HCR10-1003

Colorado Legislative Council Staff Fiscal Note

STATE AND LOCAL CONDITIONAL FISCAL IMPACT

Drafting Number:	LLS 10-0950	**Date:**	April 12, 2010
Prime Sponsor(s):	Rep. Curry Sen. Penry	**Bill Status:**	House Finance
		Fiscal Analyst:	Kate Watkins (303-866-6289)

TITLE: SUBMITTING TO THE REGISTERED ELECTORS OF THE STATE OF COLORADO AN AMENDMENT TO ARTICLE X OF THE CONSTITUTION OF THE STATE OF COLORADO, CONCERNING A STATE RAINY DAY FUND, AND, IN CONNECTION THEREWITH, CREATING THE STATE RAINY DAY FUND; BEGINNING JULY 1, 2011, REQUIRING TWENTY-FIVE MILLION DOLLARS OF SEVERANCE TAX REVENUES TO BE CREDITED TO THE FUND FOR EACH FISCAL YEAR IN WHICH TOTAL SEVERANCE TAX REVENUES ARE GREATER THAN FIFTY MILLION DOLLARS; AND ALLOWING THE MONEYS IN THE FUND TO BE USED ONLY DURING ECONOMIC DOWNTURNS AND WITH A THREE-FIFTHS MAJORITY VOTE OF BOTH HOUSES OF THE GENERAL ASSEMBLY.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue Diversion of moneys that would otherwise be from the Severance Tax Trust Fund and the Local Government Severance Tax Fund to the State Rainy Day Cash Fund		($25 million)
State Expenditures Cash Funds Severance Tax Trust Fund Local Government Severance Tax Fund		*Reduction* - See State Expenditures section
FTE Position Change		
Effective Date: July 1, 2011, if passed by the voters in November 2010.		
Appropriation Summary for FY 2010-2011: None required.		
Local Government Impact: *Revenue loss*. See Local Government Impact section.		

Summary of Legislation

This concurrent resolution submits to the voters in November 2010 an amendment to the state constitution to create the State Rainy Day Fund. Starting FY 2011-12, this concurrent resolution would credit $25 million in severance tax revenue to the fund in years when severance tax revenue exceeds $50 million.

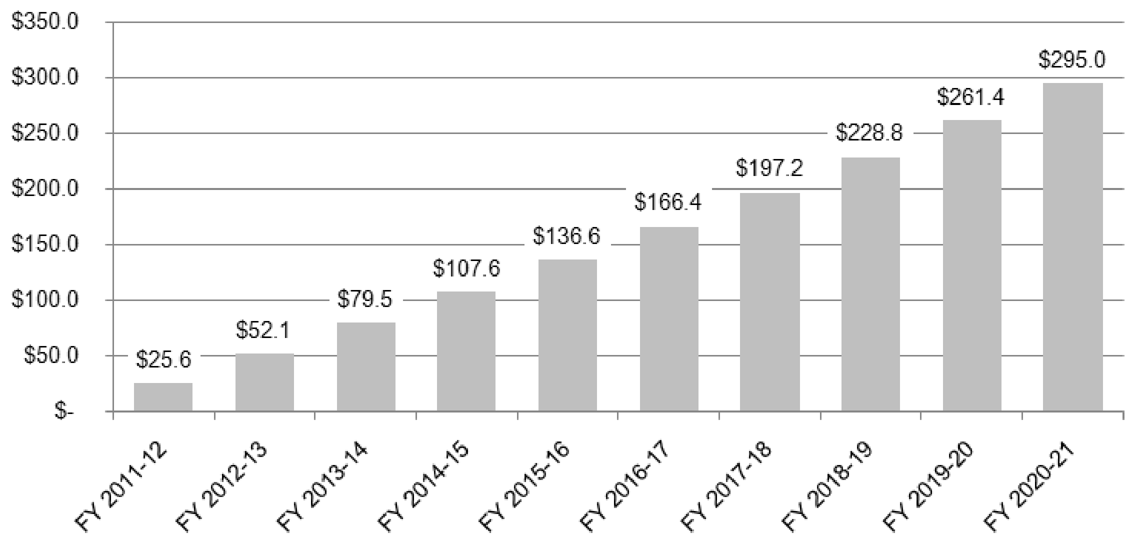
Under this resolution, during economic downturns, the General Assembly may appropriate or transfer money from the fund for any purpose by the enactment of a bill approved by three-fifths majority vote of both houses.

State Transfers or Diversions

If passed by the voters, this resolution is expected to annually divert $25 million in severance tax revenue to the newly created State Rainy Day Fund instead of diverting half of this amount to the Department of Natural Resources Severance Tax Trust Fund and half to the Department of Local Affairs Local Government Severance Tax Fund.

Severance tax revenue can be highly volatile. However, total annual severance tax revenue has exceeded $50 million each year since FY 2003-04 and current price and production trends make a dip in severance tax revenue below $50 million unlikely in the foreseeable future. For illustrative purposes, Figure 1 shows a ten year projection of the State Rainy Day Fund balance assuming an annual diversion of $25 million into the fund and no draw down of funds.

Figure 1. Projected State Rainy Day Fund Balance, FY 2011-12 through FY 2020-21

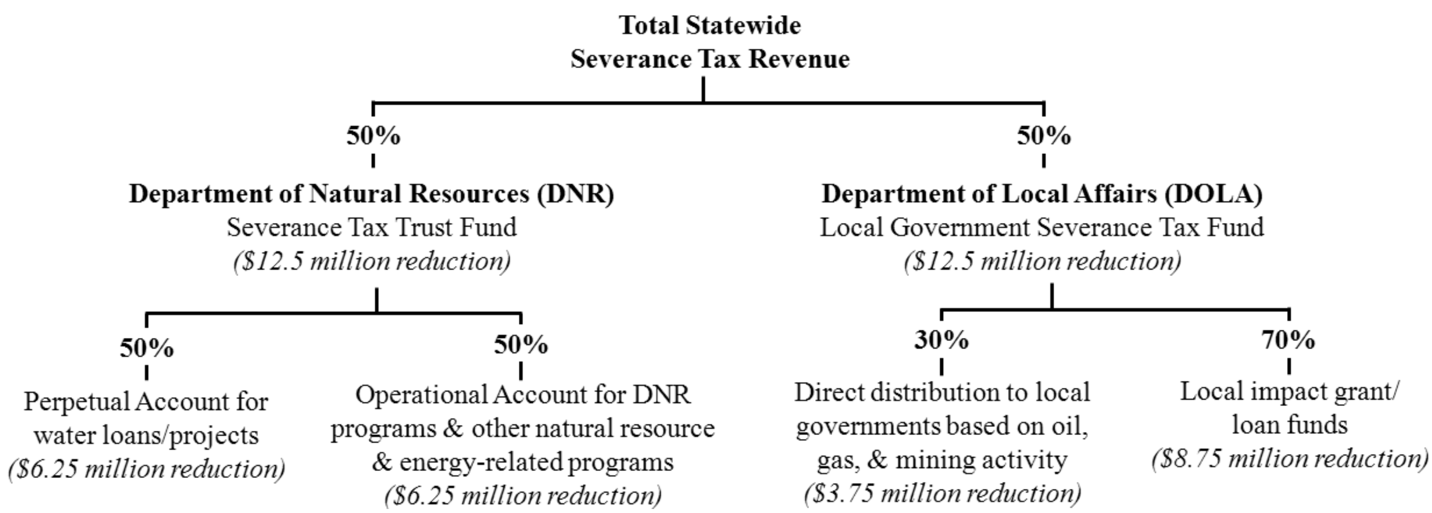


Note: Projections include projected interest earnings.

State Expenditures

Under current law, revenue from severance taxes is statutorily distributed half to the Department of Natural Resources (DNR) Severance Tax Trust Fund and half to the Department of Local Affairs (DOLA) Local Government Severance Tax Fund. If passed by the voters, starting in FY 2011-12 this concurrent resolution will annually divert $25 million to the State Rainy Day Fund instead of diverting $12.5 million each to DNR and DOLA, assuming that severance tax revenue exceeds $50 million annually. This diversion will result in a reduction in expenditures for programs that would have otherwise received these funds. Figure 2 shows the allocation of severance tax revenue under current law and the annual revenue reductions resulting from the diversion of funds to the State Rainy Day Fund.

Figure 2. Allocation of State Severance Tax Revenue Under Current Law and Annual Revenue Reductions Under HCR 10-1003



Department of Natural Resources. Severance tax revenue to the Severance Tax Trust Fund is divided equally between the Perpetual Base Account and the Operational Account. The *Perpetual Base Account* is used to finance loans for state water projects administered by the Colorado Water Conservation Board that construct or improve flood control, water supply, hydroelectric energy facilities, and related recreational facilities, excluding domestic water treatment and distribution systems. If passed by the voters, this concurrent resolution will reduce funding available for water project loans by $6.25 million per year starting in FY 2011-12.

The *Operational Account* is generally used for programs administered by DNR, including those within the Colorado Oil and Gas Commission, Colorado Geological Survey, and Colorado Water Conservation Board, among others. In the last several years, with the increase in state severance tax revenue, money in the Operational Account has also begun to be used to fund other programs, called the account's "Tier II" programs, which include water-related and agriculture- related programs, clean energy development, soil conservation, wildlife conservation, the control of invasive species, and the Low-income Energy Assistance Program (LEAP). If passed by the voters, this concurrent resolution could reduce the amount of funding available for these programs by $6.25 million starting in FY 2011-12 depending on whether expenditures from the account exceed revenue. The March 2010 Legislative Council Staff forecast of revenue to the account for FY 2011-12 indicates that no expenditure reductions would occur in FY 2011-12 resulting from this resolution because revenue is expected to be sufficient to fund all programs under current law (the Operations Account balance is projected to exceed $6.25 million). Should expenditures exceed revenue in future years, expenditures will be reduced by $6.25 million per year resulting from this concurrent resolution.

Department of Local Affairs. The statutory distribution of severance taxes to DOLA are distributed 30 percent directly to local governments for general operations and 70 percent to the Local Government Energy and Mineral Impact Assistance Program, which provides grants and loans for community projects. Expenditures for these programs will be reduced \$3.75 million and \$8.75 million, respectively starting in FY 2011-12.

Election Expenditure Impacts (For Informational Purposes Only)

This concurrent resolution refers a measure to the voters at the November 2010 general election. This measure will be published in newspapers and an analysis of the measure will be included in the Blue Book mailed to all registered voter households prior to the election. Under current law, costs for these functions will be paid through a General Fund line item in the Long Appropriations Bill. Table 1 below identifies the anticipated costs for the 2010 Blue Book.

Table 1. Cost to Produce and Distribute the 2010 Blue Book to All Registered Voter Households	
Printing	\$400,000
Postage	\$450,000
Translation	\$20,000
Newspaper Publication (English & Spanish)	\$700,000
Total Cost (14 issues)	**\$1,570,000**
Average Cost per Issue	**\$112,143**

Local Government Impact

Local governments will see an annual reduction in funding of \$12.5 million resulting from this resolution. The statutory distribution of severance taxes to DOLA are distributed 30 percent directly to local governments for general operations and 70 percent to the Local Government Energy and Mineral Impact Assistance Program, which provides grants and loans for community projects. The local government grant program leverages local matching dollars. Over the last three calender years the program averaged \$1 for every \$3.30 in local funding on projects supported by grants. As a result of reduced funding to the grant program, local matching funds may be spent elsewhere.

Departments Contacted

Colorado Counties, Inc.
Revenue
Legislative Council Staff
Local Affairs
Colorado Municipal League
Human Services
Treasury
Natural Resources