

DEPARTMENT OF NATURAL RESOURCES
FY 2012-13 JOINT BUDGET COMMITTEE HEARING AGENDA

Tuesday, November 29, 2011

1:30 pm – 5:00 pm

1:30-1:40 INTRODUCTIONS AND OPENING COMMENTS

1:40-2:20 DEPARTMENT-WIDE QUESTIONS

A. PERFORMANCE-BASED GOALS AND BUDGET REQUEST (ALL DEPARTMENTS)

1. Please describe the process the department used to develop its strategic plan.

Several years ago, the Department consulted extensively with its divisions in creating the objectives and associated performance measures that were incorporated into its strategic plan. In this regard, the DNR strategic plan represented the priority objectives of both the DNR Executive Director and the DNR divisions. As several of the DNR divisions already have their own strategic plans, the DNR strategic plan often mirrored the objectives contained in agency strategic plans. Similarly, the Department has generally attempted to report on performance measures where data was already being tracked by the division (or tracking was easily implemented when the DNR Strategic Plan was first created). In an attempt to keep relatively consistent in its reporting, the basic format of this strategic plan has been used for each of the last several years.

For development of the FY 2012-13 Strategic Plan, the Governor's Office of State Planning and Budgeting directed that departments review their strategic plan to ensure that the priority objectives were still appropriate and that the performance measures were still easily measurable, meaningful, and understandable. DNR did make several small changes to its strategic plan in an attempt to provide more meaningful measures. However, the FY 2012-13 Strategic Plan represents the Department's first endeavor to comply with the comprehensive performance reporting process envisioned under the SMART Act. The Department welcomes input on its Strategic Plan from the House and Senate Agriculture and Natural Resources Committees, as well as the Joint Budget Committee. The Department will closely consider the input received from the General Assembly and will make every reasonable attempt to

provide the General Assembly with performance data and other information to best evaluate budgetary needs and progress in meeting high priority objectives.

In creating the FY 2012-13 Strategic Plan, the Department's Budget Director consulted with both the divisions and several of the top managers in the Executive Director's Office seeking input on the Strategic Plan. The Budget Director also re-wrote several of the introductory sections, providing a broad overview of the Department and the challenges it faces. The entire plan was then edited by the Executive Director. During this editing process, the Budget Director and Executive Director also discussed the Department's top priority objectives. As a result of these discussions, water efficiency was eliminated as one of the Department's highest or department level objectives (water efficiency will be retained as a division level objective for the Colorado Water Conservation Board). This move does not reflect any sort of change in the importance of water efficiency, but reflects the reality that this is a \$600,000 and 1.0 FTE program in a budget of \$242 million and 1,465 FTE. The Department does not believe that a program that represents one-quarter of one percent of its budget should be one of a handful of highest priority objectives used to evaluate the Department's performance.

Conversely, the Department spends roughly \$22 million directly on hunting and fishing programs, with millions of additional dollars spent indirectly supporting these activities through a variety of other wildlife programs such as habitat protection, law enforcement, license administration, customer service, and administrative functions. As such, providing hunting and fishing opportunities likely comprises ten percent or more of the DNR budget. Similarly, we believe that hunting and fishing programs provide some of the biggest benefits to Coloradoans. A 2008 study estimated that hunting and fishing contributes an estimated \$1.0 billion in economic benefits (see the September, 2008 report from BBC Research & Consulting titled "The Economic Impacts of Hunting, Fishing, and Wildlife Watching in Colorado). Given the amount of money that the Department spends in this area, and the importance of this program to Colorado's economy, two division-level objectives and associated performance measures for Hunting and Fishing were elevated to a single Department level objective for Wildlife Recreation starting in FY 2012-13.

B. PERFORMANCE-BASED GOALS AND BUDGET REQUEST (DNR ONLY)

- 2. The Department's number one priority objective is to "Protect the diversity of Colorado's wildlife resources". In the Department's discussion of the metric associated with the objective, the Department states that the first time actual data will be available is FY 2015-16. What is the value of this metric if it is unknown for several years what the actual outcome will be? What is the value of having a benchmark of 210 species of greatest conservation need? How does one determine whether the funding provided is helping to meet that objective?**

Summary Response: The Department agrees that the current performance measure provides little benefit in measuring year-to-year performance given the frequency with which the Species of Greatest Conservation Need list is updated. Potential improvements to this measure include annual reporting on the number of species listed under the Federal Endangered Species Act and the number of species prevented from State or Federal listing.

Background and Full Response: There are more than 960 native species for which Colorado Parks and Wildlife has statutory authority, including mammals, birds, fish, reptiles, amphibians, mollusks, and crustaceans. Wildlife provide a significant economic benefit to the State; hunting, fishing, and wildlife viewing are estimated to contribute \$1.7 billion toward Colorado's economy. Colorado Parks and Wildlife (CPW) has an objective to secure both game and non-game wildlife populations such that they remain viable for the benefit of current and future generations and they do not require protection via federal or state listing regulations. Colorado's Comprehensive Wildlife Conservation Strategy (a.k.a. the "Action Plan") catalogs the status of our knowledge about many wildlife species, most of which are not hunted or fished, the threats to the species and habitats upon which they depend, and an articulation of strategies that can be employed to lessen those threats. It is based upon the best science available at this time and also reflects the interests and concerns of citizens with a stake in Colorado wildlife conservation. Creating and updating the plan is a federal requirement in order to maintain eligibility for federal moneys under the State Wildlife Grants program (Title IX, Public Law 106-553 and Title 1, Public Law 107-63). In FY 2011-12, the State Wildlife Grant program will provide the State of Colorado with about \$1.2 million of federal funding for projects aimed at preventing wildlife from becoming endangered. In addition to this federal funding, the species conservation programs has been funded with roughly \$3.5 million per year in GOCO Board grants and about \$2.3 million per year from the Wildlife Cash Fund.

The initial Action plan was completed in 2006 and identified a list of 210 species that were placed on the "Species of Greatest Conservation Need" list. Criteria used to develop list of Species of Greatest Conservation Need include:

- Listed as federal candidate, threatened or endangered species under the Endangered Species Act;
- Classified as state endangered or threatened species, or species of special concern; and
- Global ranking scores of G1, G2 or G3 by the Colorado Natural Heritage Program (a non-profit scientific organization affiliated with the Warner College of Natural Resources at Colorado State University).

The Species of Greatest Conservation Need list is largely comprised of species that are not currently listed under the Endangered Species Act, but may be at risk of being considered for federal listing. To protect wildlife resources, as well as to avoid the potentially significant economic impacts involved when species and their critical habitat receive federal protections

under the Endangered Species Act, the Species of Greatest Conservation Need list represents the broadest list of wildlife species that may need attention. The list provides a proactive opportunity to analyze species before they reach such a critical point that federal listing is considered. Since the Action Plan is only expected to be updated about once every ten years, largely because of the enormous amount of analysis required to analyze the status of hundreds of wildlife species, the Department agrees that this measure is of little to no use in monitoring year-to-year performance.

Given that the Species of Conservation Need list represents the broadest single measure of species whose status is or may become imperiled, the Department is inclined to leave this metric in the Strategic Plan. However, to address the General Assembly's valid concerns about measuring year-to-year performance, the Department suggests that one or more additional performance metrics be added to better gauge the Department's success in meeting its Species Conservation objective. Two potential metrics that could be added are the number of species listed under the Federal Endangered Species Act and the number of species prevent from State or Federal listing. Avoidance of a federal Endangered Species Act listing is the end result of many factors (many of which are not in the Department's control) and reflects the success of CPW's efforts to protect and maintain wildlife habitat, to manage wildlife populations, to discover, generate, and provide scientific information about the status of species, and to expand scientific understanding of the factors influencing wildlife populations. Even when the program "fails" to avoid a federal listing, the species conversation work performed typically helps to inform the development of an appropriate recovery plan.

Linking outcomes to funding will be the final and most challenging part of performance budgeting. For species conservation, a number of important factors that are generally outside of the control of the Department will impact all of the metrics discussed above. Population growth and associated development are increasingly encroaching on wildlife habitats. Energy development may be impacting other species. For species that live primarily on federal lands, the Department may have limited ability to implement proper protective measures. Despite these limitations, the Division has a variety of programs aimed at better understanding these species, protecting critical habitats, and breeding certain fish and other species to improve their population levels. As such, many CPW species conservation efforts can be tied to improving or better understanding the status of specific species or groups of species.

3. Please discuss how you determined what metrics to use to measure progress toward meeting the Department's top priority objectives.

The Department's Strategic Plan was first created under the Ritter Administration. At that time, Department's were instructed to focus on measurable, outcome-based performance measures. DNR divisions and the DNR Executive Director's Office discussed the performance measures at length, attempting to remove workload indicators and output-related performance measures such as permits issued or inspections performed because they do not reflect outcomes (although performing this work might be a critical step towards achieving a desired outcome). For FY 2012-13, the Department examined all of its objectives and

associated performance measures. While a few performance measures underwent minor revisions to improve their clarity, the Department has tried to keep its performance relatively consistent from year-to-year to enhance tracking and evaluation.

The Department thinks it has a number of important and valuable performance metrics, including the revenue generated by the State Land Board, compliance with interstate water compacts, number of state park visitors, number of hunters and fishing licenses sold, and number of acre feet of water storage added to meet long term water supply needs. However, in most cases, there are a number of important external factors which can significantly influence the metrics. As an example, the State Land Board had a performance benchmark of earning \$68 million of revenue in FY 2010-11. While certainly everyone in the State should be delighted that the State Land Board instead actually earned \$122.9 million in FY 2010-11 (almost doubling the \$66 million earned in FY 2009-10), this performance was a mix of good management by the State Land Board and, more importantly, favorable oil and gas prices and some large one-time bonus payments paid at auction to lease State Land Board lands for oil and gas development. More broadly, DNR performance measures are broadly influenced by a variety of external sources, including wildfire, wildlife disease, economic and social trends, drought/precipitation, and the actions of the federal government and other entities. While we don't think this devalues the performance metrics we have chosen, the Department does believe that a more thorough analysis beyond the simple metric will be required to more fully and adequately analyze performance by the Department of Natural Resources.

- 4. The Department's performance measures associated with oil and gas development focus exclusively on environmental impacts. Does the Department also have measures tracking the benefits of energy development, including energy production, economic benefits to the state, or state revenue generated? Should the state measures focus on outcomes rather than administrative tasks?**

The Department does not have measures tracking the benefits of energy development. Undeniably, there are public benefits associated with energy production, including jobs, revenue production, and the availability of domestic energy supply for consumers. Further, the Department is responsible for fostering "the responsible, balanced development, production, and utilization of the natural resources of oil and gas in the state of Colorado" (from the legislative declaration for Oil and Gas Conservation, as contained in Section 34-60-102, C.R.S.). As such, the Department is open to adding an additional metric to the Energy Development objective that focuses on *development* since we already have two metrics focusing on environmental protection. One potential metric that has consistently drawn interest by the public and General Assembly is the mean time it takes to process oil and gas permit applications. While this only indirectly ties to production, it directly relates to OGCC performance from a customer service perspective.

If the Department reported on energy production or the economic benefits of energy production, the associated performance would largely be attributable to the performance of the energy industry as a whole. More broadly, a performance measure related to the benefits of energy development is going to be largely influenced by the price of oil and gas, the

performance of the oil and gas industry in successfully and thoroughly extracting energy, the performance of the industry in efficiently and effectively finding new energy resources, the availability of capital for new investments, etc.

If we were to measure the generation of severance tax, keep in mind that severance tax revenue is extremely volatile. When severance tax revenue went from over \$319 million in FY 2008-09 to \$36 million in FY 2009-10, it would not be fair to link the drop to poor performance by the OGCC (just as it would not be fair to link the five-fold increase in FY 2010-11 severance tax revenues to good performance by the OGCC). Severance tax revenues are severely impacted by the price of oil and gas, as well as by the property tax offset claimed by producers.

To conclude the questions on DNR's Strategic Plan, the Department looks forward to working with the Joint Budget Committee, the House and Senate Agriculture and Natural Resource Committees, the General Assembly, and the Governor's Office to revise and improve its Strategic Plan. The iterative process designed by the SMART Act, including working with specified liaisons from the Joint Budget Committee and the Agriculture and Natural Resource Committees, will provide DNR with insightful recommendations. Throughout this process, the Department certainly intends to make every reasonable effort to provide the General Assembly with the information it needs to best analyze the Department's performance and budgetary needs. In that regard, we look forward to continuing to work with the General Assembly to develop the best performance reporting possible.

C. OTHER QUESTIONS COMMON TO ALL DEPARTMENTS

5. How does the Department define FTE? Is the Department using more FTE than are appropriated to the Department in the Long Bill and Special Bills? How many vacant FTE does the Department have for FY 2009-10 and FY 2010-11?

OSPB and DPA are working with all departments to provide quarterly reports on FTE usage to the JBC. These reports will ensure that all departments are employing the same definition of FTE. This definition comprises a backward-looking assessment of total hours worked by department employees to determine the total full-time equivalent staffing over a specific period. We intend for these reports to provide the JBC with a more clear linkage between employee head-count and FTE consumption. As it concerns FTE usage in excess of Long Bill 'authorizations,' departments will continue to manage hiring practices in order to provide the most efficient and effective service to Colorado's citizens within the appropriations given by the General Assembly.

When generating the FTE usage report referenced above, the Department reports hours for permanent full-time and part-time employees which fall under certain pay codes. The total number of Full-Time Equivalent employees (total hours worked divided by total working hours in the year) compared to the Long Bill and special bill authorizations for the last two actual years is shown in the table below. The Department of Natural Resources is not using more FTE than are shown in the Long Bill and special bills.

Vacancies in FY 2010-11

	<u>Burned FTE</u>	<u>Appropriation</u>	<u>Unutilized FTE</u>	<u>Unutilized Percentage</u>
EDO	41.5	43.8	2.3	5%
DRMS	52.0	70.9	18.9	27%
CGS	26.0	35.4	9.4	26%
OGCC	65.2	69	3.8	5%
SLB	35.6	37	1.4	4%
DPAW (Parks)	258.2	289.5	31.3	11%
DPAW (Wildlife)	630.8	631.4	0.6	0%
CWCB	42.9	45.7	2.8	6%
DWR	241.6	252.1	10.5	4%
FY 2010- 11 Total	1,393.8	1,474.8	81.0	5%

Vacancies in FY 2009-10

	<u>Burned FTE</u>	<u>Appropriation</u>	<u>Unutilized FTE</u>	<u>Unutilized Percentage</u>
EDO	52.3	58.8	6.5	11%
DRMS	58.5	72.9	14.4	20%
CGS	25.7	35.4	9.7	27%
OGCC	60.0	73.0	13.0	18%
SLB	37.0	38.0	1.0	3%
DPAW (Parks)	254.3	294.5	40.2	14%

DPAW (Wildlife)	642.3	651.4	9.1	1%
CWCB	43.3	47.7	4.4	9%
DWR	249.1	267.1	18.0	7%
FY 2009- 10 Total	1,422.5	1,538.8	116.3	8%

The Department manages its budgets to meet the most pressing needs. One area that the Department can control costs is through the decision to fill a position and the timing of that hiring. By managing its budget in this manner the Department is able to budget to various needs including retirement payouts, forced vacancy savings, unemployment billings, increased operating expenditures (in the case of program lines), temporary workers, contractor workers, and other expenses.

2:20-2:35 STATUS OF THE OPERATIONAL ACCOUNT OF THE SEVERANCE TAX TRUST FUND

6. **The JBC Staff highlighted an ongoing imbalance in the Operational Account of the Severance Tax Trust Fund (Operational Account) and recommended that the Committee consider reductions to Operational Account spending in FY 2011-12 and FY 2012-13. Please discuss the Department’s priorities with respect to potential Operational Account spending reductions.**

The Department of Natural Resources shares the concerns expressed by JBC Staff about the status of the Operational Account of the Severance Tax Trust Fund. Under current revenue forecasts, Operational Account spending will need to be reduced by roughly \$10 to \$16 million in FY 2012-13.

As a general rule, the Department believes that Tier 1 programs are of the highest priority and should not be reduced. For example, the severance tax budgets of the Oil and Gas Conservation Commission and the Division of Reclamation, Mining, and Safety are critical to fostering the responsible development of mineral and energy resources and ensuring the severance tax revenue stream continues to be available for beneficial state uses in the future. Further, severance tax support of state park operations, given the elimination of General Fund for this purpose, is essential to keeping the park system open and affordable for all Coloradoans.

As such, the Department believes that the bulk of the required reductions will need to come from Tier 2 programs. More precisely, the Department believes that the majority of spending cuts will likely come from 4 or 5 specific Tier 2 programs. In FY 2012-13, Tier 2 programs are expected to be authorized at \$38.35 million. Of this amount, spending for the 3 direct bill assistance and weatherization programs collectively known as the Low Income Energy

Assistance Program (LEAP) will cost \$13.0 million, the Water Supply Reserve Account (WSRA) Program will cost \$10.0 million, control of Aquatic Invasive Species will cost \$4.0 million, scheduled transfers to the Species Conservation Trust Fund will cost \$3.6 million, and forestry grants will cost \$2.5 million (Note: although funding for forestry grants provided by S.B. 08-071 and H.B. 09-1199 are set to expire at the end of FY 2011-12, the Department is assuming that these programs will be reauthorized given the significant, ongoing impacts of bark beetles and other forest health issues). With all Operational Account spending projected at \$52.5 million in FY 2012-13, it is worth noting that LEAP and WSRA spending alone comprise almost 44 percent of projected spending (and an estimated 60 percent of Tier 2 spending). Adding in Species Conservation, the Aquatic Nuisance Species program, and Forestry Grants, and the five largest Tier 2 programs will receive an estimated \$33.1 million in FY 2012-13. This \$33.1 million will comprise 63 percent of all Operational Account spending and roughly 86 percent of Tier 2 spending. Given their relatively large size, the Department believes it is almost inescapable that the brunt of Tier 2 cuts will be borne by some or all of these five large Tier 2 programs.

The Department continues to believe that Aquatic Nuisance Species (ANS) funding remains one of DNR's highest priorities in Tier 2. Amongst the potential problems with taking a proportional reduction to this program, ANS Funding is used to hire 7.0 FTE at state parks to run an inspection, decontamination, and education program. Effective control of aquatic nuisance species requires a consistent, continual effort. Having efforts ebb and flow with the ups and downs of the revenue stream will render these efforts much less effective. Furthermore, ANS funding provided to the Division of Parks and Wildlife is significantly less than required to run inspection, decontamination, and education programs across the State. The ANS budget was set when there was only one known body of water in the State with Zebra Mussels (Pueblo Reservoir). Since the budget was set, at least seven more waters have tested positive, requiring additional efforts to monitor and control. As a result, the Division is already supplementing the severance tax funding provided to the ANS program with significant amounts of federal dollars and moneys from the Wildlife Cash Fund. As such, cuts to this program would worsen the funding situation and jeopardize efforts to control the spread of aquatic nuisance species. If appropriate steps are not taken to control the spread of aquatic nuisance species, access to privately-owned waters may be shut down, which would have significant recreational and economic impacts.

Similarly, forests in Colorado have been severely impacted by bark beetles as well as other forest pests and diseases. The current budget allows funding to treat only a small portion of the affected forestland. Consequently, there is a solid argument that more funding, not less, is needed for forestry grants. While funding limitations may preclude such an increase, the forestry grants program is another emerging natural resource issue that should be considered a higher priority Tier 2 program. In this same spirit, both forestry and aquatic nuisance species programs were protected from the Operational Account reductions contained in S.B. 09-293 (the last piece of legislation designed to balance Operational Account spending).

2:35-2:50 QUESTIONS FOR THE COLORADO GEOLOGICAL SURVEY

- 7. The JBC Staff discussed the Department’s efforts to generate savings from the Colorado Geological Survey by consolidating the division into either the Colorado School of Mines or the Division of Reclamation, Mining, and Safety. Please discuss the status of those efforts.**

The Department of Natural Resources approached the Colorado School of Mines (CSM) to explore the prospects of moving the Colorado Geological Survey (CGS) to Mines. These discussions reflect the ongoing efforts of the Department to evaluate potential efficiencies and improve the delivery of public services. These discussions have been continuing over recent months and the outcome of these discussions is not yet clear. If the Department of Natural Resources is not able to reach an agreement with the Colorado School of Mines, the Department’s next alternative would be a potential merging of the Colorado Geological Survey with the Division of Reclamation, Mining, and Safety. Such a merger would attempt to take advantage of potential efficiencies involved in consolidating two divisions. As part of this effort, the Department is analyzing the programs of the Colorado Geological Survey and would likely also use relocation/consolidation as a chance to reduce the size and scope of the programs required of the Survey by statute. The Department’s goal in performing this analysis is to focus the Survey’s efforts on the most practical, on-the-ground programs that provide tangible and direct health, life, safety, and economic benefits to Colorado citizens and businesses.

Given the significant budget cuts facing the State and the Department of Natural Resources, as well as the significant increase in pressure on the Operational Account of the Severance Tax Trust Fund, it is not clear that the status quo for the Colorado Geological Survey is a viable long-term plan. As such, the Department will continue to examine the two options above and will return to the General Assembly when a plan is formulated. Such a plan will inherently involve statutory changes – including changes in the statutes dictating where the CGS is located and potentially reducing the programmatic requirements of the CGS. As such, any CGS related move will be achieved through special bill, not through a budgetary change request.

- 8. How would the operations and work of the Geological Survey change if the division were merged into the School of Mines? How would a potential arrangement with the School of Mines compare to the Colorado Water Institute at Colorado State University?**

From the perspective of the Department of Natural Resources, a transfer will only occur if:

- (1) The most critical programs of the Colorado Geological Survey – including operation of the Colorado Avalanche Information Center - can continue to be operated effectively and efficiently;
- (2) Through a combination of consolidation-related efficiencies and a re-examination of those geologic programs which are most critical to the health, life, safety, and economic well

being of the State, the Colorado Geological Survey is able to be reduced in size and scope. In this regard, it is the Department's intent that the Colorado Geological Survey will be able to operate with a reduction in severance tax support in the future. These budgetary savings have not yet been quantified and would be dependent, in part, on the specifics of a DNR-School of Mines agreement on a potential CGS transfer.

- (3) The potential move will only happen if supported by both the Colorado School of Mines and the Department of Natural Resources. This support will require that such a move can be made consistent with the School of Mines operation as an academic institution and that the potential transfer still allows DNR to effectively operate natural resources programs and still receive critical geologic input from the Survey.

The key mission of the Colorado Water Institute is to coordinate water research across institutes of higher education as well as state and federal agencies. If CGS moves to the School of Mines, the agency mission of protecting public safety and promoting mineral resources through the delivery of services directly to the public, state, and local governments would not change. Further, location of the Survey on a higher education campus may enhance opportunities for academic research and access to research-related grant funding.

9. **Has the Geological Survey updated the report, "China and India's Ravenous Appetite for Natural Resources – Their Potential Impact on Colorado"? Can the Survey provide updated information associated with that report?**

The report previously named, "China and India's Ravenous Appetite for Natural Resources – Their Potential Impact on Colorado" was renamed to "The Global Scramble for Natural Resources – Its Present and Potential Impact on Colorado". Although the graphs are less meaningful absent the context of the talk, the most recent version of the PowerPoint illustrations will be distributed to JBC members and staff. If the JBC wishes to hear the talk, the State Geologist is available to present it.

2:50-3:00 QUESTION FOR THE EXECUTIVE DIRECTOR'S OFFICE

10. **The Department is requesting 5.0 additional FTE for the Oil and Gas Conservation Commission. Does the Department currently have empty FTE positions (within the Oil and Gas Conservation Commission or in another division) that could be used to support the request rather than adding more FTE in the Long Bill?**

As was discussed in question #5 above, the Department has utilized fewer FTE than are shown in the Long Bill and special bills for the last two actual years. The Department believes that in the future, as various initiatives mature (such as the merger of the Division of State Parks and the Division of Wildlife or the potential relocation of the Colorado Geological Survey) it may be appropriate for the Long Bill to reflect fewer FTE. However, until the associated processes have concluded, it would be premature for the Department to identify exact savings associated with these initiatives.

The Colorado Oil and Gas Conservation Commission (OGCC) does not anticipate using less than the 69.0 FTE currently reflected in the Long Bill. As currently organized, the OGCC has 69 positions that are necessary to maintain current operations. In FY 2010-11 there was the equivalent of 3.6 FTE vacant due to abnormally high turnover. On average, the delay between an incumbent leaving a position and a new hire starting was 2.6 months. Additionally, approximately 0.4 FTE were left vacant to fund retirement payouts and a state temp. The “vacancy savings” from turnover (3.6 FTE) was used to fund contractors to manage the workload caused by vacant positions. The OGCC anticipates that there will be fewer vacancies in FY 2011-12 and beyond.

3:00-3:20 QUESTIONS FOR THE OIL AND GAS CONSERVATION COMMISSION

- 11. The Department’s request for additional FTE is based on workload measures within the Oil and Gas Conservation Commission (OGCC). Can the Department provide detail comparing changes in workload with changes in the economic and budgetary impact of oil and gas development in Colorado? Can the Department strengthen the case for additional staff by showing the benefits associated with this industry as part of the need for additional staff?**

The figures below illustrate the generally positive correlation between workload measures, FTE count, and the OGCC’s cash fund revenue generated by oil and gas development. The active well count, in particular, is a primary driver of the agency’s workload (Figure 1). The fee revenue generated by these wells provides the funding needed to hire the requested FTE. No additional funding from the Operational Account of the Severance Tax Trust Fund will be required. The recent sharp increase in hearing applications (Figure 2) indicates that the state will likely experience a significant increase in drilling activity followed by additional revenues. Although revenues from oil and gas development are heavily influenced by national and international commodity prices that are outside the state’s control, Figure 3 shows the historical connection between staffing needs and revenue to the Oil and Gas Conservation and Environmental Response Fund (Fund #170).

Additionally, the oil and gas industry in Colorado directly employs 50,000 people and supports over 190,000 jobs in the state and provides \$12.4 billion in total labor income and \$24 billion in value added economic output annually; this is 9.3% of the total in the state. (1) It is a significant source of hundreds of millions of dollars in tax revenue annually for communities, school districts and state government. Revenues are provided through severance taxes, property taxes and a portion of lease payments for drilling on federal lands. Mineral rights owners, which can include public entities, also receive royalty payments on extracted resources. These dollars, to public agencies or private mineral rights owners, represent additional money for local economies.

Figure 1: Oil and Gas Conservation and Environmental Response Fund Revenue vs Active Well Count

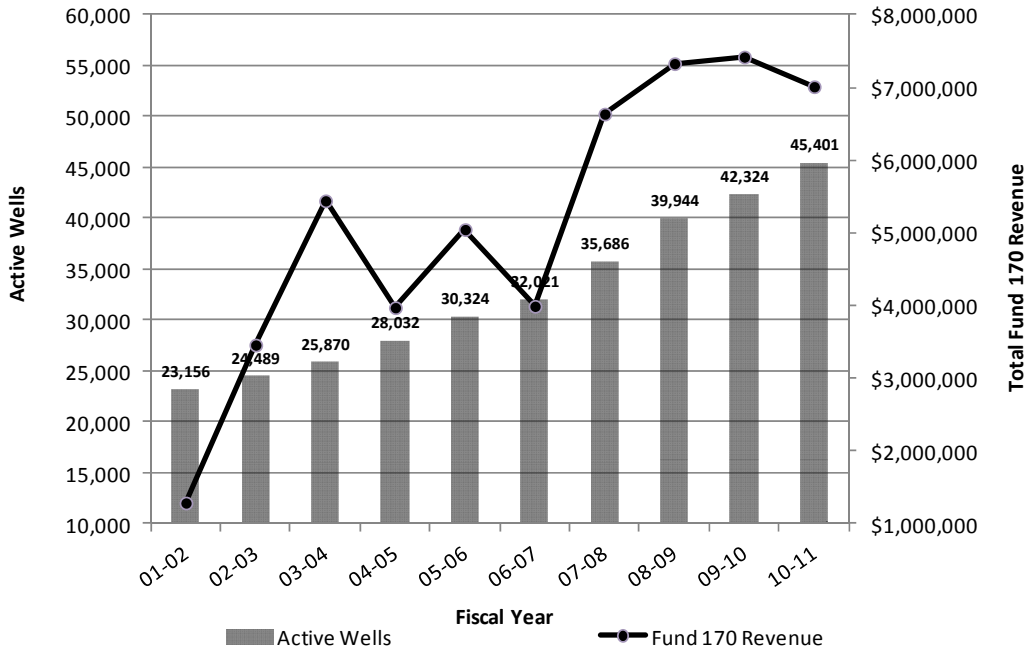


Figure 2: Oil & Gas Conservation and Environmental Response Fund Revenue and Hearing Application Workload

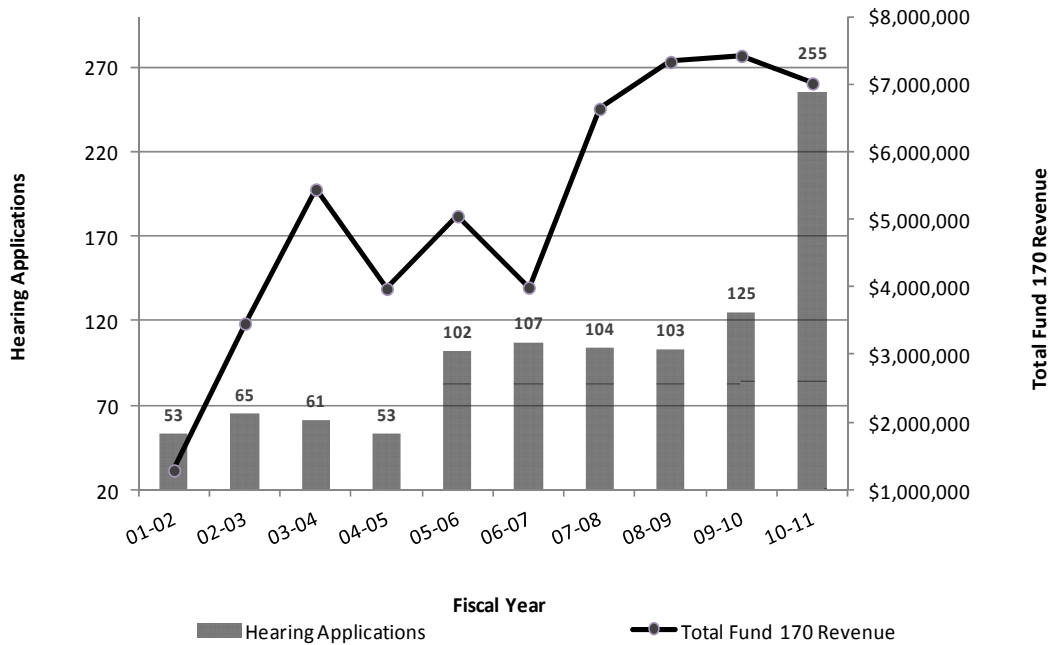
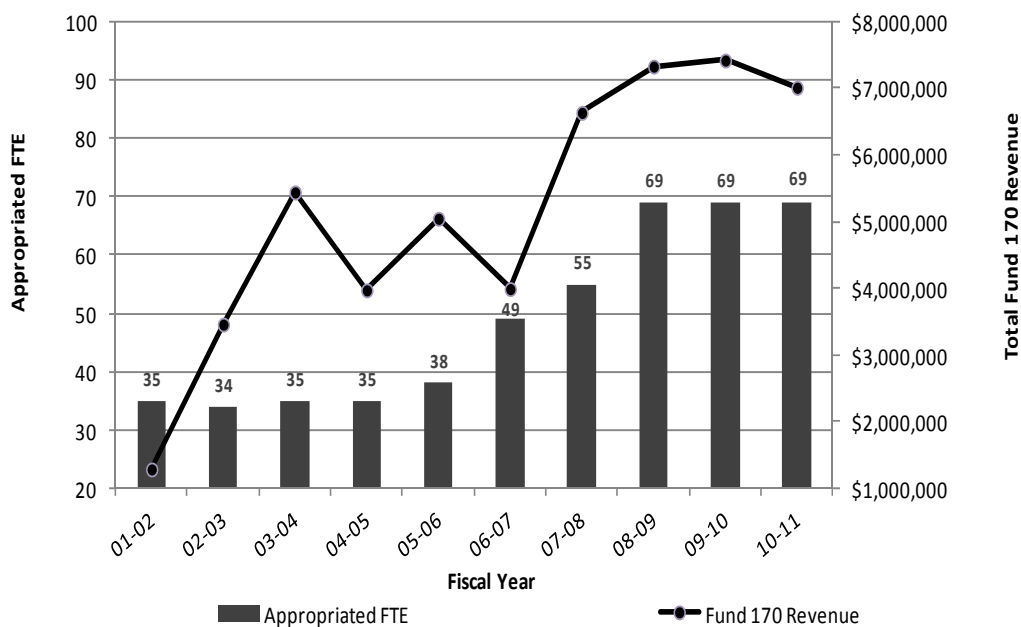


Figure 3: Oil & Gas Conservation and Environmental Response Fund Revenue and FTE



1 “The Economic Impacts of the Oil and Natural Gas Industry on the U.S. Economy: Employment, Labor Income and Value Added,” Prepared for American Petroleum Institute by PriceWaterhouseCoopers - September 8, 2009

12. **In relationship to the decision item for additional FTE, please discuss the Department’s goal of maintaining a field inspector for every 3,000 active wells. That ratio is based on the Department’s goal of inspecting each well, on average, at least once every three years. Does the OGCC factor the increase in multiple-well pads (where multiple wells are located on a single well pad) into the need in terms of wells per inspector? As multiple-well pads become more prevalent, will inspectors be able to inspect more than an average of 1,000 wells per year and therefore change the required ratio of wells per inspector? Please explain.**

The Department’s goal is to inspect wells once every three years on average, and, currently, maintaining an inspector for every 3,000 active wells helps us achieve that. Eventually, when they’re more common than they are now, multi-well pads will save inspectors time and increase the number of inspections, but only after all the drilling, hydraulic fracturing, other well completion activities, and interim reclamation have been completed. This can take years. In the meantime, inspectors are spending a significant amount of time responding to complaints regarding noise, traffic, dust, and odors, problems that, prior to the use of multi-well pads, were more dispersed. This concentration of industrial activity in one location impacts the surrounding area more than a single-well pad would; therefore it is essential that the inspection group has the resources it needs to quickly respond to public complaints and work with operators to mitigate impacts to public health, safety, and welfare when they occur. This is getting more and more difficult as many exploratory wells are being drilled in remote

areas far away from the more traditional oil and gas fields. Round-trip time to some of these more distant multi-well pads exceeds three hours in good weather.

Furthermore, each individual well on a multi-well pad has its own equipment, such as a well head assembly, separator, and two tanks, all of which require inspecting. Some of this equipment is located off-site, as much as a quarter mile away from the well head. All of it needs to be compared to a detailed equipment inventory, which the inspectors routinely update. Inspectors are also spending more time evaluating sites for compliance with more comprehensive storm water rules and additional conditions of approval that are being placed on permits. The condition of berms and the status of reclamation are now getting significantly more attention than they were in the past.

Nevertheless, inspectors in Northeast Colorado, where the terrain is easier and, in some areas, well spacing is denser and multi-well pads are more common, are already assigned an average of nearly 5,100 wells and conduct an average of about 1,400 inspections per year, as compared to their counterparts in other parts of the state, who are assigned an average of about 2,300 active wells and conduct an annual average of 850 inspections.

It should also be noted that the inspection team has been pursuing ways to improve their efficiency. Inspectors have been working with our programmers, since April 2010, to develop a new electronic inspection form that can be completed on site. The new, lengthier form, which was deployed on November 4, 2011, has nine pages verses the former one page form, but it now accounts for all the information the inspectors need to collect on site; an improvement expected to save significant time for the inspectors, as well as supervisors who will soon be able to mine the electronic data for a variety of helpful information that was previously unavailable without a lengthy manual search.

13. The request for additional OGCC staff includes a request for starting salaries above the range minimum. Please explain the need for elevated starting salaries.

Due to competition with the oil and gas industry for skilled employees, the OGCC has been unable to attract and retain qualified staff at range minimum salaries in recent years. The scarcity of applicants has forced the OGCC to conduct multiple searches and ultimately pay salaries up to 30% above range minimum. Exacerbating the problem are positions that require relocation to remote regions of the state or to areas with a relative high cost of living. The requested above-range-minimum salaries may still not be high enough to retain some employees. For example, in the first few months of the current fiscal year we lost two field inspectors, representing 13% of our inspection staff, to higher paying industry jobs, and, with the industry picking up speed, we will likely lose more. The refilling and training of these positions is extremely time-consuming and expensive for the state. It typically takes three months to advertise, test, interview, and hire a new field inspector. Training requires six months to a year, depending on the experience level of the new hire.

- 14. If the General Assembly approves the requested positions and funds the positions above the range minimum, as requested, will the Department also have to increase salaries for the existing staff?**

No, the Department will not need to increase the salaries for existing staff. With the exception of one recently hired employee, who arrived with no industry experience, all current staff members in the requested job classes earn at or above the requested salaries.

3:20-3:45 QUESTIONS FOR THE STATE BOARD OF LAND COMMISSIONERS

- 15. Does the State Land Board have revenue forecasts for FY 2011-12 and FY 2012-13? If so, please provide those forecasts.**

The State Land Board currently estimates revenues for all trusts in FY 2011-12 will reach \$86 million, excluding any income generated if the proposed oil and gas development on the Lowry Range goes forward as planned. This estimate includes \$26 million in one-time “bonus revenue” and \$44 million of non-renewable royalty revenue for FY 2011-12. Bonus revenue is earned from one-time payments made for the right to lease a parcel of land for mineral (primarily oil and gas) development. Bonus and royalty revenue fluctuates wildly with market conditions. In FY 2010-11, the State Land Board generated \$63.3 million in bonus revenue and \$38 million in royalty revenue whereas only two years earlier, in FY 2008-09, bonus revenue was \$3.9 million and royalty revenue was \$53.5 million, largely from coal, not oil and gas.

After completing the second quarter of the fiscal year, the State Land Board will issue a revised revenue estimate for FY 2011-12 as well as an initial projection for FY 2012-13. As this time we do not anticipate a significant revision to the FY 2011-12 revenue estimate.

The mid-January FY 2012-13 projection will most likely be lower than FY 2011-12 due to an assumption of lower bonus revenue. The State Land Board does not include a substantial amount of potential bonus revenue in its estimates until the results of at least one auction are known (in part due to the difficulty of projecting this volatile component of the revenue stream).

- 16. The Department is requesting \$750,000 cash funds per year for the next two years (FY 2012-13 and FY 2013-14) to develop a new asset management system linked to the Departments geographic information system. Are the two years “severable”? That is, could the General Assembly feasibly fund only year one of the request or is a decision to fund the system in FY 2012-13 effectively committing to funding the system in FY 2013-14?**

The estimate developed for this decision item is based on a total cost of \$1.5 million plus an annual maintenance contract that the State Land Board expects to pay from its base IT budget.

The total request is substantially lower than a \$4.0 million estimate submitted by a private vendor in 2010. In developing the estimate, the Land Board adopted a four-part strategy for cost control that includes module-based development, consultation with other states that have developed similar systems, a deliverables-based contract, and prioritization of project components. If, after a competitive selection process, the Land Board receives estimates that exceed \$1.5 million, the project will be pared back to fit within the planned budget.

Even with these cost control measures, however, it will not be possible to sever the two requests. The funding was split over two years based on the project timeline, not based on cost. The State Land Board expects to put the project out to bid in FY 2012-13, with work commencing in the second half of the fiscal year. The timetable for the project assumes that the work (and associated payments) will be evenly distributed between FY 2012-13 and FY 2013-14. This assumption will be built into the RFP and subsequent contract.

- 17. With respect to the requested asset management system, why is the database housed within the State Land Board rather than at the Governor's Office of Information Technology (OIT)? Would the need for public access to data be better served by housing the system within OIT? Please explain.**

The database that houses the State Land Board Asset Management system is already in place. The funding request is for the development of a data-interface application to access this data. The asset management database is not a GIS database, but the proposed application will link to the central Department of Natural Resources GIS data server. The State Land Board will not develop its own GIS system as part of this project, but will continue to use the existing OIT-managed GIS environment.

In the fall of 2010 the Division of Water Resources (DWR) was involved in a project with OIT to centralize GIS data. The project's goal was to move all of DWR GIS updates on a daily basis from the field and from the office at 1313 Sherman to the central GIS environment. The project ran into a number of technical issues, from the problem involved in crossing different network domains to the time it took to upload data. These issues proved that currently there is not the proper environment or resources within OIT to support GIS properly.

The State Land Board currently makes available on its website a variety of maps and other documents that are derived from the central GIS system. The unique GIS-related benefit of the proposed asset management system is the ability to use GIS data to assist with parcel valuation, revenue estimates, identification of properties for acquisition or disposal, and other asset management functions.

- 18. The Department is requesting \$120,000 cash funds for the State Land Board to purchase consulting services (from either outside entities or other Department of Natural Resources divisions) to improve the management of the Land Board's portfolio of water assets. Why has this not been done before?**

The State Land Board has previously hired consultants using Investment and Development funds on a project-by project basis to evaluate reservoir plans and groundwater availability on the Lowry Range, as well as water rights acquisition options for a project in Douglas County known as Sterling Ranch. This targeted approach has been appropriate in past years because the number of water-related projects was minimal and the use of Investment and Development Fund monies could be justified consistent with statutory criteria for demonstrating the added value related to the use of such funds on specific projects.

Looking forward, the degree and type of support required has expanded in a way that requires a consistent, ongoing effort to manage water-related assets. In particular, the State Land Board presently lacks resources that it can devote to expanding the water portfolio, identifying opportunities to make better use of existing water assets, responding to water acquisition opportunities, and determining reasonable charges for water-related land uses. For example, the Board lacks the capability to fully analyze the opportunity from three large regional reservoirs that directly involve state trust lands along the Front Range.

With this request, the Land Board seeks to begin developing a portfolio management capacity for water assets. The Land Board already has staff and consultants dedicated to other major asset classes – agricultural land, commercial real estate, and minerals. Consistent with the Board’s goal to diversify its assets as a means to ensure reasonable and consistent returns over time, this request would help begin development of a water portfolio to complement and supplement the Board’s existing assets including its 2.8 million acres of land.

19. The JBC Staff discussed the State Land Board’s consideration of developing oil and gas resources at the former Lowry Bombing Range. Given that a prior proposal considered a mixed use residential development, is the Land Board planning the oil and gas development in such a way that it would not stop potential mixed use development in the future?

When the mixed use development was under consideration, the anticipated timeframe for the build out extended over a period of eighteen years and required an expansion of the urban growth boundary by DRCOG. That estimate was developed in 2006 at the peak of the real estate bubble.

Since that time, the local market around Lowry has declined precipitously. The consulting team assembled by the State Land Board now believes meaningful real estate development within the area would not be supported by the market or the necessary infrastructure for more than 20+ years. This creates an appropriate window for oil and gas development, followed by any necessary site remediation that might be needed prior to moving forward with a real estate development.

20. **The JBC Staff briefing discusses a presentation on oil and gas development of the Lowry Range that the Land Board received in November. Is that presentation available on-line? Can the Department provide copies of the presentation?**

The presentation referenced in the JBC staff write-up is not available on-line. The presentation is a work product reviewed at a Board Workshop rather than a document acted upon at a formal Board meeting, and a copy was provided to the JBC staff analyst who attended that Workshop prior to his briefing. The Board will prepare additional copies of the packet and deliver them to JBC members and other interested persons at the November 29th hearing.

21. **Is the State Land Board's plan to develop oil and gas resources on the Lowry Range based on standard (state-wide) setbacks from water resources, or is the Land Board planning on a more restrictive plan for development of the property?**

In many ways, the standards set for stewardship of the Lowry Range property far exceed the standards for oil and gas development set by the Colorado Oil and Gas Conservation Commission. The Stewardship Plan for the Lowry Range which was presented to the Board at its November 3rd, 2011 Board meeting is based on the recommendations of a group of expert advisors and staff, including The Nature Conservancy, ERO Environmental Resources, the Trust for Public Land, and Arapahoe County. The plan calls for restricted or zero occupancy on more than 50% of the property and will limit total disturbed surface area to less than 3% of the total land area. The proposed leasing plan includes a long list of Best Management Practices (BMPs) based on an avoid, minimize, and mitigate approach to lessen the impact on the property's natural values. With respect to water, the plan establishes setbacks of 0.3 miles from the primary riparian corridors.

22. **The JBC Staff recommended that the Committee sponsor legislation to increase deposits of school trust revenue to the Permanent Fund by limiting revenues allocated to the Building Excellent Schools Today (BEST) program and limiting the "sweep" of school trust revenues into the State Public School Fund for appropriations to school finance. Please respond to the JBC Staff's recommendation.**

The Colorado State Board of Land Commissioners supports further evaluation of the principles that underlie the JBC staff recommendation. Both School Trust lands and the Public School Permanent Fund are components of a perpetual, intergenerational trust established by Congress and the General Assembly at statehood. The purpose of the trust is to ensure that both current and future generations of school children benefit from the prudent management of trust assets. The State Board of Land Commissioners supports the continued conversation about the best use of revenues generated by School Trust assets for the greatest benefit to the State of Colorado.

Prior to FY2008-09, only renewable revenues (e.g. agricultural, commercial, recreation, etc) and interest on the Permanent Fund were utilized for K-12 funding. The sweep added in nonrenewable revenues (e.g. royalties and bonus) which are one-time in nature and associated with trust corpus. Over the past three actual years, \$238 million of revenues that would have been deposited into the Permanent Fund have instead been utilized by the BEST Program or deposited into the State Public Schools Fund. If all of these moneys had been deposited into the Permanent Fund, K-12 Education would receive roughly \$10 million in additional interest earnings each year. The Department understands the extremely difficult choices that have been made to balance the State's General Fund budget. As the State's budget situation improves, the State Land Board would support returning additional State Land Board revenues to the Permanent Fund.

3:45-4:00 BREAK

4:00-4:30 QUESTIONS FOR THE DIVISION OF PARKS AND WILDLIFE

23. In relationship to Department Requests 6 and 7 to consolidate several State Parks Great Outdoors Colorado (GOCO) line items into the State Parks Operations line item and to consolidate several information technology-related line items into a new Information Technology (IT) line item. What is the practical effect of consolidating a line item? Will there be efficiencies and reductions in staff as a result? Can consolidating line items in the budget have a negative impact on expenditure reporting requirements?

The practical effects in the case of the GOCO line items are to (a) reflect more accurately the way GOCO funds are used to fund state park operations and (b) improve consistency and uniformity in the way GOCO funds are treated in the Long Bill. GOCO funds are not devoted exclusively to their own separate programs, distinct from programs funded out of other Long Bill line items. GOCO funds are one of a number of funding sources for various state park programs that are funded out of other existing Long Bill line item appropriations. These programs are funded from a variety of sources, including GOCO, parks cash, and in the past, General Funds. Accordingly, it is more appropriate to show the GOCO funds in the Long Bill as a fund source in the annotations for the State Park Operations line item, rather than as separate line items. For example, it costs about \$650,000 per year to operate Cheyenne Mountain State Park. These operating costs are funded out of the State Park Operations line item in the Long Bill. Because GOCO contributed significantly to the acquisition and development of this park, GOCO funds cover about 50% of the operating costs. In the Division's opinion, it does not make sense to split the costs of operating Cheyenne Mountain State Park into two different Long Bill line items.

As a result of this proposed change, the GOCO funds would be shown in the Long Bill consistent with the way fund sources are shown for other line items for other state agencies.

The practical effect in the case of the IT line item consolidations is to reflect more transparently the use of funds for IT purposes. The existing three line items present a somewhat arbitrary separation of IT spending into categories that are in reality not completely distinct. As a result, IT spending is shown spread over three line items, in a way that arguably makes it more difficult to understand how the funds are being used. The three line items are Systems Operations and Support, Connectivity at State Parks, and Asset Management. While some expenses fall neatly into one of these categories, many do not. For example, helpdesk support for a network problem could arguably be charged to either of the first two line items. Replacement of a network server could be charged to either of the latter two line items.

There will likely be some increased efficiency from the proposed line item changes, but these will not be significant and will not result in a reduction in staff or FTE. The main reason for the proposed line item changes is so the Long Bill will more accurately, transparently, and consistently reflect the use of these funds.

The proposed line item changes will not negatively impact reporting requirements. To the contrary, there should be a positive impact in terms of transparency and accuracy in reporting. Through the various schedules provided as part of the executive branch budget request, IT expenditures by detailed object code will still be provided. Indeed, the reporting will be improved because all IT operating costs will be shown together in one place. In the case of GOCO funds, in addition to the standard budget schedules, an annual report is prepared each year which describes in detail how the GOCO funds have been used.

24. Does dedicated funding going from GOCO to a newly combined line item create a problem when tracking expenditures? How does the Department plan to continue to track GOCO-dedicated funding in order to meet the requirements of the State Constitution?

The proposed change in the GOCO line items in the Long Bill will not create a problem with respect to tracking expenditures. Tracking of dedicated funding in the state's accounting system is not accomplished solely through line item appropriations. This tracking is accomplished primarily through the use of other mechanisms in the state accounting system, such as grants, projects, and reporting categories. There are hundreds of different grants and funding sources in Parks and Wildlife that must be tracked separately for constitutional, statutory, or contractual purposes. Such separate tracking occurs outside the Long Bill line items, and is an established element of the state's accounting system. GOCO funds have been and will continue to be tracked separately using these existing mechanisms.

Additionally, each year Colorado Parks and Wildlife prepares a detailed annual report, which it submits to the GOCO Board and the General Assembly, describing how GOCO funds have been used.

25. What information technology purposes are the three line items in Request 7 used for?

These line items pay for all non-salary IT-related costs on the parks side of Parks and Wildlife. At the present time, for all departments and from a budgeting perspective, the consolidation of IT functions into the Office of Information Technology involves only the permanent personal services budgets. IT operating budgets are still appropriated to individual departments and agencies.

The three line items are Systems Operations and Support, Connectivity at State Parks, and Asset Management. They are used for the purchase of replacement PCs (even though the purchase of these may be coordinated or performed by OIT), printers, scanners, and other peripherals; data communications and network infrastructure; leased and purchased software; and contracted maintenance and support of hardware, systems, and application software.

As discussed in the response to question # 23 above, numerous IT expenditures could appropriately be charged to more than one of these three line items.

26. Regarding Request 7. Does the Office of Information Technology (OIT) control for what purposes the \$1.3 million in IT funding can be spent on or does the Department make those decisions?

The Governor's Office of Information Technology (OIT) has established policies and procedures for seeking OIT approval of IT related purchases. Colorado Parks and Wildlife staff coordinate these purchases to achieve program goals while OIT provides the technical expertise. For a further discussion of IT operating budgets, please see the addendum questions.

27. Who determines what type of IT equipment is purchased? Who determines what enterprise software is purchased for use at the Department?

The Governor's Office of Information technology provides policies and guidance to direct departments in their purchases of IT equipment and software. Colorado Parks and Wildlife follows all of OIT's procedures for the approval of IT purchases.

28. What is the status of the Division of Parks and Wildlife merger? What is the status of the transition plan?

Please see the report from Executive Director Mike King (question #31 below) for information on the status of the merger and the transition plan.

29. As a result of the merger between Parks and Wildlife, are more parks going to be closed or repurposed? How and when will this be determined? Are the same parks that were under consideration for closure or repurpose still under consideration this year?

At the present time, no parks are being considered for closure.

Only one park (Bonny Reservoir) has been “repurposed.” As of October, 2011 Bonny Reservoir is no longer operated as a State Park; it is operated as a State Wildlife Area. It is still open to the public. This change is primarily the result of lack of water necessary to keep the reservoir filled so that it may be managed as a flat water recreation state park. The repurposing of Bonny Reservoir State Park was not the result of the merger.

In November 2010, prior to the merger, the State Parks Board directed Division staff to evaluate three other state parks for possible repurposing. “Repurposing” was a term coined to cover the full spectrum of strategies for essentially eliminating the cost burden for State Parks while preserving the maximum possible level of public recreation opportunities. The three parks were Paonia, Harvey Gap, and Sweitzer Lake, all on the West Slope.

The merger of parks and wildlife creates opportunities for a wide range of potential efficiency savings, all of which are under investigation. Among these is the possible realignment of properties to better fit parks and wildlife purposes. For example, some State Parks might be more appropriately managed as State Wildlife Areas. Some State Wildlife Areas might be more appropriately managed as State Parks. Changes to any State Park or State Wildlife Area will be addressed through this larger assessment, which will likely take many months. The process and methodology for conducting this review are under development as part of the overall merger transition effort.

30. One of the primary motivations for the merger of State Parks and Wildlife was the potential for savings from more efficient operations. Does the Department have a plan for capturing savings that it can share with the Committee? Will there be savings measured in reduced need for full-time equivalent (FTE) staff at the new division?

For the status of the merger and the merger plan, please see the report referenced in question #31 below.

The exact savings are unknown at present time. As was stated in the fiscal note on S.B. 11-208, in the first year the Department expected to potentially see increased costs due to the efforts required and potential investments needed to implement the merger. A Transition Team, assisted by ten Working Groups, has been helping to implement the merger and extensive opportunities for public input have been provided. This merger process has not been completed and it would be premature to specify an exact amount of savings that will be achieved. That stated, DNR Executive Director Mike King originally estimated that the merger would result in the elimination of 25 FTE from Colorado Parks and Wildlife’s budget. The Department still believes it will meet or exceed the initial goal of eliminating 25.0 FTE from the CPW budget.

Efficiency savings are one of several objectives of the merger. Another objective is to help ensure that the current park and wildlife statutory missions can be effectively delivered into the future. For both parks and wildlife, this will be a significant challenge given anticipated higher costs and potential declines in revenues, including parks’ loss of General Fund and

nationally declining numbers of hunters and anglers. The Department and the agency have been pursuing a number of strategies to address this challenge, including fee increases on the parks side, service reductions and other cost cutting measures, and the merger itself.

Some of the efficiency savings from the merger may be redeployed in order to accomplish other objectives of the merger. For example, savings from the merger may be reinvested in youth programs and recruitment and retention programs which are critical to maintaining the state's rich hunting and fishing heritage, as well as ensuring long term revenue streams. Other savings may be utilized to cover shortfalls in park operating costs and thereby eliminate the need for future repurposing of parks.

Preserving the mission of both parks and wildlife into the future through improved efficiency and effectiveness is one of the key reasons for the merger. The benefits to the state of maintaining these programs are large and measurable. Outdoor recreation, including the rich heritage of hunting and fishing, are key components of the quality of life in this state, and are what attracts both businesses and individuals to the state. According to recent outside studies, the direct economic impact of hunting, angling, and visitors to state parks exceeds \$1.5 billion per year.

Economic impacts are especially important at the local level, where many of the tangible benefits occur. For example, according to a 2009 study by Corona Insights, visitors to Jackson Lake State Park in Morgan County spent \$7 million in the local area in connection with their park visit in 2008. Visitors to Ridgway State Park in Ouray County spent \$20 million in the local area in connection with their visit. Numerous West Slope and eastern plains towns and communities rely heavily on hunting and fishing to support local businesses. For example, according to a 2008 study by BBC Research & Consulting, hunting, fishing, and wildlife expenditures had a total economic impact of \$4.0 million in Yuma county, \$27.8 million in Delta county, and \$31 million in Moffat county.

31. **Senate Bill 11-208 requires the Director of the Division of Parks and Wildlife to submit an informal progress report to the General Assembly by November 30, 2011. Please share the details of this report at the November 29 hearing with the Joint Budget Committee.**

This report will be provided to the Joint Budget Committee on or before November 29th.

4:30-4:55 QUESTIONS FOR THE COLORADO WATER CONSERVATION BOARD

ISSUE: Cash Fund Reporting Issues and Transfers to the General Fund

32. Explain the reasons for moving to a new cash fund equity calculation methodology. How is it different from the cash fund reports the Department used to submit in prior years?

During the summer of 2011, it was discovered that the Division of Parks and Wildlife had been over-reporting the balance in the Wildlife Cash Fund in certain cash fund reports. Further, it was determined that there were not sufficient moneys in the Wildlife Cash Fund to comply with the Parks and Wildlife Board policy that 10% of annual license revenue be held in reserve. In response to these findings, the Department of Natural Resources and other parties have called for an audit of the Wildlife Cash Fund. While the Legislative Audit Committee has unanimously approved such an audit, receipt of formal recommendations from the State Auditor's Office are not likely to be received for a year or more. Although the Department looks forward to working with the State Auditor's Office to explore improvements to its financial reporting and tracking, the seriousness of the situation also required more immediate actions.

The new cash fund reporting employed by the Department of Natural Resources in its FY 2012-13 Budget Request were created, in part, to address what happened with the Wildlife Cash Fund. Further, the new cash fund reporting was intended to address several other issues and inconsistencies with cash fund reporting. For the FY 2012-13 Budget Request, all DNR divisions were instructed to: (1) report cash fund balances for July 1, 2011 which reconciled to the closing balance at the end of FY 2010-11, as shown in MCR reports in the State's financial system (COFRS); (2) to show beginning balances that included not only cash, but all short-term assets and short-term liabilities; and; (3) to develop a separate reconciliation which showed how these beginning cash balances were calculated and what they included in cash and cash assets, non-cash assets, and liabilities. These changes were intended to achieve several benefits, including:

- Ensure that all DNR divisions were using a consistent methodology to complete the cash fund reports.
- Establish a means whereby the assumptions used to derive the starting fund balance were transparent. This step makes it significantly easier for outside parties to understand and check the steps and thought process involved in calculating a starting balance. This should make potential errors more likely to be caught before figures are reported to the General Assembly, Governor's Office, and public.
- Recent Budget Instructions have focused on liquid cash balance. In the Department's view, liquid cash can be misleading because it does focus on the entire state of a cash fund. For example, the Operational Account of the Severance Tax Trust Fund included \$19.6 million of cash and cash equivalents on June 30, 2011 according to COFRS. Rather than report this misleading figure, the Department believes it is important to offset this figure with the \$6.3 million of pending tax refunds and other liabilities (a short term liability or payable in accounting terms). To report only the cash and cash equivalents, in this case, is to overstate the amount of funding available for expenditure or transfer. In

other cases, exclusion of short-term receivables and other assets would result in under-reporting the size of a cash fund. As such, DNR is reporting starting fund balances as all short term assets minus all short term liabilities. In this regard, DNR cash balances more closely reflect the “fund equity” figures shown in COFRS.

- Although reporting fund equity is a different practice than in prior years, the reconciliations provided by the Department detail the actual and projected cash in DNR cash funds. By providing this figure, the Department feels that is providing the same information as provided in previous years, with additional detail, justification, and information provided as well to more fully document the status of DNR cash funds.

33. Is the new cash fund reporting methodology better and more accurate than what the Department used to provide in previous cash fund reports? Please explain.

As noted above, by providing a reconciliation detailing how beginning cash balances were calculated, it is the Department’s intent to be more transparent and have cash reports more readily cross-checked by both people inside and outside of DNR. In this regard, we believe that the information is less likely to contain errors. Further, by reporting on both cash and non-cash assets, it is the Department’s hope to foster a more comprehensive discussion of a given cash fund’s status. While it is still important to think about cash for cash flow purposes, the Department believes a thorough analysis should also consider short term assets and short term liabilities.

34. Is the Department the only agency that is using the new cash fund reporting methodology currently? If the Department believes that it provides better information to users, should not all agencies be using this methodology in reporting cash fund balances?

At this time, the cash fund reporting methodology described above is only being used by the Department of Natural Resources. The Department’s Budget Director has started to discuss cash fund reporting with other budget directors and the Governor’s Budget Office. In that regard, the Department’s position is not that all agencies should use DNR’s methodology, but that the State should consider whether there is a better methodology for cash fund reporting. DNR has no illusion that its methodology is perfect and would like to continue exploring ways cash fund reporting could be improved. Part of what makes cash reporting “good” or “better” needs to be determined by the end user of cash funds reports. As such, the Department would welcome any feedback from legislators and legislative staff on this new methodology.

35. Discuss the impact to the water project loan program of transferring \$33.9 million of Perpetual Base Account fund balance to the General Fund in FY 2012-13. What projects are most likely not to receive funding as a result of the transfer?

As stated in the answer to question 38, below, CWCB will accumulate \$20.0 million of unobligated funding between FY 2011-12 and 2012-13. This \$20.0 million will be available

for high-priority water project loans. Other FY 2012-13 obligations against the Account include:

- \$1.0 million for Agricultural Emergency Drought grants;
- \$12.0 million for the Animas-La Plata project, as embodied in H.B. 10-1250; and
- \$401,181 for transfer to the Department of Revenue as part of a proposal to refinance the collection of severance tax revenue

The combination of the proposed transfer of \$33.85 million and other obligations will effectively limit CWCB's ability to issue loans from the Account in FY 2012-13 to the \$20 million.

It is difficult to predict specific projects that will not receive funding. Currently the CWCB Water Loan Program has over \$128 million in funding needs identified for various water projects throughout the State (summarized on the attached Loan Forecast List). The timing on water projects can fluctuate based on design approval, public review process, permitting, and resources. With this caveat, CWCB is currently aware of three high-priority projects that could be likely candidates for partial funding in FY 2012-13 (from the \$20.0 million projected to be available for water projects):

- The Chatfield Reservoir Storage Reallocation Project will re-assign storage space in Chatfield Reservoir that is currently reserved for flood control purposes to space for joint flood control and conservation purposes, effectively increasing capacity for water supply. Up to 20,600 acre-feet of existing storage space will be re-allocated, providing water for agriculture and up to 32,000 homes. The estimated cost for implementing the preferred alternative could be as high as \$8,500 per acre-foot, for a total project cost of \$175.0 million. CWCB's preliminary projections are that approximately \$40.0 million in CWCB loans could be requested for project purposes.
- The Dolores Water Conservancy District is in the preliminary design phase to install hydroelectric power infrastructure on its channel system below McPhee Reservoir, estimated to cost \$6.0 million. It was the District's intent to begin securing funds for this project in the fall of 2012.
- The Rio Grande Reservoir is located on the headwaters of the Rio Grande in Hinsdale County with a storage capacity of approximately 54,000 acre-feet. Beaver Park Reservoir is located near South Fork, also in Hinsdale County, with a storage capacity of 4,400 acre-feet. The Rio Grande Cooperative Project involves a complete overhaul of the outlet works, seepage control measures, and the reconstruction/enlargement of the spillway, at Rio Grande Reservoir, at an estimated cost of \$20.0 million. The project also involves reconstruction of the dam embankment at Beaver Park Reservoir, at an estimated cost of an additional \$10.0 million.

With only \$20.0 million (at most) available in FY 2012-13 loan funding from the Account, additional appropriations may be needed in the future to finish these projects.

36. Does the Department have a methodology to provide a numerical calculation of the long-term impact of continued transfers from the Perpetual Base Account to the General Fund?

CWCB has not developed a specific methodology to project the long-term impact of transfers from the Perpetual Base Account and the Construction Fund. However, it is fairly straightforward to calculate this impact using some standard assumptions.

Through fiscal year 2011-12, the General Assembly has authorized the transfer of \$163.1 million from the Perpetual Base Account to the state General Fund. If this amount is amortized over a 20-year period, at an assumed growth rate of 3%, the transfers that have already occurred result in a total loss of fund equity of approximately \$219.3 million.

The Department has proposed an additional transfer of \$33.9 million from the Perpetual Base Account in FY 2012-13. With this proposal, the total transfer amount to date will be \$197.0 million; if this amount is amortized over a 20-year period at an assumed growth rate of 3%, the proposed transfers result in a total loss of fund equity of \$264.8 million.

37. Does the new cash fund reporting methodology trigger an automatic audit of the department?

No, there is not automatic trigger of an audit based on the new cash fund methodology. The Department supports the requested audit of the Wildlife Cash Fund and certainly hopes that process results in recommendations that help to manage all DNR cash funds more appropriately. DNR hopes that a more defined and thorough process for cash fund reporting, with more oversight by the EDO Budget Office, would reduce the likelihood of cash fund problems in the interim before the audit process is completed.

38. The Governor had directed the CWCB to hold a \$20.0 million reserve in the Perpetual Base Account of the Severance Tax Trust Fund for FY 2011-12. What is the current instruction of the Governor related to the reserve?

Per direction from the Governor's Office, a Perpetual Base Account ("Account") reserve estimated at \$20.0 million was to be accumulated in FY 2011-12. This reserve was originally intended to buffer against severance tax revenue volatility and, in a worst-case scenario, be available for General Fund budget balancing.

Due to lower-than-projected severance tax revenues in FY 2010-11 and a reduced forecast for revenue to be received this year, the FY 2011-12 reserve is now projected to be about \$13.0 million. This reserved funding will roll into FY 2012-13 and be combined with an additional \$7.0 million in FY 2012-13 funding to provide \$20.0 million of unobligated funding.

Given the importance of meeting the state's projected water supply needs, the Governor is now proposing that this \$20.0 million be used to fund high-priority water project loans in FY

2012-13 (assuming revenues are tracking to the forecast). The Department will work with OSPB to ensure that a negative balance in the Account does not occur.

4:55-5:00 DIVISION OF FORESTRY

39. Please describe the relationship between the Department and the Division of Forestry. What division in the Department acts as a liaison between the Department and the Division of Forestry?

House Bill 00-1460 created the Division of Forestry in the Department of Natural Resources. That legislation, codified in Section 24-33-201, C.R.S., also provides that the Department enters into an agreement with Colorado State University, through the State Board of Agriculture, to cooperate in the State's efforts to improve the management and health of Colorado's forests and to provide staff for the Division of Forestry. Preserved under that statutory change were the powers and duties of the State Board of Agriculture under Title 23, Article 30, Parts 2-4. No assets were transferred by virtue of H.B. 00-1460, and the administrative functions of the Colorado State Forest Service, including personnel, payroll, accounting, purchasing and budget, remain under the managerial purview of the State Board of Agriculture.

To date, some of the successes experienced by the partnership between the Department of Natural Resources and the Colorado State Forest Service (CSFS), as envisioned through the creation of the Division of Forestry, have included:

- DNR has assisted the CSFS with the Production of an annual forest health report;
- CSFS has provided assistance in managing forest thinning on properties owned by Colorado Parks and Wildlife;
- CSFS has provided assistance in managing timber sales on State Land Board properties;
- DNR has provided staff support to CSFS on the Forestry Advisory Board; and
- DNR and CSFS have worked cooperatively on several pieces of legislation to fund forestry grant programs and wildfire prevention programs using severance tax revenues.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

QUESTIONS COMMON TO ALL DEPARTMENTS

- 1. What is the Department's entire Information Technology (IT) budget for FY 2011-12 and FY 2012-13? Does the Office of Information Technology (OIT) manage the Department's entire IT budget? If not, what IT activities is the Department managing separate from OIT and what percentage is that of the entire IT budget for the Department for FY 2011-12 and FY 2012-13? Of the IT activities the Department still manages outside of OIT, what could be moved to OIT?**

Nearly all IT-related personnel appropriations have been consolidated into the Governor's Office of Information Technology. IT-related professional services and operating expense budgets continue to reside in departments' individual appropriations, and have not been consolidated into OIT. At this time, it is expected that budgets for IT professional services and operating expenses will remain in the departments' individual appropriations. However, during this fiscal year, all IT procurements will be centralized through the Office of Information Technology (the OIT Storefront). For FY 2012-13, the Executive Branch believes this represents the most efficient division of IT-related appropriations to ensure that departments maintain appropriate discretion in making technology and program decisions. The Executive Branch will consider further consolidation of IT appropriations in future fiscal years.

Depending on which expenditures are considered IT expenses, the Department of Natural Resources has annual IT expenditures of approximately \$13 million. In FY 2011-12 the department was appropriated \$9,208,332 for the four OIT related lines. These lines are Purchase of Services from Computer Center (GGCC), Multi-use Network Payments (MNT), Management and Administration of OIT (MAOIT), and Communications. These appropriations are for both IT staff and those services provided directly by OIT. The FY 2012-13 request for these lines is \$8,898,653.

The Department has maintained control of the spending authority for its operating expenditures, including those that are related to IT, but works in conjuncture with OIT to make these expenditures. The Governor's Office of Information Technology (OIT) has established policies and procedures for seeking OIT approval of IT related purchases. Department staff coordinate these purchases to achieve program goals while OIT provides the technical expertise. Each year the Department must prioritize its operating expenditures and balance the needs of IT systems with other demands on the Department's resources. In FY 2010-11 the Department spent approximately \$4 million on IT operating but that number has average \$3.5 million over the last five years as can be seen in the chart below.

	IT Operating by Year
2011	\$ 3,998,297.36
2010	\$ 3,811,180.48
2009	\$ 3,037,968.64
2008	\$ 3,412,015.38
2007	\$ 3,354,097.66

The FY 2010-11 expenditures (and the other years as well) are based on a set of COFRS codes related to IT expenditures. These expenditures include one-time monies, grants, cyclical expenditures (such as equipment replacement), system upgrades, and other non-annual expenditures. The detail for FY 2010-11 is shown below.

FY 2010-11 Expenditures

1961 PERSONAL SVCS- IT - SOFTWARE	\$237,189.45
1962 PERSONAL SVCS- IT - CONSULTING	\$900,507.80
2231 IT HARDWARE MAINT/REPAIR SVCS	\$283,534.58
2232 IT SOFTWARE MNTC/UPGRADE SVCS	\$426,813.68
3116 NONCAP IT - PURCHASED PC SW	\$271,507.74
3140 NONCAPITALIZED IT - PC'S	\$963,064.61
3142 NONCAPITALIZED IT - NETWORK	\$14,708.17
3143 NONCAPITALIZED IT - OTHER	\$263,636.02
3146 NONCAP IT-PURCHASED SERVER SW	\$10,146.11
6211 IT PC'S - DIRECT PURCHASE	\$9,590.70
6212 IT SERVERS - DIRECT PURCHASE	\$100,621.72
6213 IT PC SW - DIRECT PURCHASE	\$57,400.00
6214 IT OTHER - DIRECT PURCHASE	\$197,950.81

6216 IT SERVER SW - DIRECT PURCHASE	\$19,475.00
6217 IT NETWORK SW- DIRECT PURCHASE	\$101,046.82
1960 PERSONAL SVCS- IT - HARDWARE	\$20,170.00
6215 IT NETWORK - DIRECT PURCHASE	\$6,369.15
3147 NONCAP IT-PURCHASED NETWORK SW	\$495.00
6512 CAP PERSONAL SVCS- IT/SOFTWARE	\$114,070.00
Subtotal	\$3,998,297.36

2. What hardware/software systems, if any, is the Department purchasing independently of the Office of Information Technology (OIT)? If the Department is making such purchases, explain why these purchases are being made outside of OIT?

The Department of Natural Resources does not purchase hardware or software systems independent of OIT.

3. Please list and briefly describe any programs that the Department administers or services that the Department provides that directly benefit public schools (e.g., school based health clinics, educator preparation programs, interest-free cash flow loan program, etc.).

- Nearly half (24) of Colorado’s state parks collaborate with their local school districts to provide programs for school children ranging from grades K-12. Two parks, Ridgway and Roxborough, provide programs correlated to state education curriculum standards. In addition, Ridgway and Mueller State Parks work closely with the Teaching Environmental Science Naturally (TEN) program – an educator training model. All of the State Park school programs provide experiential environmental education programs that utilize parks’ wonderful outdoor classrooms.
- Colorado Parks and Wildlife has a number of programs involving formal and informal wildlife education programs in partnership with public schools. These programs include Project WILD, Teaching Environmental Science Naturally (TEN), Native Fish in the Classroom, and the Colorado Archery in Schools program.
 - Through Project WILD, educators are trained to teach students about Colorado’s wildlife resources using curriculum products created by the Association of Fish and Wildlife Agencies Conservation Education Strategy. Once trained, educators

reach thousands of Colorado students in schools and in non-formal education settings each year.

- The Teaching Environmental Science Naturally (TEN) is an expanded and more intensive educator training model. Multiple day trainings, using Project WILD and other materials, help Colorado teachers learn and apply strategies to get their students outdoors as part of a standards-based curriculum, including the development of local, site-based outdoor environmental science programs.
- In the Native Fish in the Classroom program, located in southwest Colorado, classroom teachers and students raise certain threatened and endangered fish species during the school year, and join Parks and Wildlife staff for spring fish-release field trips.
- Colorado Archery in the Schools Program (CASP) provides training and support for Colorado educators to teach Olympic-style archery as part of the Physical Education program in schools or as part of after-school programming. Nationally, every teacher must participate in the standardized 8-hour Basic Archery Instructor (BAI) training in order to be certified as an Instructor. These certified Instructors are then eligible to participate in state and national tournaments and to buy equipment through the National Archery in the Schools web site. Colorado Parks and Wildlife hosts these nationally-standardized BAI trainings, buys training materials, provides access to state and national tournaments, and provides support to schools to buy equipment.
- The Office of Water Conservation and Drought Protection. One of their staff members reaches out to elementary school aged children to provide water conservation education. In May of each year, water providers throughout the state sponsor Children's Water Festivals to educate 4th and 5th graders on different aspects of water. The CWCB attends these festivals regularly to convey a conservation message to the students. Staff gives a 20-25 minute presentation explaining that water is a valuable resource and the presentation ends with different ways the students can conserve water in their homes. The section provides the kids with some inexpensive giveaways, such as a sticker that reminds the children to turn the water off when they brush their teeth. The students also receive leak detection tablets so they, under parental supervision, can check to see if a toilet is leaking in their home.
- The CWCB also travels to individual schools as requested by teachers to speak to their class about conserving water. Similar giveaways are also passed out to those students.

- The primary purpose of the State Land Board is to generate income for the benefit of the public schools. The State Board of Land Commissioners (also known as the State Land Board and the SLB) was established in 1876 to manage more than 3 million acres of land and 4 million acres of mineral rights that the federal government gave to Colorado to generate revenue for public education and some of the state's institutions. The Board's activities generate significant revenue annually for its trust beneficiaries, primarily through agricultural leases for grazing and crop lands, mineral development and interest earned on invested funds. In recent years, the board has expanded its efforts to increase revenue through commercial development activities and leasing lands for recreational activities.