FLOW CHART OF FML REVENUES – SB 218

FML Revenue (Rents, royalties, earnings)

48.3%

K-12
$65M - FY 09-FY11
4% growth thereafter

10%

CWCB
$13M in FY09
4% annual growth

1.7%

Impacted Schools
$3.3M in FY09
4% annual growth

40%

DOLA

50%

DOLA Direct Distribution

50%

DOLA Grant Program

Higher Ed Capital Fund
48.3% of revenue less K-12
plus
10% of revenue less CWCB

FML BONUS PAYMENTS

50%

HIGHER EDUCATION FUNDS

REVENUES FUND
Receives first $50M of bonus payments, for payment of debt service on COPs.
When GF revenues are insufficient for the 4% reserve requirement, principal may be appropriated to offset reductions in GF appropriations to higher education.
May receive transfers that would otherwise go to public school fund if needed for debt service.

MAINTENANCE AND RESERVE FUND
Receives 50% of bonus payments above $50M.
Interest and income may be used for higher ed controlled maintenance.
Principal may be transferred to revenues fund to cover debt service or to reimburse the public school fund to debt service transfers.

50%

LOCAL GOVERNMENT PERMANENT FUND
When FML receipts (other than royalties) are 10% less than the preceding year, GA may appropriate an amount up to the reduction in direct distribution payments to DOLA for direct distribution.

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nursing homes. **SB 08-60** creates a mandatory biannual fee from automobile insurance providers of fifty cents for every vehicle they insure, increasing revenue by $4.3 million each year. Also of note, **SB 08-55** increases fees on ozone-depleting appliances and other pollution sources by $1.8 million each year.

Federal Mineral Leasing Revenue

When individuals or companies lease federal lands for mineral development, the federal government collects revenue from those leases, which are partially shared with the states in which the production occurred. Three forms of revenue are collected by the federal government. Lease holders competitively bid and initially pay a "bonus" to use the land. Lease holders also pay rent for the right to develop mineral production on these lands. Finally, if minerals are extracted and sold, the federal government receives a royalty (or percentage) from the production. Table 6 presents the December 2008 forecast in comparison with September 2008. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment to the State Constitution, the forecast is presented separately from other sources of state revenue. The current forecast for FML revenue includes bonus payments as well as royalties and rents.

FML revenue has grown from $50 million in FY 2002-03 to $154 million in FY 2007-08. Similar to the forecast for severance taxes, FML revenue is expected to grow in FY 2008-09 because of strong price increases for natural gas during the first eight months of 2008. In addition, FML revenue in FY 2008-09 is being bolstered by one-time money from the auction of federal land on the Roan Plateau in western Colorado for mineral leasing and production. This generated one-time bonus payments of about $114 million, of which the state received $56 million in November. FML revenue is expected to come in at $297 million in FY 2008 -09. The September forecast estimated that the state would receive the $56 million from the Roan Plateau auction in FY 2009-10, not FY 2008-09. This contributes to the disparity between the December and September forecasts in those fiscal years.

Table 6
Federal Mineral Leasing Revenue Distributions
(millions of dollars)

Year	Dec-08	% Chg.	Sept-08	% Chg. From Sept
FY 2001-02*	$44.6	-26.5%	$44.6	
FY 2002-03*	$50.0	12.1%	$50.0	
FY 2003-04*	$79.4	58.7%	$79.4	
FY 2004-05*	$101.0	27.2%	$101.0	
FY 2005-06*	$143.4	41.9%	$143.4	
FY 2006-07*	$123.0	-14.3%	$123.0	
FY 2007-08*	$153.6	25.0%	$153.6	
FY 2008-09	$296.6	93.1%	$223.4	32.8%
FY 2009-10	$174.9	-41.0%	$300.9	-41.9%
FY 2010-11	$200.1	14.4%	$265.4	-24.6%
FY 2011-12	$227.1	13.5%	$288.9	-21.4%

**Actual revenue distributed.*

As with severance tax revenue, FML revenue in FY 2009-10 will drop due to the weakness in natural gas prices and consumption during the recession. However, the reduction will not be as pronounced because no corresponding tax credit exists for producers to offset their FML royalty liability. It is expected that FML revenue will come in at $175 million in FY 2009-10. Revenue in this fiscal year is not expected to be bolstered by increased production on federal lands on the Roan Plateau due to the phase-in nature of the production and because of expected cuts in drilling plans by producers in the area. FML revenue is expected to resume growth in the latter two years of the forecast as the economy recovers and energy prices increase.

It should also be noted that the FML projections take into account the federal government's decision to reduce the state's share of FML revenue. Instead of receiving 50 percent of FML revenue, 2 percent of what Colorado would have received in FML revenue will be retained by the federal government. This effectively reduces the state's share from 50 percent to 49 percent. The forecast anticipates that this reduced share will apply throughout the forecast period.

Finally, Senate Bill 08-218 establishes a new distribution mechanism for FML revenue effective July 1, 2008. The bill modifies the allocation of the state's portion of FML revenue in several ways. First, the bill segregates FML bonus revenue and provides for reallocation of these moneys. Second, the bill specifies the reallocation of non-bonus (rent and royalty) FML revenue and it creates a new Higher Education FML Revenues Fund and a new Higher Education Maintenance and Reserve Fund. Bonus payments from the Roan Plateau will be subject to the new distribution mechanism specified in the bill.

It is important to note that a provision in SB 08-218 allows the General Assembly to use the principal in the Higher Education Maintenance and Reserve Fund when there is insufficient General Fund revenue to allow the state to maintain its required 4 percent reserve. Normally, only interest and income earned from the principal of the fund can be used for higher education-related controlled maintenance projects. However, if the trigger in SB 08-218 is met, the fund's principal can be used to offset any reduction in General Fund appropriations for the operating expenditures of the state's institutions of higher education due to the insufficiency of General Fund revenue. This forecast finds that there is insufficient General Fund revenue to allow the state to maintain its required 4 percent reserve.