



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, Finance Section Chief

DATE: November 17-18, 2021 Board Meeting

AGENDA ITEM: 10. Severance Tax Perpetual Base Fund Transfer to Water Supply Reserve Fund

Staff Recommendation

Pursuant to SB21-281, staff recommends the Board direct the State Treasurer to transfer \$3,000,000 from the Severance Tax Perpetual Base Fund to the Water Supply Reserve Fund on July 1, 2022.

Introduction/Background

SB21-281 was approved and signed by the Governor in the 2021 legislative session. This bill changed the funding source for the Water Supply Reserve Fund (WSRF). The WSRF was previously funded by the Severance Tax Operational Fund (Operational Fund). The Operational Fund receives 25% of the Severance Tax receipts annually and is distributed to several important programs within DNR agencies. The revenue stream into the Operational Fund has been woefully inadequate to satisfy the needs of all of the programs that rely on it. Future Severance Tax projections indicate this situation will worsen.

As a result, SB21-281 changed the WSRF funding source from the Operational Fund to the Severance Tax Perpetual Base Fund (PBF). The PBF also receives 25% of Severance Tax receipts annually and is managed by the CWCB, historically as a revolving loan fund investing in water project loans. It's important to note that the PBF is also dependent and impacted by a future lower Severance Tax revenue.

Each year the CWCB Finance Committee receives a report from staff on available funds for NonReimbursement Investments (NRI) as a result of the investment earnings and other revenue sources that are in excess of the operational costs of the CWCB plus the desired growth of the CWCB's Construction fund and the PBF. The current year's earnings, primarily as a result of a belt-tightening effort by the CWCB during the 20/21 fiscal year, has resulted in \$3M available for a transfer to the WSRF.

It is important to note that this \$3.0M is not a guaranteed annual amount and an annual review of the agency's needs will be assessed again at the 2022 Finance Committee. CWCB staff has worked hard to change the WSRF distribution formula to help with the transition of this funding source. See Agenda Item 9.

