



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Chief
Finance Section

DATE: November 18-19, 2015, Board Meeting

AGENDA ITEM: 6a. Financial Matters - Construction Fund and Severance Tax PBF
Change to Financial Policy #13 - Fund Growth

Introduction

Over the past five years, the CWCB has needed to "Exempt" itself from Financial Policy #13 in order to fund the important projects CWCB is involved in each year. The current year is even worse. The 2015/16 revenue projections from Federal Mineral Lease (FML) indicate that there is not enough money to fully fund even the statutorily required CWCB programs under the current Policy.

The current Policy requires the Board to grow the Construction Fund at the same rate as construction inflation. Staff has revisited the Policy and determined the CWCB can more accurately determine the money available for Non-Reimbursable Investment (NRI) funding and better utilize the Fund for important CWCB water programs and projects by allowing the Fund to grow at its interest earnings rate only. The revised Policy will let the Fund grow as a revolving fund without supplementing its growth with money from FML. This will allow access to approximately \$3 million of the FML revenues for Non-Reimbursable Investments this year.

Staff will continue to provide the Board a comparison of the actual growth to the construction inflation rate since it provides a good indication of the Fund's health and 'buying power' in the construction industry.

The Finance Committee reviewed the idea in September 2015 and recommended full Board consideration.

A red-lined draft of the recommended Policy is attached.

Staff Recommendation

Staff recommends the Board approve a change to Financial Policy #13 regarding the Target Growth of the Construction Fund. The Construction Fund will grow at the rate of return on its invested Projects only.



POLICY NUMBER: 13

SUBJECT: **TARGET GROWTH RATES FOR THE EQUITY OF THE CONSTRUCTION FUND AND SEVERANCE TAX PERPETUAL BASE FUND**

EFFECTIVE DATE: October 1, 2000

REVISED DATES: January 27, 2004
September 14, 2004
November __ 2015

POLICY: The Colorado Water Conservation Board (CWCB) will attempt to maintain an overall growth rate for the equity of the Construction Fund (CF) and Severance Tax Perpetual Base Fund (Sev. Tax Fund). CWCB shall grow the Construction Fund at the rate of return on the interest rates invested in water projects throughout the state. of no less than the long term rate of inflation, as established by appropriate construction cost indices, plus 0.5%. This will be the “target growth rate” for the Construction Fund.

PURPOSE: To offset the impacts of cost inflation, to maintain the financial integrity of the CWCB Construction Fund and Sev. Tax Fund and to provide a process for estimating the financial resources available for non-reimbursable investments from the Funds in any given year.

APPLICABILITY: This policy and procedure applies to the CWCB Construction Fund and Severance Tax Perpetual Base Fund.

PROCEDURE: The overall growth for the fund equity of the Construction Fund and Sev Tax Fund will be presented as part of the Comprehensive Annual Financial Report by CWCB staff at the Annual September Finance Committee Meeting and Boardsubsequent Board meeting each year. Staff will present an annual estimate of funds available for non-reimbursable investments relative to the target growth rate. The estimate of funds available for non-reimbursable investments will be based on Federal Mineral Lease projections, projected expenses and fund performance. the current fund equity (as of the end of the most recent fiscal year), less the previous year’s fund equity increased by the target growth rate. At the same Board meeting each year,

Staff will present a summary of long-term construction cost indices with any recommendations for revisions to the target growth rate of the equity of the fund.