

Department of Local Affairs  
 Summary of Additional Budget Balancing Proposals  
 FY 2010-11  
 August 23, 2010

Number	Yes or No	Enter One	Division	Title	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE	List
	Corresponding FY 2011-12 Impact -- Yes or No?	One Time or Base/Ongoing?									Other Department(s) Affected
1	Yes	One Time	Division of Local Government	1% Across the Board Personal Services Reduction	(\$27,463)	(\$27,463)	\$0	\$0	\$0	0.0	DPA
2	No	One Time	Division of Local Government	Cash Fund Transfer from Funds #152 and #153**	\$20,000,000	\$0	\$20,000,000	\$0	\$0	0.0	N/A
3	No	One Time	Division of Local Government	Cash Fund Transfer from Fund #23H the Local Government Permanent Fund**	\$11,442,755	\$0	\$11,442,755	\$0	\$0	0.0	N/A

\*\* These items are included for informational purposes. They do not have a budgetary impact on any of the Department of Local Affairs line items.



# DEPARTMENT OF LOCAL AFFAIRS

*FY 2010-11 Budget Reduction Proposal*  
*August 23, 2010*

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## *Transfer Local Government Mineral Impact Grant Program Funds*

**Name of Fund:**     **The Local Government Severance Tax Fund -- #152**  
                           **The Local Government Mineral Impact Fund -- #153**

**Purpose of Funds:** To provide direct distribution and grant opportunities for localities affected by mineral development. Such funds shall also be distributed to political subdivisions to compensate them for loss of property tax revenue resulting from the deduction of severance taxes paid in the determination of the valuation for assessment of producing mines.

**Table 1: Cash Fund Balance with Recommended Transfer for FY 2010-11**

	<b>The Local Government Severance Tax Cash Fund #152</b>	<b>The Local Government Mineral Impact Cash Fund #153</b>
Projected End of Year Balance FY 2009-10	\$63,665,935	\$35,102,600
Beginning Projected Balance, July 1 FY 2010-11	\$63,665,935	\$35,102,600
Plus Projected Revenue <sup>1</sup>	\$94,250,000	\$53,501,100
Minus Transfer Pursuant to HB10-1388	(\$10,000,000)	\$0
Less Projected Mandatory Expenditures	(\$54,561,140) <sup>2</sup>	(\$50,728,483) <sup>2</sup>
Equals Cash Balance Before Future Commitments	\$93,354,795	\$37,875,217
Less Future Commitments	(\$52,159,000) <sup>3</sup>	(\$17,145,000) <sup>3</sup>
Equals Proposed Projected End of Year "Cash Out" Balance	\$41,195,795	\$20,730,217
<b>Recommended Transfer August 2010</b>	<b>(\$5,000,000)</b>	<b>(\$15,000,000)</b>
<b>Recommended Restriction August 2010</b>	<b>(\$30,000,000)</b>	<b>\$0</b>
<b>Projected End of Year Balance with Transfer</b>	<b>\$6,195,795</b>	<b>\$5,730,217</b>

<sup>1</sup>Revenue estimates for Fund #152 are equal to one-half of the Severance Tax revenue as estimated by Legislative Council in its June 2010 economic forecast. Estimates for Fund #153 are based on Leg Council June 2010 forecast, pursuant to section 34-63-102 (5.4) (b), C.R.S. (2010) which establishes the distribution of federal mineral lease revenues.

<sup>2</sup>This amount includes \$0 to be made available for grants in FY 2010-11. This amount includes the full amount of Direct Distribution payments to be made by August 31, 2010. See page 2, Table 2 for more detail.

<sup>3</sup>These amounts include the statutorily mandated set-aside for Uranium Mill Trailing Remediation Action Program fund from Fund #152 as well as estimates for the amounts needed to cover encumbered contracts that have not yet been paid in full from both funds. See page 3, Table 3 for more detail.

**Impact of Recommended Reduction:**

This proposal would suspend Mineral and Energy Impact grant awards from Severance Tax and Federal Mineral Lease revenue for FY 2010-11. It would not impact direct distribution from these fund sources as dispersed to eligible counties on August 31, 2010.

This proposal would transfer \$5 million in cash funds from the Local Government Severance Tax cash fund to the General Fund in FY 2010-11 for balancing purposes. It also restricts an additional \$30 million in the Local Government Severance Tax cash fund to be made available for balancing purposes, should such action be necessary later in the fiscal year. In addition, the proposal will transfer \$15 million from the Local Government Mineral Impact Fund into the General Fund in FY 2010-11.

The proposed plan will result the suspension of the Mineral and Energy Impact grant program for FY 2010-11. In combination with previously enacted cash transfers, this proposal will allow small, liquid balances of about \$6.2 million in the Local Government Severance Tax cash fund and \$5.7 in the Local Government Mineral Impact Fund. This will permit the Department of Local Affairs some flexibility to account for variations in actual revenue received.

**Assumptions:**

The proposed transfers are based on the following assumptions:

- Revenue projections for both severance tax and Federal Mineral Lease are per the Legislative Council June 2010 economic forecast.
- Full transfer of \$10,000,000 from the Local Government Severance Tax Cash Fund as required by H.B.10-1388.

The calculation for Projected Mandatory Expenditures in FY 2010-11 for both funds are shown in Table 2 below.

**Table 2: Projected Mandatory Expenditures for FY 2010-11**

	<b>The Local Government Severance Tax Cash Fund #152</b>	<b>The Local Government Mineral Impact Cash Fund #153</b>
<b>Transfer to Wildfire Preparedness Fund pursuant to C.R.S. 34-63-102(5)(a)(I) 2009 (applies only to the Local Government Mineral Impact Fund #153)</b>	\$0	\$3,250,000
<b>Payment of prior year direct distribution</b>	\$8,220,000	\$26,126,800
<b>Payments related to prior year encumbrances</b>	\$39,920,000	\$10,168,000
<b>New contracts encumbered</b>	\$0	\$0
<b>Encumbrances payable in future years</b>	\$3,000,000	\$9,169,000
<b>Administrative expenditures</b>	\$3,421,140	\$2,014,683
<b>Total</b>	<b>\$54,561,140</b>	<b>\$50,728,483</b>

The calculation for Future Commitments in FY 2010-11 for both affected funds is shown in Table 3 below.

**Table 3: Projected Future Commitments for FY 2010-11**

	The Local Government Severance Tax Cash Fund #152	The Local Government Mineral Impact Cash Fund #153
Roll-forward of Encumbrances	\$46,000,000	\$15,145,000
Uranium Mill Trailing Remediation Action Program Set-aside (applies only to Fund #152)	\$5,159,000	\$0
Anticipated Payables (applies only to Fund #153)	\$0	\$1,500,000
Written Offers Not Contracted	\$1,000,000	\$500,000
<b>Total</b>	<b>\$52,159,000</b>	<b>\$17,145,000</b>

**Current Statutory Authority or Needed Statutory Change:**

**Section 39-29-110 (1) (a), C.R.S. (2009)** – Local government severance tax fund – creation – administration – definitions. There is hereby created in the department of local affairs a local government severance tax fund. In accordance with section 39-29-108, portions of the state severance tax receipts shall be credited to the local government severance tax fund. Except as otherwise provided in section 39-29-109.5, all income derived from the deposit and investment of the moneys in the local government severance tax fund shall be credited to the local government severance tax fund. After making direct distribution disbursements, the executive director of the department of local affairs shall distribute any remaining moneys and make loans from such fund in accordance with the purposes and priorities provided in paragraph (b) of this subsection (1).

**Section 39-29-110 (1) (b) (I) and (II), C.R.S. (2009)** - Seventy percent of the funds from the local government severance tax fund shall be distributed to those political subdivisions socially or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels subject to taxation under this article and used for the planning, construction, and maintenance of public facilities and for the provision of public services. The executive director of the department of local affairs shall consider the economic needs of a political subdivision for purposes of making distributions pursuant to this subparagraph (I). The executive director may distribute moneys or make loans, or any combination thereof, to such political subdivisions for the planning, design, construction, erection, building, acquisition, alteration, modernization, reconstruction, improvement, or expansion of domestic wastewater treatment works or potable water treatment facilities.

**Section 39-29-110 (1) (c) (I), C.R.S. (2009)** Establishes the 30% direct distributions to impacted communities.

**Section 39-29-110 (1) (A), C.R.S. (2009)** – Allocates moneys to the uranium mill tailings remedial action program fund in accordance with the provisions of section 39-29-116 (3).

**Section 39-29-110 (7) (a), C.R.S. (2009)** – instructs the State Treasurer to deduct \$10 million from the Local Government Severance Tax Fund for transfer to the General Fund on June 30, 2010.

**Section 34-63-102 (5.4) (b), C.R.S. (2009)** – Dictates that for each quarter commencing during the 2008-09 fiscal year or during any succeeding fiscal year, forty percent of all non-bonus federal mineral lease revenue shall be credited to the local government mineral impact fund. These funds shall be distributed by the executive director of the department equally between direct distribution to counties and grants for communities impacted by energy development.

The proposal will require statutory change in order to allow transfer of the funds to the General Fund for balancing purposes.