


Colorado Legislative Council Staff Fiscal Note
STATE and LOCAL
FISCAL IMPACT

Drafting Number: LLS 10-0659
Prime Sponsor(s): Rep. Lambert
 Sen. Lundberg

Date: February 2, 2010
Bill Status: House SVMA
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TITLE: CONCERNING THE USE OF A PORTION OF SEVERANCE TAX REVENUE TO PURCHASE PRECIOUS METALS FOR THE STATE EMERGENCY RESERVE.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
State Transfers or Diversions Diversion from the Severance Tax Trust Fund and the Local Government Severance Tax Fund to the State Emergency Reserve Cash Fund	(\$1,000,000)	(\$1,000,000)
State Expenditures		
General Fund*	\$3,923	
Cash Funds		
Severance Tax Trust Fund	(500,000)	(500,000)
Local Government Severance Tax Fund	(up to 500,000)	(up to 500,000)
State Emergency Reserve Cash Fund	1,000,000	1,000,000
FTE Position Change		
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2010-2011: See the State Appropriations section.		
Local Government Impact: See the Local Government Impact section.		

* No separate appropriation of these funds is required because of ongoing appropriations to the Department of Revenue for computer programming provided in the Long Bill for new legislation.

Summary of Legislation

This bill requires revenue from the severance tax on precious metals (gold, silver, platinum, and palladium) to be credited to the newly created State Emergency Reserve Cash Fund. The State Treasurer is required to use the money in the fund to purchase precious metals. The precious metals will be designated as part of the TABOR reserve and used accordingly.

Beginning July 1, 2012, the Division of Central Services in the Department of Personnel and Administration (DPA) will provide for the storage of the precious metals in the state capitol. The state patrol will provide security for the precious metals. Media will be permitted to annually view the precious metals.

Background

Under current law, severance tax revenue is equally split between the Department of Local Affairs (DOLA) and Department of Natural Resources (DNR) Severance Tax Trust Fund. DOLA allocates 70 percent of the revenue for local impact grant funds and 30 percent for direct distribution to local governments. The DNR splits the revenue equally between the Operational Account and Perpetual Base Account.

State Transfers or Diversions

For the purposes of this fiscal note, it is assumed that \$1 million is collected annually from the severance tax on precious metals, and that amount will be diverted from the DOLA local government severance tax fund and DNR severance tax fund to the fund. Estimates of severance tax revenue from precious metals are not available, but roughly \$1.5 million per year is collected from the severance tax from all metals, including non-precious metals.

State Expenditures

The bill shifts \$1,000,000 in state expenditures, and spends \$3,923 in FY 2010-11 from the General Fund. These are shown in Table 1 and explained below.

Department of Treasury. The fiscal note assumes that the balance after expenses in the fund will be used by the treasury to purchase precious metals. These are estimated to cost \$884,488 in FY 2010-11 and \$935,683 in FY 2011-12. The treasury will require \$4,752 in FY 2010-11 and FY 2011-12 for shipping metals after purchase, and \$1,560 for legal fees from the Department of Law to review the contract to purchase precious metals.

Department of Revenue. The Department of Revenue (DOR) will develop a form that requires taxpayers to identify the type of metal mined when submitting severance tax payments so that revenues can be allocated. It is assumed that the DOR can absorb these costs within existing resources. In FY 2010-11, the DOR expects to incur \$3,923 General Fund for programming costs to distribute revenues to the fund.

Department of Personnel and Administration. The bill requires the DPA to provide for a suitable and safe place to store the state precious metals in the capitol beginning July 1, 2012. The DPA's Risk Management Program within the Division of Human Resources will be required to provide property and crime insurance for the precious metals at an estimated cost of \$29,000 in FY 2010-11 and \$58,000 in FY 2011-12.

Department of Public Safety, Colorado State Patrol. The state patrol will upgrade security equipment at the Treasurer's Office at a cost of \$75,000 in FY 2010-11. Maintenance costs on security equipment will be \$5,000 in FY 2010-11 and FY 2011-12.

Department of Natural Resources. The \$250,000 reduction in revenue to the Perpetual Base Account is expected to result in a comparable reduction in funding for water loans and projects in FY 2010-11 and FY 2011-12. The \$250,000 reduction in revenue to the Operational Account is not expected to impact current programs the account has monies in excess of reserve requirements.

Department of Local Affairs. The Department of Local Affairs will have a reduction in revenue up to \$500,000 in FY 2010-11 and FY 2011-12, which will result in a reduction in expenditures of up to \$500,000 each year. For more information see the Local Government Impact section.

Table 1. Expenditures Under HB 10-1155		
Departments and Cost Components	FY 2010-11	FY 2011-12
Office of the Treasurer		
Purchase of Precious Metals	\$884,688	\$930,688
Legal Services	1,560	1,560
Shipping	4,752	4,752
Department of Revenue		
Programming	3,923	-
Department of Personnel and Administration		
Property Insurance	29,000	58,000
Department of Public Safety		
Security and Communications Upgrades at Capitol and Maintenance	80,000	5,000
Subtotal of New Bill Expenses	\$1,003,923	\$1,000,000
Department of Natural Resources Perpetual Base Account	(500,000)	(500,000)
Department of Local Affairs	(up to 500,000)	(up to 500,000)
Total Bill Expenses	\$3,923	-

Local Government Impact

The bill would decrease the amount of moneys credited to the Local Government Severance Tax Fund by \$500,000 in both FY 2010-11 and FY 2011-12. These monies would have been distributed to local governments directly and through grants. The bill would also reduce the amount of moneys credited to the Severance Tax Trust Fund Perpetual Base Account by \$250,000 in FY 2010-11 and FY 2011-12. These monies would have been distributed for water loans and projects.

Departmental Differences

In addition to the costs identified above, the DPA estimated an additional \$2,316,384 for vault construction to store the precious metals, and \$493,000 for insuring the metals. Specifically, they indicated these costs would be incurred by:

- Construction of a vault in the sub-basement of the state capitol;
- Improvements to the existing sub-basement structure to protect the vault; and
- Insurance to cover \$10 million in precious metals.

This fiscal note assumes that the precious metals will be stored in an existing vault in the State Treasurer's office. Because it is assumed that this is a suitable and safe place to store the metals, there is no need for vault construction costs. Insurance costs will be lower than the DPA estimate because it is expected that the metals purchased will be less than \$1 million in FY 2010-11 and less than \$2 million in FY 2011-12.

The assumption that the vault in the treasury will be a suitable and safe place also reduced some of the additional security costs identified by the CSP. CSP indicates that additional security systems would be needed in the capitol basement at a cost of \$600,000. CSP also indicates that 5 additional state troopers will be necessary to patrol the substructure of the capitol. It has been assumed that existing state troopers will be adequate.

State Appropriations

In FY 2010-11, the following appropriations are required from the State Emergency Reserve Cash Fund:

- Department of Personnel and Administration - \$29,000;
- Department of Public Safety - \$80,000;
- Office of the Treasurer - \$891,000; and
- Department of Law - \$1,560 reappropriated funds.

Departments Contacted

Public Safety
Legislative Council
Personnel

Revenue
Natural Resources

Local Affairs
Treasury