



COLORADO

**Colorado Water
Conservation Board**

Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Lauren Ris, Deputy Director

DATE: July 21, 2022

AGENDA ITEM: 21. Transfer from Perpetual Base Fund to WSRF

Recommendation:

Pursuant to SB21-281, staff recommends the Board direct the State Treasurer to transfer \$17,000,000 from the Severance Tax Perpetual Base Fund to the Water Supply Reserve Fund upon approval.

Background:

The Water Supply Reserve Fund (WSRF) historically received erratic infusions of funding through the Severance Tax Operational Fund. In the past five fiscal years, the WSRF was only fully funded at \$10 million twice (FY 2017-18 and FY 2019-20). In an effort to mitigate revenue volatility and instability for this program, SB 21-281 provided the CWCB the authority to transfer revenue directly from the Perpetual Base Fund to the Water Supply Reserve Fund.

In 2021, severance tax projections were historically low. To provide security and reliability to the roundtables CWCB developed and approved a plan to provide \$3 million a year to WSRF. However, the caveat was made that in times of a severance tax windfall or special funding the Board could adjust this approach.

Due to the significant recovery in oil and gas prices and increased production, CWCB's Perpetual Base Fund is projected to receive \$88 million in severance tax revenue in the current fiscal year. As a result of this surge in revenue, CWCB staff recommends making a one-time \$17M transfer to the WSRF, on top of the \$3 million transfer previously authorized for this fiscal year. Staff proposes refreshing each account in the current criteria and guidelines up to \$1 million totalling \$5.4 million and putting the balance, \$11.6 million in the Statewide Account. Staff proposes using the \$11.6 million to bring back a Statewide Matching Fund that can be used to specifically respond to two major funding needs the roundtables and board have emphasized: 1) replacing aging infrastructure and 2) projects aimed at improving drought resilience. Bringing back the statewide match to focus on the two areas noted above is key given:

- Deteriorating infrastructure reduces the efficiency, resiliency and effectiveness of water delivery systems that support cities, environmental releases as well as Colorado's \$40 billion agricultural industry. The WSRF is currently the only available state funded grant program for projects that are singularly focused on aging infrastructure projects and demand for these projects has far exceeded available



funding.

- In 2022, the board made clear that funding projects that focused on drought should be a priority. The 22-year drought in the Colorado River Basin continues against the backdrop that the majority of Colorado is in some stage of drought at any given time in the year. While the Water Plan Update places a significant emphasis on the need to increase drought resilience, there is not a specific source of funding targeted at this need.

Staff will propose changes to the WSRF Criteria and Guidelines Subcommittee for review in order to meet these objectives and bring these recommendations back to the Board for final approval at the September 2022 Board meeting. The \$17 million transferred by the board in July would remain in holding (not available for statewide match request) until the board officially approves the amended WSRF guidelines in September to create a new statewide match.

