

AGENDA

Senate Agriculture and Natural Resources Committee
House Agriculture, Livestock, and Natural Resources Committee
Joint Budget Committee

House Committee Room 0107
State Capitol Building

Wednesday, January 21, 2009
Upon Adjournment

The committees have oversight responsibilities for the Departments of Agriculture and Natural Resources.

Call to Order

- I. Joint Budget Committee Discussion Items
Senator White, JBC Members
 1. General overview of FY 2009-10 budget process
 2. Items impacting FY 2009-10 Agriculture and Natural Resources budgets
 3. General overview of FY2008-09 supplemental process
- II. Joint Agriculture Committee Discussion Items
Agriculture Committee Members
 1. **Effect of the hiring freeze on vacancies for water commissioners in the Division of Water Resources**

Response: The OSPB Hiring Freeze Savings Report published on Monday, January 1, 2009, shows that the Department of Natural Resources classified four positions titled "Water Commissioner" as being frozen. The Net General Fund impact of the hiring freeze on these four positions was calculated by DNR to be \$37,781 General Fund. Two of the four positions are calculated to be "frozen" for four months, one position is calculated to be frozen for "three" months, and one position is calculated to be "frozen" for one month.

2. Revenue estimates for Tier 2 of the Operational Account of the Severance Tax Trust Fund, and the impact on programs that rely on this revenue

Response: See the attached overview of projected revenues and authorized statutory expenditures for the Operational Account. Please note that the overview is based on currently authorized expenditures and does not include proposed legislation, minor adjustments associated with the Governor's supplemental request, or any assumptions about how the General Assembly will balance to the projected severance tax revenues.

3. Potential fee increases for Department of Agriculture and Department of Natural Resources

Response: The JBC has not debated any specific fee increases for the Department of Agriculture or the Department of Natural Resources. Below are some areas where fee increases would be an option to help address the General Fund shortfall. This is not a comprehensive list, but includes some of the fees that could have the largest benefit for the General Fund. Many of these potential fee increases were discussed during the briefings and hearings and/or during the last economic downturn.

Department of Agriculture

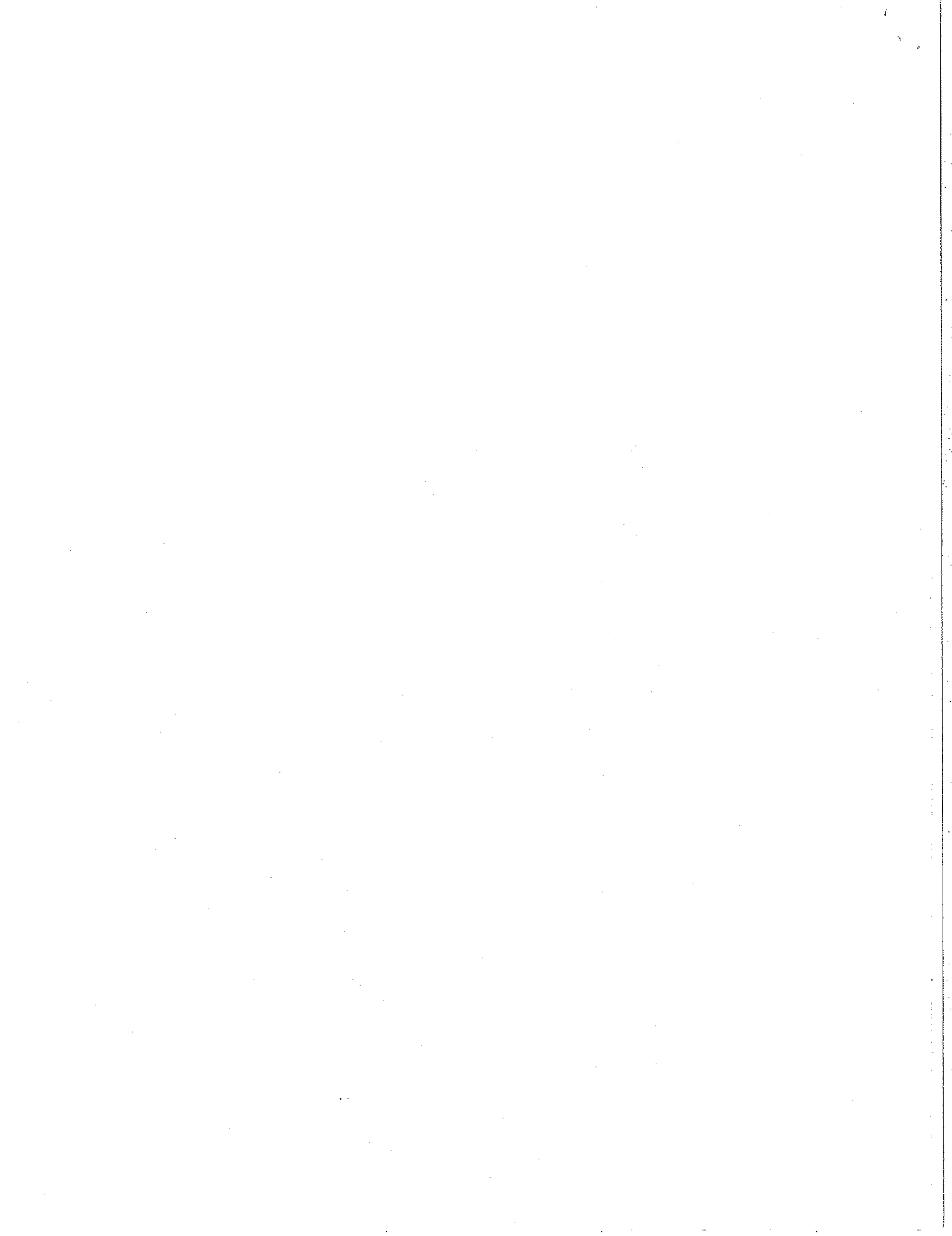
- *Inspection and Consumer Services programs funded with a mix of General Fund and cash funds:* Programs in the Inspection and Consumer Services (ICS) sub-division of the Agricultural Services Division are funded with a mix of General Fund and cash funds. The following table outlines these programs, the FY 2008-09 General Fund appropriation, and the estimated increase in fees to fully cash fund the programs:

Potential Fee Increases -- Inspection and Consumer Services Cash Fund		
Program	FY 2008-09 General Fund Appropriation	Estimated Percent Increase in Fees to Fully Cash Fund
Commercial Feed	\$430,969	50%
Commercial Fertilizer	274,491	50%
Measurement Standards / Large Device	146,862	25%
Commodity Handlers	140,897	25%
Measurement Standards / Metrology Lab	136,371	75%
Farm Products	52,451	25%
Total	\$1,182,041	n/a

- *Fees Capped in Statute:* There are programs in the Department of Agriculture that have fees capped in statute. Capped fees restrict the Department's ability to set fees to adequately collect a commensurate level of revenue to cover direct and indirect operating costs of the programs it regulates. The shortfall of revenue is then backfilled with General Fund. The following programs have capped fees in statute: (1) seed labeling inspection; (2) the issuance, tracking, and inspection of brands on livestock; (3) regulating the proper storage and handling of pesticides and fertilizers to not compromise groundwater quality; and (4) the inspection and licensing of aquaculture facilities.

Department of Natural Resources

- *Oil and Gas Conservation Commission Environmental Response Fund mill levy:* The Oil and Gas Conservation Commission is funded in part with severance tax revenues and in part with a mill levy on oil and gas production value. Increasing the mill levy could free up severance tax revenues for another purpose, including deposit in the General Fund. The mill levy is currently set by the Department at 0.7 mills and there is an upper statutory limit of 1.7 mills. The Department has legal guidance that increasing the mill levy does not require a vote of the people. The revenue raised from the mill levy depends on production value, but the Department estimates that each 0.1 mill increase would raise approximately \$1.0 million.
- *Ground Water Management Cash Fund:* H.B. 03-181 increased well permit fees deposited into the Ground Water Management Cash Fund. This bill generated \$3.2 million in additional cash funds, thus, allowing the refinance of \$3.2 million of General Fund expenditures within the Water Resources Division ("State Engineer's Office") with cash funds. The bill was allowed to sunset in FY 2006-07, thus, increasing the General Fund appropriation need for the division by \$3.2 million.
- *Parks and Outdoor Recreation Cash Fund:* In 2008, State Parks increased its annual park pass fee from \$55.0 to \$60.0; the multiple park pass fee from \$20.0 to \$25.0; the aspen leaf annual pass from \$27.0 to \$30.0; the multiple aspen leaf pass from \$10.0 to \$15.0; and the daily park pass from \$5.0 to \$6.0. In 2002, a State Parks commissioned market assessment study concluded that most state park users are prepared to pay for a portion of the bill for park improvements through an increase in park fees. Staff is not aware of subsequent studies that review and assess the impact of further park fee increases on visitation. The Committee may wish to discuss this point further with the Department of Natural Resources and determine whether further increases in park fees will bring in additional revenue without adversely impacting visitation.



4. Low Income Energy Assistance Program and alternatives to using Severance Tax revenue to fund the program

Response: The JBC has not discussed alternatives to the severance tax for the low income energy assistance program. However, during the briefing and hearing process the Department of Natural Resources was asked to find ways to reduce severance tax expenditures, and among the ideas and options presented by the Department was the following:

This program receives \$13.0 million annually to provide direct bill assistance to citizens for their home heating costs, as well as funding weatherization and other energy efficiency projects designed to reduce the use/cost of energy consumption for home heating purposes. Under S.B. 07-122, the Public Utilities Commission (PUC) can consider the needs of low-income households when setting utility rates. For this to occur, action by the PUC to implement such a change would be needed. It is possible that some part of the \$13.0 million program could be eliminated and, in essence, funded instead through a utility rate structure change designed to help provide relief to low-income households. The Department does not have a position on this possible approach.

5. Effect of General Fund shortfalls on indirect cost caps for Department of Agriculture programs

Response: Indirect costs are the overhead costs associated with the operation of general government functions and departmental administrative duties. Indirect cost recoveries are intended to offset these overhead costs, that otherwise would have been supported by the General Fund, from cash- and federally-funded programs. The Department of Agriculture allocates recovery of its indirect costs through a formula based on a 'per FTE' basis, or each FTE's share of recoverable expenses and then multiplies that amount by the total FTE within a specific program or division. However, the amounts reflected under this formula are often limited by the statutory caps on indirect cost recovery. In these instances, General Fund backfills the amount needed to finance the Commissioner's Office costs to administer these programs.

Below is a table showing the FY 2008-09 indirect cost assessments applied to programs with indirect cost recovery caps in statute. The table also includes estimated actual indirect costs calculated, and estimated actual indirect cost assessments, and the calculated amount of General Fund required to subsidize the indirect costs of each program.

Agricultural Indirect Cost Assessments for Programs with Indirect Cost Recovery Caps in Statute				
Program	Program FTE	FY 08-09 Assessment	Actual Indirect Costs	General Fund Subsidy
Brand Inspection	66.3	\$133,797	\$515,483	\$381,686
Mandatory Fruit & Vegetable	32.5	74,315	252,688	178,373
Chemigation	3.2	86	24,880	24,794
Total	105.2	\$208,197	\$793,050	\$584,853

6. Colorado Travel and Tourism Promotion Fund and support for the State Fair and other Department of Agricultural programs

Response: The State Fair is the recipient of all the interest derived from the deposit and investment of proceeds collected from the sale of unclaimed securities and deposited into the Colorado Travel and Tourism Promotion Fund. Moneys are allocated to the State Fair from the Colorado Travel and Tourism Promotion Fund for the following amounts in the following order: (1) the amount necessary to repay any loans owed to the State Treasurer and (2) the amount necessary to pay any outstanding debt incurred to build the Events Center in Pueblo. As of January 19, 2009, the State Fair has fully repaid all of its loans to owed to the State Treasurer, however its full repayment of outstanding debt incurred to build the Events Center has not been finalized. The Department has indicated that it anticipates meeting all of the requirements of full repayment by the end of January 2009.

It is important to note that the enactment of H.B. 08-1399 is contingent upon the full repayment of the State Fair's debt incurred to build the Events Center. House Bill 08-1399 changed the allocation of interest earned on the Unclaimed Property Tourism Trust Fund from the sale of securities determined to be abandoned property which are then credited to the Colorado Travel and Tourism Promotion Fund. Under the bill, the earned interest will be distributed as follows: (1) 10.0 percent will remain in the Colorado Travel and Tourism Promotion Fund for use by the Colorado Tourism Office in the Office of Economic Development and International Trade to promote agritourism in coordination with the Commissioner; (2) 65.0 percent to the newly created Agriculture Management Fund – for use by the Commissioner of Agriculture to fund both program and employee costs of various agricultural efforts; and (3) 25.0 percent to the Colorado State Fair Authority Cash Fund – for use by the Colorado State Fair Authority towards the operation, maintenance, and support of the Colorado State Fair.

7. Potential transfer of money from the Operational Account of the Severance Tax Trust Fund to the General Fund

Response: The JBC has not debated any specific reductions to programs funded from the Operational Account of the Severance Tax Trust Fund. At the briefing for

the Department of Natural Resources the JBC heard a staff presentation advocating a transfer from the Operational Account to the General Fund. However, at the time of the staff briefing the revenue forecast projected a surplus of roughly \$30 million in the Operational Account. The more recent December forecast now projects a shortfall of a little more than \$20 million in the Operational Account.

At a minimum, the General Assembly will need to decide how to scale back programs to match the projected severance tax revenues. The General Assembly could decide to scale back programs even further to allow a transfer from the Operational Account to the General Fund. This is not currently part of the budget balancing strategy proposed by the Governor.

Only a small portion of the Operational Account is used for so-called tier 1 programs that pay on-going salaries and operating expenses of the Department. The remainder of the Operational Account is used for tier 2 programs that fund grants, loans, research, and construction. The variability of severance tax revenues necessitates that tier 2 programs be designed in a way to manage temporary shortfalls in funding. These characteristics of the tier 2 programs may make reducing them a more attractive option than some of the alternatives for reducing on-going expenditures in other departments. For a list of tier 2 programs, see the attached overview of projected revenues and authorized statutory expenditures for the Operational Account.

- Questions

Adjourn

Severance Tax Trust Fund
Operational Account

Printed: January 21, 2009	Statutory Site	Actual		Actual FY 07-08	Appropriation FY 08-09		Estimated FY 09-10		Estimated FY 10-11		Estimated FY 11-12		Key Bills
		FY 06-07	FY 07-08		FY 08-09	FY 09-10	FY 10-11	FY 11-12					
1 Beginning balance		\$50,851,612	\$40,012,876	\$46,588,101	\$36,003,305	(\$3,482,609)	(\$17,876,014)						
2 Revenue		33,312,271	39,457,043	54,999,000 (est.)	14,610,000 (est.)	37,232,250 (est.)	45,431,000 (est.)						
3 Public School Energy Fund		0	(89,096)	TBD	TBD	TBD	TBD						
4 TOTAL Available for Expenditure	39-29-109.5	84,163,883	79,380,823	101,587,101	50,613,305	33,749,641	27,554,986	100.0%	100.0%	100.0%			
5 Roll-forwards		0	0	747,210	0	0	0						
Tier 1	39-29-109.3 (1)												
6 Colorado Geological Survey	(a)	2,291,469	2,197,478	2,482,814	2,704,968	2,947,000	3,210,687	8.7%	8.7%	11.7%			
7 Oil and Gas Conservation Commission	(b)	2,117,279	2,300,213	3,255,372	3,072,038	3,166,111	3,263,064	6.1%	9.4%	11.8%			
8 Division of Reclamation, Mining, and Safety	(c)	3,392,252	3,925,306	4,409,576	4,595,384	4,789,021	4,990,818	4.3%	14.2%	18.1%			
9 Colorado Water Conservation Board	(d)	868,679	1,292,890	1,691,000	1,319,250	1,319,250	1,319,250	1.3%	3.9%	4.8%			
10 Division of Parks and Outdoor Recreation	(e)	0	0	1,984,058	1,234,058	1,234,058	1,234,058	0.0%	3.7%	4.5%		SB 08-13	
11 Division of Wildlife	(f)	0	0	1,519,927	1,569,144	1,569,144	1,569,144	0.0%	4.6%	5.7%		SB 08-13	
12 SUBTOTAL Tier 1		8,669,679	9,715,887	14,970,997	14,494,842	15,024,584	15,587,022	10.3%	44.5%	56.6%			
Tier 2	39-29-109.3 (2)												
13 Water Conservation Board Litigation Fund		1,403,272	0	0	0	0	0						HB 06-1313 (Sect. 17)
14 Underground water storage		146,000	0	0	0	0	0						SB 06-193
15 Water infrastructure development	(a)	10,000,000	6,000,000	10,000,000	10,000,000	6,000,000	6,000,000						SB 06-179
16 Soil Conservation Districts matching grants	(b)	450,000	0	450,000	450,000	450,000	450,000						HB 06-1393
17 Water efficiency grants	(c)	0	800,000	1,800,000	1,800,000	1,800,000	1,800,000						SB 07-008/HB 08-1398
18 Species Conservation Trust Fund	(d) & (e)	8,800,000	12,000,000	12,513,886	9,000,000	11,000,000	4,000,000						SB 08-168/SB 08-226
19 Low income energy assistance	(f)	2,135,000	2,000,000	2,000,000	2,000,000	13,000,000	13,000,000						HB 08-1387
20 Renewable energy - Higher ed consortium	(g)	500,000	500,000	500,000	500,000	500,000	500,000						HB 06-1322
21 Renewable energy - Agriculture	(h)	547,056	1,626,835	1,145,067	1,145,067	1,145,067	1,145,067						HB 06-1322
22 Interbasin water compacts	(i)	500,000	150,000	500,000	500,000	500,000	500,000						HB 05-1177/HB 06-1400
23 CO Water Research Institute - CSU	(j)	500,000	0	500,000	500,000	500,000	500,000						HB 08-1405
24 Forest restoration grants	(k)	0	0	1,000,000	1,000,000	1,000,000	1,000,000						SB 08-71
25 Tamarisk control	(l)	0	0	1,000,000	1,000,000	1,000,000	1,000,000						HB 08-1346 (Sect. 29)
26 Aquatic Nuisance Species Fund	(m)	0	0	5,956,636	4,006,005	4,006,005	4,006,005						SB 08-226
27 SUBTOTAL Tier 2		35,481,328	23,076,835	49,865,589	39,601,072	36,601,072	23,151,072	42.2%	108.4%	84.0%			
28 TOTAL Expenditures		44,151,007	32,792,722	65,583,796	54,095,914	51,625,656	38,738,094						
29 Ending Balance		40,012,876	46,588,101	36,003,305	(3,482,609)	(17,876,014)	(11,183,109)						
30 Tier 1 Reserve	39-29-109.3 (3)	16,864,470	19,431,774	14,970,997	14,494,842	15,024,584	15,587,022						HB 02-1041/HB 08-1398
31 Tier 2 Reserve	39-29-109.3 (3)	0	0	7,479,838	5,940,161	5,490,161	3,472,661						HB 08-1398
32 Low income energy assistance reserve		12,000,000	13,000,000	0	0	0	0						HB 06-1200/HB 08-1387
33 TOTAL Reserve Requirement		28,864,470	32,431,774	22,450,835	20,435,003	20,514,745	19,059,683	34.3%	60.8%	69.2%			
34 UNOBLIGATED BALANCE		11,148,406	14,156,327	13,552,470	(23,917,611)	(38,390,759)	(30,242,791)	13.3%	-113.8%	-109.8%			

(est.) = estimate. Revenue Estimates based on Legislative Council's September 2008 Economic Forecast, not including interest.
TBD = To be determined