

Colorado Legislative Council Staff Fiscal Note

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 15-0775
Prime Sponsor(s): Sen. Grantham
 Rep. Rankin

Date: March 27, 2015
Bill Status: Senate Appropriations
Fiscal Analyst: Alex Schatz (303-866-4375)

BILL TOPIC: TRANSFERS RELATED TO FEDERAL MINERAL LEASE RECOUPMENT

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017	FY 2017-2018
State Revenue	\$0	\$0	\$0
State Transfers			
General Fund	(7,788,866)	(7,788,866)	(7,788,866)
Cash Funds	7,788,866	7,788,866	7,788,866
State Expenditures	Increased expenditures.		
Cash Funds	See State Expenditures section.		
FTE Position Change			
Appropriation Required: None.			

* This summary shows changes from current law under the bill for each fiscal year. Transfers result in no net change to state revenue. Parentheses indicate a decrease in funds.

Summary of Legislation

This bill, **recommended by the Joint Budget Committee**, enacts statutory transfers from the General Fund for three consecutive fiscal years, from FY 2015-16 to FY 2017-18, to backfill state cash funds that would otherwise be adversely affected by the recoupment of federal mineral lease (FML) revenue already received from oil and gas leases on the Roan Plateau.

For three years, to adjust for a total FML debit of \$23,366,598, the State Treasurer transfers \$7,788,866 from the General Fund to the Public School Fund. Each year a set portion of this initial transfer is subject to a final transfer to the Local Government Mineral Impact Fund, and another final transfer is to the Colorado Water Conservation Board Construction Fund (CWCB Fund). Table 1 summarizes the distribution of a General Fund transfer in each affected fiscal year.

When the first quarterly FML payment received from the federal government in a fiscal year is at least \$4,026,844, all required annual transfers from the Public School Fund to the Local Government Mineral Impact Fund and CWCB Fund are completed in the first quarter. If less than \$4,026,844 is received in the first quarter of any fiscal year, each fund receives a proportional amount of available FML revenue, and the remaining balance is transferred proportionally as FML payments are received in subsequent fiscal quarters.

For budgeting purposes, the distributions from the Public School Fund under the bill are treated as if they had originated as FML revenue. The bill is repealed on July 1, 2019.

Table 1. Transfers under SB 15-244, for each fiscal year between FY 2015-16 and FY 2017-18. (Following statutory nonbonus FML distributions in Section 34-63-102, C.R.S.)				
Original source	First transfer	Final Transfer / Residual	%	Recipient Purpose
General Fund	\$7,788,866 to the Public School Fund	\$3,115,546 to the Local Government Mineral Impact Fund.	40.0	For the Local Impact Program in DOLA.
		778,887 to the CWCB Fund	10.0	For use in water projects.
		132,411 to the Local Government Mineral Impact Fund	1.7	For use by DOLA in school district direct distributions.
		3,762,022 residual in the Public School Fund	48.3	Payments to support public schools.
		Total Transfer \$7,788,866		

Background

Under the federal Mineral Leasing Act, Colorado receives a portion of the revenue derived from federal leases for oil and natural gas production, entered into by federal land management agencies, such as the federal Bureau of Land Management (BLM) in the U.S. Department of the Interior. Statute describes Colorado's plan for dividing bonus and nonbonus payments from oil and gas operators. The state's share of nonbonus FML is a quarterly payment for base production, rents, and other standard lease revenue. Bonus payments may be one-time or based on other special occurrences, but may not provide reliable annual revenue.

As part of the November 2014 settlement of a federal lawsuit related to mineral leases on the Roan Plateau in western Colorado, the BLM cancelled a number of active oil and gas leases. These leases had yielded a total of \$23,366,598 in FML revenue to the state of Colorado from bonus payments and annual rental (nonbonus) payments.

To recoup these funds, which must be repaid to the leaseholders, the federal government is withholding \$7,788,866 per year from total FML payments to Colorado. The federal government has agreed to finance the recoupment using nonbonus FML payments.

State Revenue

The bill does not change state revenue. Transfers required by the bill direct General Fund to certain cash funds in prescribed amounts. In these amounts, the General Fund backfills the distribution of nonbonus FML payments in FY 2015-16, FY 2016-17, and FY 2017-18.

State transfers. Starting in FY 2015-16, for three consecutive fiscal years, the State Treasurer will each year transfer \$7,788,866 from the General Fund to the Public School Fund. From the Public School Fund, final transfers are made to the Local Government Mineral Impact Fund (\$3,115,546 and \$132,411) and the CWCB Fund (\$778,887). These transfers are illustrated in Table 1.

State Expenditures

Under current law, an interruption in FML payments from the Department of the Interior will reduce state expenditures by a total of \$7,788,866 on programs and functions paid by the Public School Fund, the Local Government Mineral Impact Fund, and the CWCB Fund. By substituting the state General Fund as a funding source in the exact place of FML revenue, the bill effectively increases state expenditures by \$7,788,866. This includes state expenditures on school finance, highway safety, gambling addiction, water supply, and flood control, as examples.

Local Government and School District Impact

By preventing a loss of FML revenue, the bill preserves funding that supports local revenue and expenditures. Each year until 2018, local entities will retain up to \$3,115,546 available annually through the Local Mineral and Energy Impact Grant Program, funded by the Local Government Mineral Impact Fund. In each of these years, school districts will maintain at least \$132,411 in annual expenditures funded by the Local Government Mineral Impact Fund.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Local Affairs
Municipalities
Law

Joint Budget Committee Staff
Special Districts

Natural Resources
Counties