Capital Construction – General Fund Transfer

Each quarter, OSPB forecasts any General Fund transfer that may be needed to ensure Committee projects are funded. To do so, for each fiscal year, after calculating the beginning year fund balance and accounting for any excess General Fund transfers pursuant to HB 02-1310 (applicable only prior to FY 2008-09), OSPB deducted obligations from the total available fund balance.

To arrive at the FY 2009-10 projection, the balance in the Capital Construction Fund was increased due to deappropriating $82.1 million in capital projects and decreased by the amount to be transferred to the Corrections Expansion Reserve Fund[4]. OSPB then reduced the remaining fund balance by the amount of the projects appropriated by the General Assembly in SB 09-259 (and the continuation costs of those projects for the out-years of FY 2010-11 and FY 2011-12). Lastly, for FY 2009-10, OSPB reduced the total by transfers to the Higher Education Federal Mineral Lease Revenues Fund and the General Fund that were funded by the deappropriated projects.

Therefore, the table below shows that FY 2009-10 is balanced and no additional General Fund transfer is needed. Due to the obligations of the continuation projects, General Fund transfers are needed in FY 2010-11 and FY 2011-12 of $44 million and $46 million, respectively. These transfers are needed to cover required annual payments for certificates of participation, Level I Controlled Maintenance, and continuation costs for the Colorado Integrated Tax Architecture (CITA) project.

General Fund Transfer Need for Capital Construction

	FY 2009-10	FY 2010-11	FY 2011-12
Uncommitted Balance from Prior Year	$206,000	$275,283	$0
1/3 of FY 2007-08 excess GF	$14,482,333	$0	$0
Projected Interest	$10,000,000	$5,058,598	$1,311,732
Deappropriated Projects	$82,122,640	$0	$0
Funds available	**$106,810,973**	**$5,333,881**	**$1,311,732**
Statutory Appropriations to CERF	($1,976,068)	$0	$0
Lease Purchase of Academic Facilities at Anshutz Medical Center	($5,142,063)	($5,142,213)	($5,142,713)
Lease Purchase of Colorado State Penitentiary II	($8,175,782)	($13,940,350)	($13,938,850)
Level 1 (life safety) Controlled Maintenance	($23,431,711)	($20,000,000)	($20,000,000)
Colorado Integrated Tax Architecture	($7,444,907)	($10,686,173)	($8,628,383)
Ft Lupton Readiness Center	($5,661,451)	$0	$0
SB 09-280 Transfer to the Higher Education Revenues Fund	($26,649,232)	$0	$0
Transfer to General Fund through SB 09-279	($28,054,476)	**$0**	**$0**
Subtotal Less Transfers and Appropriated Projects	**$275,283**	**($44,434,855)**	**($46,398,214)**
General Fund Transfer Need	**$0**	**$44,434,855**	**$46,398,214**

[4] Utilizing the methodology incorporated by Joint Budget Committee staff in the March 2009 Capital Construction Figure Setting

down additional federal funds and provide coverage to more than 100,000 uninsured Coloradans. HB 09-1293 is projected to increase cash fund revenue by $336.4 million in FY 2009-10; and $389.5 million in FY 2010-11; and $487.8 in FY 2011-12.

Severance Taxes and Federal Mineral Lease Revenues

Natural gas prices are the major variable in forecasting Colorado severance tax and federal mineral lease receipts, and dramatic changes in this variable can contribute to significant revenue fluctuations. Reflective of the inherent volatility of this revenue source, severance tax revenue is expected to drop significantly in FY 2009-10 before starting to rise once again. Federal mineral lease receipts to the state are also projected to decline in FY 2009-10, but are higher than estimated in the previously published March OSPB forecast.

Revenue from State severance tax and federal mineral lease receipts rose significantly in FY 2008-09 due to special factors. Both severance tax and federal mineral lease revenues increased because of a spike in natural gas prices and the opening of the Rockies Express pipeline, which has facilitated the export of Colorado natural gas. Federal mineral lease receipts also dramatically increased from a one-time, $56 million bonus receipt in late 2008 from the Roan Plateau lease auction.

A sharp decline is expected in FY 2009-10 as these special factors abate. Additionally, natural gas prices have fallen dramatically as the pipeline has reached capacity, and the demand for Colorado minerals has declined along with the national economy. However, over the forecast period, Colorado natural gas production is expected to continue to rise slightly, as market prices recover from recent declines.

Short Term Projections

The significant decline in Colorado active drilling rig counts has not affected actual production in the near term. The high drilling activity in the last five years has created an abundance of permits and wells that will continue to produce. In addition, while down, the rate of drilling continues at levels that will increase production capacity. New wells will sustain the state's gas production capacity above the export capacity of the pipelines.

The price of Colorado natural gas depends on the ability to export the gas via pipeline to other markets, particularly the West Coast, Midwest, and Eastern urban markets. Therefore, pipeline capacity expansion is an important factor for sustaining the production growth trend. While pipeline capacity expansion projects have been delayed due to declines in the national economy, many plans continue to develop.

Long Term Perspective

Longer term, there is evidence that new production from vast shale deposits ranging from Texas to New York could be substantial and compete with Colorado gas in key urban markets. But the expected national increase in natural gas consumption as a substitute for coal and oil, and the likely reduction in gas imports due to global demand, will keep Colorado gas prices on a rising trend on a real-dollar basis.

Federal mineral lease revenues can be categorized into two groups, bonus and non-bonus receipts. Bonus receipts equate to the State's share of revenues from auctioning the rights to mine federal land within Colorado's border; non-bonus receipts equate to the State's share of the adjusted value of the resources being mined from Colorado lands. Both of these receipts are allocated between Colorado and the Feds at a ratio of approximately 49.0 percent to 51.0 percent, respectively. As these payments relate to federal regulations, corporations are also still required to pay State severance taxes on the same adjusted value of the resources extracted.

Federal Mineral Lease (FML) Payments				
Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	Percent Change
FY 2007-08	$15.1	$138.5	$153.6	N/A
FY 2008-09	$61.9	$166.2	$228.1	48.5%
FY 2009-10	$5.1	$138.6	$143.7	-37.0%
FY 2010-11	$6.5	$154.3	$160.8	11.9%
FY 2011-12	$2.7	$181.8	$184.5	14.7%

Please note that the FML revenue forecast above is presented for informational purposes only. FML revenues and other transfers from the federal government are not state-generated revenues and are therefore exempt from TABOR. As such, the amounts above are not reflected in the cash fund revenue forecast shown in Table 4.

Federal Mineral Lease Revenue Projections and Higher Education

As one can see in the table below, the estimated spillover amounts for the Federal Mineral Lease Higher Education Revenues Fund are projected to equal $18.1 million, $2.0 million, and $10.9 million for FY 2008-09, 2009-10, and FY 2010-11, respectively. The Federal Mineral Lease Higher Education Revenues Fund is used to make the annual payments required for the certificates of participation authorized in SB 08-233. In March 2009, OSPB projected that there would not be enough fund balance in the Federal Mineral Lease Higher Education Revenues Fund to make the necessary payments for FY 2008-09 and FY 2009-10. Based on that projection, the Joint Budget Committee initiated action to transfer $26.6 million from the Capital Construction Fund into the Revenues Fund to ensure future payments could be made. The table below illustrates this transfer, and indicates that although the June forecast has improved the Funds' balance projection over March, that transfer was needed, at least in part, to make the upcoming payments. The second table below shows what the June 2009 projections would be if not for the $26.6 million transfer. Due to the volatility inherent in these projections, as described above, OSPB continues to recommend that no additional certifications of participation be purchased until this fund balance is more stable.

Higher Education Federal Mineral Lease Revenues Fund Spillover Projection for SB 08-233 Annual Payments							
	March 2009			June 2009			
Fiscal Year	Spillover Projection	Annual Payments	Net	Spillover Projection	Transfer from SB 09-280 (1)	Annual Payments	Net
FY 2008-09	$17,260,000	$9,996,507	$7,263,493	$18,117,711	$26,649,232	$9,996,507	$18,615,371
FY 2009-10	$420,000	$16,652,725	($8,969,232)	$1,962,646	$0	$16,652,725	$12,894,638
FY 2010-11	$13,510,000	$16,654,550	($12,113,782)	$10,931,992	$0	$16,654,550	$23,241,365
FY 2011-12	$27,900,000	$16,653,475	($867,257)	$27,001,277	$0	$16,653,475	$33,589,166
FY 2012-13	$28,760,000	$16,652,575	$11,240,168	Not forecasted		$16,652,575	

Due to the unknown nature of expenditure timing, OSPB has not projected interest to the Higher Education Reserves Fund
(1) Per SB 09-280 and post deappropriated capital projects from fiscal years FY 2008-09 and earlier

Higher Education Federal Mineral Lease Revenues Fund Spillover Projection for SB 08-233 Annual Payments if SB 09-280 Funds Not Included							
	March 2009			June 2009			
Fiscal Year	Spillover Projection	Annual Payments	Net	Spillover Projection	Transfer from SB 09-280 (1)	Annual Payments	Net
FY 2008-09	$17,260,000	$9,996,507	$7,263,493	$18,117,711	$0	$9,996,507	$8,121,204
FY 2009-10	$420,000	$16,652,725	($8,969,232)	$1,962,646	$0	$16,652,725	($6,568,875)
FY 2010-11	$13,510,000	$16,654,550	($12,113,782)	$10,931,992	$0	$16,654,550	($12,291,433)
FY 2011-12	$27,900,000	$16,653,475	($867,257)	$27,001,277	$0	$16,653,475	($1,943,632)
FY 2012-13	$28,760,000	$16,652,575	$11,240,168	Not forecasted		$16,652,575	
Due to the unknown nature of expenditure timing, OSPB has not projected interest to the Higher Education Reserves Fund (1) Per SB 09-280 and post deappropriated capital projects from fiscal years FY 2008-09 and earlier							

The interest gained in Higher Education Maintenance and Reserve Fund can be used to offset costs for controlled maintenance for institutions of higher education. However, due to the minimal balance in the Fund due to budget balancing, and low interest rates expected, no significant interest develops in FY 2009-10 or FY 2010-11 to be used in the upcoming budget cycle, based on this projection. Therefore, the table illustrates that OSPB plans to carry the interest forward into FY 2011-12.

Higher Education Federal Mineral Lease Maintenance and Reserve Fund Projection for Higher Education Controlled Maintenance				
	March 2009	June 2009		
Fiscal Year	Interest Available for Controlled Maintenance	Spillover Projection	Allowed by SB 09-280 for Budget Balancing	Interest Available for Controlled Maintenance
FY 2008-09	$121,874	$30,940,866	($30,940,866)	$0
FY 2009-10	$367,551	$2,541,989	$0	$0
FY 2010-11	$367,551	$3,257,268	$0	$48,208
FY 2011-12 (1)	$594,654	$1,345,415	$0	$95,566
FY 2012-13	$835,009	Not forecasted		
(1) Assumes FY 2010-11 interest remains in fund for use in FY 2011-12 Projection includes spillover and the bonus revenue to the HEMRF				