


 Colorado Legislative Council Staff Fiscal Note
STATE and LOCAL
FISCAL IMPACT

Drafting Number: LLS 12-0951
Prime Sponsor(s): Rep. Becker
 Sen. Steadman

Date: April 27, 2012
Bill Status: House Appropriations
Fiscal Analyst: Marc Carey (303-866-4102)

TITLE: CONCERNING THE MITIGATION OF THE EFFECT OF AUTOMATIC PROPORTIONAL REDUCTIONS TO THE TIER 2 TRANSFERS OUT OF THE OPERATIONAL ACCOUNT OF THE SEVERANCE TAX TRUST FUND WHEN REVENUE SHORTFALLS OCCUR.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue		
State Transfers or Diversions*		
Transfer from the Sev. Tax Trust Fund - Op. Acct. to DHS Low Income Energy Assistance Fund	\$4,154,303	(\$4,154,303)
EOC Low Income Energy Assistance Fund	221,332	820,614
GEO Low Income Energy Assistance Fund	(1,500,971)	1,427,798
STT Fund - Water Supply Reserve Account	3,292,269	(3,100,491)
Conservation District Grant Fund	844,806	(1,302,598)
Water Efficiency Grant Program Cash Fund	38,016	(58,617)
Agriculture Value-Added Cash Fund	46,464	(71,643)
Species Cons. Trust Fund	42,240	(65,130)
Interbasin Compact Comm. Operations Fund	557,572	(859,714)
Forestry Grants	62,944	(97,052)
Aquatic Invasive Species	211,201	(325,649)
	388,430	(521,821)
State Expenditures		
Cash Funds (Total)	(\$4,154,303)	\$4,154,303
DHS Low Income Energy Assistance Fund	(221,332)	(820,614)
EOC Low Income Energy Assistance Fund	1,500,971	(1,427,798)
GEO Low Income Energy Assistance Fund	(3,292,269)	3,100,491
STT Fund - Water Supply Reserve Account	(844,806)	1,302,598
Conservation District Grant Fund	(38,016)	58,617
Water Efficiency Grant Program Cash Fund	(46,464)	71,643
Agriculture Value-Added Cash Fund	(42,240)	65,130
Species Cons. Trust Fund	(557,572)	859,714
Interbasin Compact Comm. Operations Fund	(62,944)	97,052
Forestry Grants Program	(211,201)	325,649
Aquatic Invasive Species Program	(388,430)	521,821
FTE Position Change		

Effective Date: Upon signature of the Governor, or upon becoming law without his signature.

Appropriation Summary for FY 2012-2013: None required.

Local Government Impact: See Local Government Impact section.

* Based on the March 2012 Legislative Council revenue forecast. Actual transfers are displayed as negatives and foregone transfers as positives. Listed programs have multiple cash funds.

Summary of Legislation

This bill, *recommended by the Joint Budget Committee*, modifies the statutory provisions relating to proportional reductions of Tier 2 transfers from the Operational Account of the Severance Tax Trust Fund. Under current law, Tier 2 transfers occur in three installments (July 1, January 1 and April 1), and the January and April installments may be proportionately reduced in the event that severance tax revenue, as projected by Legislative Council Staff, is insufficient to meet programmatic obligations.

This bill expands the proportional reduction mechanism to also include the July installment, so the reduction will be spread over all three installments. The bill specifies that the reductions in each installment be sufficient to cover the following percentages of the projected shortfall:

- 40 percent in July;
- 70 percent in January; and
- 100 percent in April.

The bill also allows the April installment to increase to offset proportional reductions made in July and January if revenue is anticipated to be sufficient to cover such an increase while still meeting the reserve requirement. The bill also reduces the required Tier 1 reserve for FY 2012-13 by \$1 million.

Finally, the bill clarifies that the Tier 2 reserve may be used as follows:

- up to one-third of the reserve to offset July 1 proportional reductions;
- up to one-third of the reserve to offset January 4 proportional reductions; and
- any amount remaining to offset April 1 proportional reductions.

Background

The Operational Account of the Severance Tax Trust Fund receives 25 percent of severance tax receipts. Money in the account is divided into two tiers. Tier 1 money is used to fund core programs, including staffing and operating costs, for six divisions within the Department of Natural Resources: the Oil and Gas Conservation Commission; the Division of Reclamation, Mining, and Safety; the Geological Survey; the Water Conservation Board; and the Division of Parks and Wildlife. Tier 2 money is spent on a variety of programs, including the Low-Income Energy Assistance program (LEAP), the Water Supply Reserve Account program, species conservation, forestry grants to address bark beetle infestation and other forest health problems, the Water Efficiency Grant program, and several smaller agricultural programs.

Current law provides a mechanism for balancing spending from the Operational Account by making reductions to the account's Tier 2 programs when insufficient funds exist to fully fund the programs and the account's reserve. The reductions to Tier 2 programs are made on a proportional

basis. For example, if the funding for Tier 2 programs needs to be reduced by 10 percent to ensure the Operational Account is balanced, each Tier 2 program's funding level is reduced by 10 percent.

Current law also requires the Operational Account to maintain a reserve equal to 100 percent of the current year's Tier 1 appropriations and an additional reserve equal to 15 percent of the current year's Tier 2 appropriations. Money may be transferred from the reserve to offset temporary reductions in funding for Tier 1 or Tier 2 programs.

Based on the March 2012 Legislative Council Staff revenue forecast and expected expenditures from the account, the entire Tier 2 reserve will need to be expended to minimize proportional reductions for Tier 2 programs in FY 2012-13. Even with this expenditure, transfers to Tier 2 programs will need to be proportionately reduced by roughly 55 percent in FY 2012-13. Because of the timing of installments specified in current law, however, this amount of proportionate reductions is not possible. Because these installments effectively guarantee transfers for some programs regardless of required proportional reductions, it is only possible to achieve a 41.6 percent overall reduction in Tier 2 programs.

State Transfers or Diversions

Current law requires Tier 2 transfers from the Operational Account to occur in three installments: July 1, January 4, and April 1. Current law further provides for proportional reductions in the funding of Tier 2 programs when insufficient funds exist to fully fund the programs. However, only the January and April installments are proportionately reduced. Based on the March 2012 Legislative Council staff severance tax revenue forecast, greater proportional reductions are required than are achievable under current law. By spreading the proportional reductions across three installment periods instead of two, House Bill 12-1353 allows an average proportional reduction of 52.4 percent across all Tier 2 programs in FY 2012-13.

State Expenditures

House Bill 12-1353 reduces overall expenditures for Tier 2 programs funded from the Operational Account of the Severance Tax Trust Fund by \$4,154,303 in FY 2012-13 and increases expenditures by \$4,154,303 in FY 2013-14.

Reduction of Tier 1 Reserve in FY 2012-13. This bill reduces the required Tier 1 reserve by \$1.0 million in FY 2012-13 only. Lowering this reserve requirement will result in an additional \$1.0 million less in proportional cuts required across all Tier 2 programs in FY 2012-13.

Low Income Energy Assistance Programs. Current law, includes the following three Low Income Energy Assistance-related programs:

- the Governor's Energy Office (GEO) weatherization program;
- the Department of Human Services (DHS) direct bill assistance program, and;
- a direct bill assistance program managed by Energy Outreach Colorado (EOC).

GEO receives all of its LEAP-related funding on July 1 of each year while EOC gets its funding in the April 1 installment. Since the July 1 installments aren't subject to proportional reduction, GEO will receive all of its authorized funding in FY 2012-13 despite the severance tax revenue shortfall. In contrast, because it is anticipated that the revenue shortfall will completely eliminate the April 1, 2013 installment, under current law, EOC will receive none of its authorized funding in FY 2012-13. Expanding the proportional reduction requirements to all three installment periods will thus reduce GEO funding and increase the funding to EOC over what they would have received under current law.

DHS Low Income Energy Assistance Fund. The bill reduces expenditures on low-income energy assistance from this fund by \$221,332 in FY 2012-13 and \$820,614 FY 2013-14. No appropriation is required as the fund is continuously appropriated.

GEO Low Income Energy Assistance Fund. The bill reduces expenditures on low-income energy assistance from this fund by \$3,292,269 in FY 2012-13 but increases them by \$3,100,491 FY 2013-14. No appropriation is required as the fund is continuously appropriated.

EOC Low Income Energy Assistance Fund. The bill increases expenditures on low-income energy assistance from this fund by \$1,500,971 in FY 2012-13 but reduces them by \$1,427,798 in FY 2013-14. No appropriation is required as the fund is continuously appropriated.

Remaining Tier 2 Programs. Because all other Tier 2 programs receive funding in three installments, the funding for all would be equally reduced under House Bill 12-1353. The following is a brief description of the expenditure impact for each of the other Tier 2 programs and information on the appropriations status of each cash fund involved.

Water Supply Reserve Account. The bill reduces expenditures from this account by \$844,806 in FY 2012-13 but increases them by \$1,302,598 in FY 2013-14. This account is continuously appropriated to the Colorado Water Conservation Board.

Soil Conservation District Grant Fund. The bill reduces expenditures from this fund by \$38,016 in FY 2012-13 but increases them by \$58,617 in FY 2013-14. This fund is continuously appropriated to the Department of Agriculture.

Water Efficiency Grant Program Cash Fund. The bill reduces expenditures from this fund by \$46,464 in FY 2012-13 but increases them by \$71,643 in FY 2013-14. This fund is continuously appropriated to the Colorado Water Conservation Board.

Agricultural Energy Related Projects. The bill reduces expenditures from the Agriculture Value Added Cash Fund by \$42,240 in FY 2012-13 but increases them by \$65,130 in FY 2013-14.

No appropriation is required as the fund is continuously appropriated.

Species Conservation Trust Fund. The bill reduces expenditures from this fund by \$557,572 in FY 2012-13 but increases them by \$859,714 in FY 2013-14. Expenditures from this fund are annually authorized by the General Assembly in the annual Species Conservation Trust Fund authorization.

Interbasin Compact Commission Operations Fund. The bill reduces expenditures from this fund by \$62,944 in FY 2012-13 but increases them by \$97,052 in FY 2013-14. This fund is continuously appropriated to the Colorado Water Conservation Board.

Forestry Grant Program. The bill reduces expenditures on forestry grants by \$211,201 in FY 2012-13 but increases them by \$325,649 in FY 2013-14. No appropriation is required as two of the funds under this program are continuously appropriated and the third received an appropriation through the enactment of HB12-1032.

Aquatic Invasive Species. The bill reduces expenditures for this program by \$388,430 in FY 2012-13 but increases them by \$521,821 in FY 2013-14. Money for this program is continuously appropriated to the Department of Natural Resources.

Local Government Impact

To the extent that Tier 2 programs provide funding to local governments, and that funding is reduced in FY 2012-13, local governments will receive less resources as a result of this bill.

Departments Contacted

Natural Resources