



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

1313 Sherman Street, Room 718
Denver, CO 80203

P (303) 866-3441
F (303) 866-4474

Jared Polis, Governor

Dan Gibbs, DNR Executive Director

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Lauren Ris, CWCB Deputy Director
Anna Mauss, CWCB Chief Operating Officer

DATE: July 15-16, 2020

AGENDA ITEM: 10. Budget Update

Introduction:

This informational agenda item will describe the CWCB budget impacts as a result of the economic consequences associated with COVID-19. These impacts will likely span three fiscal years: fiscal year 2019-20 (ended on June 30, 2020), the current fiscal year 2020-21, and the next fiscal year 2021-22.

Discussion:

Fiscal Year 2019-20

General Fund revenue declined dramatically in the last quarter of FY 2019-20 due to the economic impacts of COVID-19. In response, Governor Polis issued a sequestration plan through Executive Order D 2020 050, in addition to other statewide fiscal conservation guidance from the Governor's Office of State Planning and Budgeting. The order implemented a targeted state-wide spending reduction of \$228.7 million General Fund to maintain minimum statutory reserve requirements. As part of this sequestration plan, approximately \$866,000 of the \$1.7 million General Fund appropriation for CWCB's demand management feasibility study (authorized by Senate Bill 19-212) was redirected to help address this general fund shortfall. Due to the COVID-19 related travel and meeting restrictions that impacted the demand management work groups, and being able to do more work in house than previously anticipated, CWCB does not expect any significant impacts to the effort.

In this fiscal year, the CWCB's Perpetual Base Fund and Construction Fund each contributed \$33 million to the TABOR emergency reserve (\$66 million total). While these funds were not ultimately drawn on for this purpose, this fact contributed to the overall uncertainty of the status of these funds and their availability for new expenditures.

Due to the significant revenue shortfalls projected, and the role that CWCB's cash funds would play in backfilling these shortfalls either through the TABOR emergency reserve or through any budget balancing actions by the General Assembly, CWCB staff postponed bringing Water Plan Grant recommendations scheduled for the May Board meeting to this July meeting (Agenda Item 21).



Fiscal Year 2020-21

As part of the budget balancing package to backfill the \$3.3 billion General Fund revenue shortfall for FY 2020-21, the Long Bill package redirected \$45.5 million from the Perpetual Base Fund to the General Fund. In taking this action, the Joint Budget Committee considered the needs of CWCB's Loan Program allowing staff to bring new loan recommendations for this year. Additionally, the Long Bill included only \$33 million from the Construction Fund for the TABOR Emergency Reserve for this fiscal year (as compared to the previous year's inclusion of an additional \$33 million from the Perpetual Base Fund).

The June 2020 Legislative Council Staff Revenue Forecast projects an 81% decline in statewide severance tax revenue compared to Fiscal Year 2019-20 resulting from the historic collapse in oil prices that occurred in mid-March 2020. Based on this forecast, both DNR severance tax cash funds--the Perpetual Base Fund and the Operational Fund--are projected to receive only \$5 million each in FY 2020-21. In order to ensure that there is sufficient revenue in the Operational Fund to support the staff salaries and ongoing operations in DNR Core Programs, DNR is restricting spending of the August disbursement of funding to the DNR Grant Programs (including the Water Supply Reserve Fund, the Water Efficiency Grant Program, and IBCC) until the fund has stabilized. In addition, the CWCB receives up to 5% of the Core Program funding for Operational Fund Grants on an annual basis. These grants were approved by the Board in March, however in order to support the other Core Programs, these grants will not receive funding and the grant program will be suspended pending future revenue projections. DNR is monitoring the status of Operational Fund on a continuous basis and will revisit restrictions after every quarterly revenue forecast.

Additionally, the 2020 Projects Bill (HB 20-1403) passed which included appropriations from the Construction Fund to a variety of programs, including additional funding for the Water Plan Grant Program, the Watershed Restoration Program, and the Alternative Transfer Methods (ATM) Program. However, due to the continued economic uncertainty, CWCB staff anticipates needing to budget conservatively and stretch available grant program funding over the next three fiscal years. Additional information as it relates to this spending plan will be discussed during the September Finance Committee meeting. Table 1. Summarizes the various impacts to CWCB programs.



Table 1. Budget Impacts to CWCB Programs.

SEVERANCE TAX SUPPORTED PROGRAMS	IMPACT
Severance Tax Operational Fund Grants	Grants approved by the board in March 2020 that were expected to begin in July 2020 will not proceed with contracting. Funding for this grant program is suspended until further notice.
Water Supply Reserve Fund Grants	No new funding in FY21. Roundtables can still award grants from the current basin account fund balances. Grants that were approved by the CWCB in FY 19/20 are still moving forward. The current balance for the statewide account will be stretched over the next three fiscal years.
Water Efficiency Grant Program	The program will not receive additional funding in FY21. Limited grants can be awarded based on the fund balance. The current balance will be stretched over the next three fiscal years.
Species Conservation Trust Fund	The program will not receive additional severance tax funding in FY21. Limited projects will continue based on the fund balance. This does not affect funding that was authorized in this year's SCTF legislation (SB20-201).
Interbasin Compact Committee	This program will not receive additional funding in FY21. Funding can be spent from the existing balances. However, funds for meeting space, food, travel will be limited (and may not be permitted at all depending on public health orders in place at the time of the meeting).
Loan Program	No impacts expected this Fiscal Year. Loan applications are being accepted.
CONSTRUCTION FUND SUPPORTED PROGRAMS	IMPACT
Water Plan Grant Program	The Projects Bill passed including funding for new grants. The board will consider applications postponed in May at its July 2020 meeting (stemming from the February 1, 2020 application round). The Board will consider staff's recommendation for Future application deadlines in Agenda Item 20.
CO Watershed Restoration Grant Program	The Projects Bill passed including funding for grants. The current balance will be stretched over the next three fiscal years.
ATM Grant Program	The Projects Bill passed including funding for grants. The current balance will be stretched over the next three fiscal years.



Fiscal Year 2021-22

While state revenue is projected to rebound, revenue collections for FY 2021-22 are expected to remain below FY 2018-19 levels. The State and Legislative economists caution that the economic outlook is especially uncertain in light of the evolving COVID-19 crisis and depends on the trajectory of the pandemic, the pace of the recovery, and the availability of federal aid. Even with a strong rebound in economic activity, the state budget situation is still expected to be very challenging in FY 2021-22 with a significant General Fund revenue shortfall to account for.

In spite of this uncertainty, the budget planning cycle for Fiscal Year 2021-22 has already begun. Agencies are currently in the process of preparing budget scenarios for the Office of State Planning and Budgeting and DNR anticipates responding to future budget reduction targets.

After the passage of Proposition DD during the November 2019 election, sports betting launched on May 1; however, revenues face an uncertain near-term future with all professional sports indefinitely suspended in the U.S. A forecast of sports betting revenue will be available in future forecasts, once tax collections data for several months become available.

Background:

Severance Tax Perpetual Base Fund

Revenue into the Perpetual Base Fund comes from interest on loans, treasury interest, and 25% of statewide Severance Tax Revenue. The CWCB is authorized to use the fund to make low-interest loans. Interest generated from these loans goes back into the fund.

DNR Severance Tax Operational Fund

The DNR Operational Fund receives 25% of severance tax revenue to support two tiers of programs: Core Programs and Grants. Core Programs provide funding for staff salaries and operations in several DNR agencies including the Oil and Gas Conservation Commission, Division of Reclamation Mining and Safety, Avalanche Information Center, and Colorado Parks and Wildlife. CWCB also receives up to 5% of this Core Program funding, however, unlike the other DNR agencies, CWCB uses that funding for Severance Tax Operational Fund Grants (typically about \$1.3 million). See Figure 1.

When the annual revenue into the Operational Fund exceeds \$17 million satisfying the funding needs of the Core Programs plus the 100% Core Program reserve requirement is met, any additional revenue is distributed proportionally to DNR Grant Programs. See Figure 2. The CWCB Grant Programs include:

- Water Supply Reserve Fund (up to \$10 million)
- Species Conservation Trust Fund (up to \$5 million)
- Water Efficiency Grant Program (up to \$550K)
- Interbasin Compact Committee Operations Fund (up to \$745K)



Figure 1. Distribution of severance tax revenue.

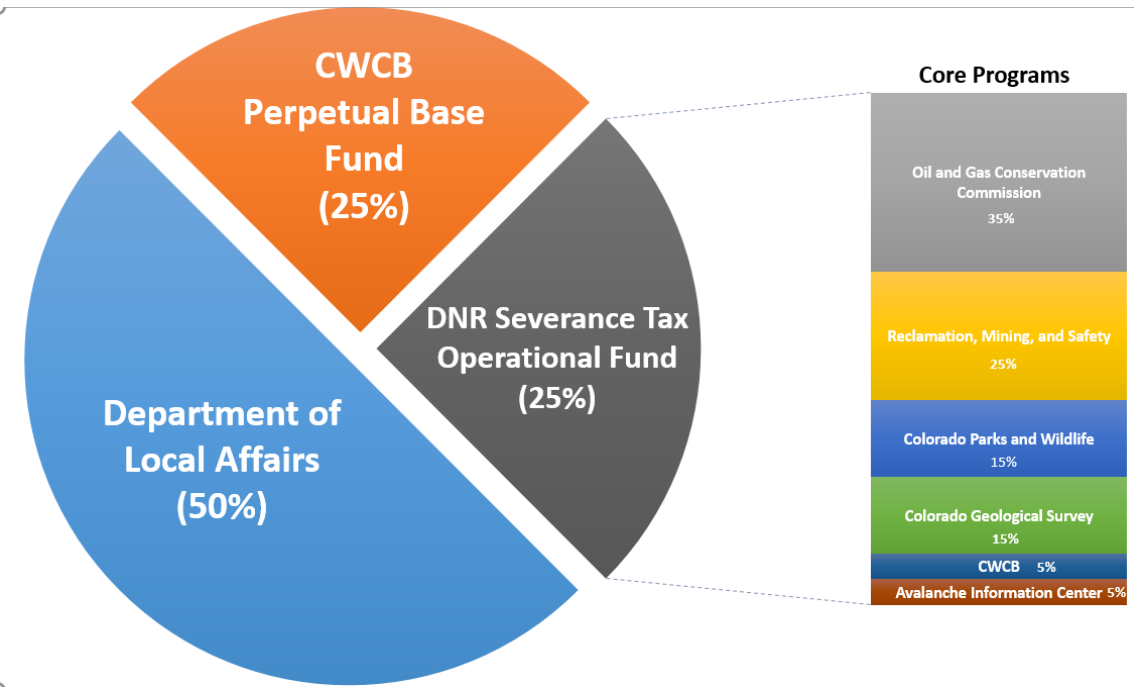


Figure 2. Distribution of of severance tax revenue once the Core Programs funding obligation has been met to Grant Programs.

