SB15-211

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 15-0773	**Date:**	March 12, 2015
Prime Sponsor(s):	Sen. Lambert Rep. Rankin	**Bill Status:**	Senate Appropriations
		Fiscal Analyst:	Kori Donaldson (303-866-4976)

BILL TOPIC: AUTOMATIC FUNDING FOR CAPITAL ASSETS

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
State Revenue	Potential increase.	
State Expenditures	See State Expenditures section.	
FTE Position Change		
Appropriation Required: None.		

* *This summary shows changes from current law under the bill for each fiscal year.*

Summary of Legislation

The bill, ***which is recommended by the Joint Budget Committee***, creates a process to annually set aside an amount equal to the calculated depreciation of a capital asset funded through the capital construction section of the Long Bill. Beginning with projects funded in the 2015 Long Bill, the bill establishes three set-aside mechanisms based on how a project is funded. If a project is funded from more than one cash fund or from a cash fund and from state funds, the set-aside amounts are shared proportionately between the various fund sources. The set-aside amounts may be appropriated for future capital expenses such as routine maintenance, equipment replacement, or the construction of a new building.

State Revenue

This bill may increase revenue to various state agency cash funds to the extent that state agencies opt to increase fees in order to fund the required capital reserve. If a state agency project is paid in whole or part from a cash fund source, the state agency is required to calculate the depreciable cost of the project and, once the depreciation period begins, to set aside an amount equal to the calculated depreciation in a capital reserve account created within the cash fund. If a state agency does not have sufficient fee revenue to fund both its operating costs and to set aside an amount equal to the calculated depreciation of a capital asset funded through the capital budget, it may be required to increase fee revenue. This fiscal note assumes that the balance of a capital reserve account will not be counted towards the 16.5 percent reserve limit assigned to many cash funds.

State Expenditures

This bill changes how moneys from the General Fund will be transferred for capital projects. It may also increase state agency cash fund expenditures. No change is shown in this fiscal note because it is assumed that projects funded in the 2015 Long Bill will not be complete, and thus subject to depreciation calculations, until at least FY 2017-18.

General Fund, Capital Construction Fund, and Controlled Maintenance Trust Fund impact. If a capital construction or controlled maintenance project is funded from state funds, a department or institution is required to calculate the depreciable cost of the project. Once the depreciation period begins for each project, the amount equal to the calculated depreciation is identified in the state operating budget each year of the depreciation period and transferred to the Capital Construction Fund and the Controlled Maintenance Trust Fund (CMTF). Of the transfer amount, 1 percent of the *total* project cost that can be depreciated is transferred to the CMTF. The remaining funds are transferred to the Capital Construction Fund.

> *Example: A state department builds a new office building and the costs are paid from the Capital Construction Fund. The total project cost is $23 million. The full project cost cannot be depreciated because it includes non-depreciable items such as professional services. Of the total project cost, $15 million is identified as depreciable. The useful life of the facility, otherwise known as the depreciation period, is 30 years. Therefore, the amount that must be set aside is $15 million/30 = $500,000 a year for 30 years. One percent of the total project cost is $150,000 or $15,000,000 x .01. Thus, $150,000 is transferred to the CMTF and the remaining amount, $350,000, or $500,000 - $150,000, is transferred to the Capital Construction Fund.*

This fiscal note assumes that the depreciation equivalent transfer will be paid from the General Fund. In effect, the bill creates a statutory transfer mechanism to pay costs associated with capital construction and controlled maintenance projects. It is anticipated that the General Fund transfer amount to the Capital Construction Fund will offset the cost of capital projects and reduce the amount requested by the Capital Development Committee on behalf of future projects. It is anticipated that the General Fund transfer amount to the CMTF will increase the fund's balance, thus increasing fund interest earnings, which may be spent for controlled maintenance projects, and reducing the amount of General Fund dollars spent for controlled maintenance in the future.

The Governor's Office of State Planning and Budgeting (OSPB) may require additional FTE to forecast the amount of General Fund that will be transferred pursuant to this set-aside mechanism in future years. This fiscal note assumes that a request to increase FTE will be handled through the regular budget submittal process.

Cash fund impact. This set-aside mechanism only applies to state departments; it does not apply to higher education institutions. See State Revenues section for an explanation of how the set-aside mechanism for cash-funded projects operates.

> *Example: A state department builds a new office building using an existing cash fund. The total project cost is $23 million. The full project cost cannot be depreciated because it includes non-depreciable items such as professional services. Of the total project cost, $15 million is identified as depreciable. The useful life of the facility, otherwise known as the depreciation period, is 30 years. Therefore, the amount that must be set aside in a capital reserve account is $15 million/30 = $500,000 a year for 30 years.*

To the extent that a state agency increases the amount of revenue it sets aside for capital-related expenses, this fiscal note assumes there will be a corresponding increase in spending for capital projects.

Projects financed through the issuance of certificates of participation. This set-aside mechanism applies to all state department projects and to higher education institution projects if they are funded from state funds. If a capital construction project is financed through the issuance of certificates of participation (COPs), a department or institution is required to calculate the depreciable cost of the financed project. Once the depreciation period begins for each project, 1 percent of the total project cost that can be depreciated is set aside in a capital reserve account for cash-funded projects or transferred to the CMTF for state-funded projects. The bill also permits the set aside or transfer amount to be financed as part of the COP issuance.

Example: A state department builds a new office building and the costs are paid through a COP issuance that will be repaid from the Capital Construction Fund. The total project cost is $23 million. The full project cost cannot be depreciated because it includes non-depreciable items such as professional services. Of the total project cost, $15 million is identified as depreciable. One percent of the total depreciable project cost is $150,000 or $15,000,000 x .01. Thus, $150,000 must be transferred annually to the CMTF during the depreciation period. Alternately, the full amount that would otherwise be depreciated over the depreciation period, $150,000 a year x a 30 year depreciation period = $4.5 million, will be included in the principal amount financed through the COP issuance.

To the extent that the balance of the CMTF increases as a result of this set-aside mechanism, and thus interest earnings on the fund increase, this fiscal note assumes that there may be a reduction in General Fund spending for controlled maintenance and a corresponding increase in CMTF interest earnings spending for controlled maintenance projects.

Effective Date

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

Departmental Difference

Many agencies and higher education institutions identified a fiscal impact associated with funding the transfer for the set-aside mechanism for state-funded capital construction and controlled maintenance projects from agency or institutional sources rather than from General Fund. This impact is not reflected in the fiscal note because it is assumed that these costs will be paid from the General Fund.

The Governor's Office of State Planning and Budgeting (OSPB) may require additional FTE to forecast the amount of General Fund that will be transferred pursuant to this set-aside mechanism in future years. This fiscal note assumes that a request to increase FTE will be handled through the regular budget submittal process.

State and Local Government Contacts

All State Departments   Higher Education