendation
Total	<u>\$0</u>	<u>\$0</u>

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of an unforeseen contingency.	

Department Request: The Department requests the addition of footnotes on the Asset Management System Upgrade line item for the State Land Board in *both* the FY 2012-13 and FY 2013-14 Long Bills to make the appropriation for the project available through FY 2015-16.

Staff Recommendation: Staff recommends that the Committee approve the Department’s supplemental request.

Staff Analysis: In the 2012 legislative session, the State Land Board was authorized to spend a total of \$1.5 million cash funds from the Trust Administration Fund, split between FY 2012-13 and FY 2013-14, to upgrade the existing Asset Management System. During the first year of the project, the State Land Board opted to conduct extensive research and preparatory work. As a result, no expenditures were made from the Asset Management Upgrade line item in FY 2012-13. The entire \$750,000 appropriation was reverted, leaving only half of the original appropriation available, though the cost of the new system remains the same at \$1.5 million.

Project Timeline

In terms of actual project completion, the State Land Board still expects the new asset management system (ATLAS) to be in place and operational by June 2014 as planned.

Additionally, the costs will not exceed the original \$1.5 million appropriation so the system upgrade itself is functionally on time and within budget. However, there are a number of issues with the timeline for project spending authority:

1. *Expenditures for the project were postponed by one year.* The State Land Board still requires the full \$1.5 million appropriation to complete the project, and the requested footnotes would allow access to the \$750,000 that was reverted in FY 2012-13. If that spending authority is not restored, the reverted amount would have to be absorbed by the State Land Board within the existing salary and operating costs which will ultimately impact operations.
2. *The project has always required three years of spending authority,* but the initial operating request omitted the necessary footnotes granting access to funds for more than two years. Even if expenditures for the project had started in FY 2012-13, a supplemental request would have been necessary to correct the oversight. The contract between the State Land Board and NetSuite is in effect for three years, and the requested footnotes provide the required extension of spending authority through FY 2015-16 while accounting for the one-year delay.
3. *Minor delays could push back the final payments made to the service provider on completion into FY 2014-15.* The projected date of completion is June 30, 2014. In the event of a delay, the State Land Board does not currently have the spending authority to withhold funds until the new system is complete. The footnotes will give the State Land Board the flexibility to handle any delays and make payments only when the project is finished.
4. *The timing of ongoing licensing and support costs has changed* since the initial request because of the decision to use a cloud-based design instead of going through OIT. Support and maintenance for the new system will be provided by NetSuite and the licensing payments are ongoing, instead of a one-time payment for use. The footnotes will allow the State Land Board to access support services and cover licensing costs for the duration of the initial contract with NetSuite.

Trust Administration Cash Fund Revenue and Project Funding

Revenues for the State Land Board remain at near-record levels, comparable to when the initial budget request for the upgrade was approved, and are projected to remain relatively stable until large bonus payments for the Lowry Range and former National Hog Farm property leases are completed in FY 2015-16 and FY 2016-17. As such, reinstating and extending spending authority for the project should not pose a problem for the State Land Board at this time.

Benefits of System Upgrade

The new system (ATLAS) will have some important improvements in both efficiency and data analysis capability that will help the State Land Board maximize revenues for trust beneficiaries. Processing time for applications and financial accounting is expected to be cut in half, redirecting a significant amount of staff time to the pursuit of revenue-generating opportunities. Additionally, ATLAS can integrate data from multiple databases which allows the State Land Board to use all available information to better manage its portfolio of assets.

Given that the new asset management system is on budget and nearly complete, the upgrade is expected to make significant contributions to State Land Board capabilities, and sufficient revenues remain to support the original appropriation, **staff recommends approving the requested footnotes to the State Land Board Asset Management System line item in the FY 2012-13 and FY 2013-14 Long Bills.**

Footnote Language

FY 2012-13 Long Bill: *“Department of Natural Resources, State Board of Land Commissioners, Asset Management System Upgrade – It is the intent of the General Assembly that the appropriation to this line item remain available until the completion of the project, or the close of FY 2014-15, whichever comes first.”*

FY 2013-14 Long Bill: *“Department of Natural Resources, State Board of Land Commissioners, Asset Management System Upgrade – It is the intent of the General Assembly that the appropriation to this line item remain available until the completion of the project, or the close of FY 2015-16, whichever comes first.”*

**SUPPLEMENTAL REQUEST, DEPARTMENT PRIORITY #4
VEHICLES FOR INSPECTORS**

	Request	Recommendation
Total	<u>\$15,248</u>	<u>\$15,248</u>
Cash Funds	15,248	15,248

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]	YES
JBC staff and the Department agree that this request is the result of a technical error in calculating the original appropriation.	

Department Request: The Department requests a \$15,248 increase in cash fund spending authority in the Vehicle Lease Payments line item to provide vehicles for 10.0 new field inspection and environmental specialist positions added to the OGCC in the FY 2013-14 Long Bill. There is also an associated amendment to the Department’s FY 2014-15 budget request to continue funding for these vehicles into the future.

Staff Recommendation: Staff recommends that the Committee approve the Department’s supplemental request.

Staff Analysis: Inspectors and environmental specialists for the OGCC operate out of home offices, visiting oil and gas locations within their assigned territory. It is standard practice to equip these field staff with four-wheel drive vehicles that can handle rough terrain and bad weather while carrying equipment required to complete inspections and environmental assessments. During the 2013 legislative session, 10.0 field staff positions were added to the

OGCC above and beyond the Department's initial request for FTE, but a corresponding increase in the Vehicle Lease Payments line item to provide the required vehicles for these positions was not included in the FY 2013-14 Long Bill.

The Department expects all the inspector and environmental specialist positions to be filled by early 2014. In order for the new staff to begin field work in this fiscal year, the Department is requesting a \$15,248 increase in spending authority for the Vehicle Lease Payments line item to cover four months of vehicle lease payments during the remainder of FY 2013-14. The cash funds to support this request would come from the Oil and Gas Conservation and Emergency Response Fund, which is projected to have a balance of \$6.7 million at the end of FY 13-14 and can accommodate the request without any effect on the mill levy.

Proper vehicles are essential for OGCC field staff to access oil and gas facilities and successfully complete required tasks. As such, **staff recommends approving the requested increase in the Vehicle Lease line item to provide vehicles for new inspectors and environmental specialists in FY 2013-14.** A corresponding amendment to the Department's FY 2014-15 budget request has also been submitted and will be addressed during figure setting.

JBC Staff Supplemental Recommendations - FY 2013-14
Staff Working Document - Does Not Represent Committee Decision

Appendix A: Number Pages

	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2013-14 Requested Change	FY 2013-14 Rec'd Change	FY 2013-14 Total W/ Rec'd Change
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DEPARTMENT OF NATURAL RESOURCES
Mike King, Executive Director

S3 Asset Management System Upgrade Footnote

(5) STATE BOARD OF LAND COMMISSIONERS

Asset Management System Upgrade	<u>0</u>	<u>750,000</u>	<u>0</u>	<u>0</u>	<u>750,000</u>
Cash Funds	0	750,000	0	0	750,000

Total for S3 Asset Management System Upgrade					
Footnote	0	750,000	0	0	750,000
<i>FTE</i>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Cash Funds	0	750,000	0	0	750,000

JBC Staff Supplemental Recommendations - FY 2013-14
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	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2013-14 Requested Change	FY 2013-14 Rec'd Change	FY 2013-14 Total W/ Rec'd Change
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S4 OGCC Vehicles for Inspectors

(1) EXECUTIVE DIRECTOR'S OFFICE

(A) Administration

Vehicle Lease Payments	<u>2,860,362</u>	<u>3,462,996</u>	<u>15,248</u>	<u>15,248</u>	<u>3,478,244</u>
General Fund	320,663	312,940	0	0	312,940
Cash Funds	2,493,765	3,092,453	15,248	15,248	3,107,701
Reappropriated Funds	0	3,208	0	0	3,208
Federal Funds	45,934	54,395	0	0	54,395

Total for S4 OGCC Vehicles for Inspectors	2,860,362	3,462,996	15,248	15,248	3,478,244
<i>FTE</i>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
General Fund	320,663	312,940	0	0	312,940
Cash Funds	2,493,765	3,092,453	15,248	15,248	3,107,701
Reappropriated Funds	0	3,208	0	0	3,208
Federal Funds	45,934	54,395	0	0	54,395

Totals Excluding Pending Items					
NATURAL RESOURCES					
TOTALS for ALL Departmental line items	244,732,587	277,509,241	15,248	15,248	277,524,489
<i>FTE</i>	<u>1,382.1</u>	<u>1,438.8</u>	<u>0.0</u>	<u>0.0</u>	<u>1,438.8</u>
General Fund	23,677,014	24,978,508	0	0	24,978,508
Cash Funds	187,041,980	215,177,148	15,248	15,248	215,192,396
Reappropriated Funds	7,641,695	8,774,311	0	0	8,774,311
Federal Funds	26,371,898	28,579,274	0	0	28,579,274