

Department of Natural Resources
Schedule 10
FY 2012-13 Budget Request

Priority	Number	Division	Request	Requires Legislation?	FTE	Total Funds	General Fund	Severance Tax	Cash Funds	Reappropriated Funds	Federal Funds
Decision Items											
1	R-1	Oil and Gas Conservation Commission	Field and Technical Support Staff	No	5.0	\$430,472	\$0	\$0	\$430,472	\$0	\$0
2	R-2	State Land Board	Asset Management System Upgrade	No	0.0	\$750,000	\$0	\$0	\$750,000	\$0	\$0
3	R-3	Water Resources	DWR Line Item Consolidation	No	0.0	\$0	\$0	\$0	\$0	\$0	\$0
4	R-4	State Land Board	Interagency Water Expertise	No	0.0	\$120,000	\$0	\$0	\$120,000	\$0	\$0
5	R-5	Executive Director's Office	Integrated Resource Services	No	0.0	\$250,000	\$0	\$0	\$0	\$250,000	\$0
6	R-6	State Parks	Consolidation of GOCO Line Items	No	0.0	\$0	\$0	\$0	\$0	\$0	\$0
7	R-7	State Parks	Consolidation of Parks' IT Line Items	No	0.0	\$0	\$0	\$0	\$0	\$0	\$0
8	R-8	Executive Director's Office	Adjustments to Leased Space	No	0.0	(\$20,258)	(\$5,484)	\$3,505	(\$20,611)		\$2,332
Total - Decision Items					5.0	\$1,530,214	(\$5,484)	\$3,505	\$1,279,861	\$250,000	\$2,332
Base Reduction Items											
1	BRI-1	Colorado Water Conservation Board	Severance Tax Perpetual Base Account Transfer (\$33.85 million)	Yes	0.0	\$0	\$0	\$0	\$0	\$0	\$0
Total - Base Reduction Items					0.0	\$0	\$0	\$0	\$0	\$0	\$0
Non-Prioritized Items											
NA	NP-1	Executive Director's Office	Vehicle Replacements	No	0.0	\$207,431	\$38,778	(\$3,045)	\$172,425	\$0	(\$727)
Total Non Prioritized Items					0.0	\$207,431	\$38,778	(\$3,045)	\$172,425	\$0	(\$727)
Grand Total November 1, 2011					5.0	\$1,737,645	\$33,294	\$460	\$1,452,286	\$250,000	\$1,605

Schedule 13 Funding Request for the 2012-13 Budget Cycle						
Department:		Natural Resources				
Request Title:		Field and Technical Support Staff				
Priority Number:		R-1				
Dept. Approval by:		<i>Will H. Lewis</i> 10/12/2011			<input checked="" type="checkbox"/> Decision Item FY 2012-13 <input type="checkbox"/> Base Reduction Item FY 2012-13 <input type="checkbox"/> Supplemental FY 2011-12 <input type="checkbox"/> Budget Amendment FY 2012-13	
		Date				
OSPB Approval by:		<i>Paul M. ...</i> 10/17/11				
		Date				
Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items		Total	-	8,823,897	430,472	410,764
	FTE	67.0	-	67.0	5.0	5.0
	GF	293,114	-	293,114	-	-
	GFE	-	-	-	-	-
	CF	8,365,781	-	8,478,632	430,472	410,764
	RF	-	-	-	-	-
	FF	52,151	-	52,151	-	-
(1) Executive Director's Office, Vehicle Lease Payments		Total	-	2,898,675	1,446	5,784
	FTE	-	-	-	-	-
	GF	293,114	-	293,114	-	-
	GFE	-	-	-	-	-
	CF	2,553,410	-	2,553,410	1,446	5,784
	RF	-	-	-	-	-
	FF	52,151	-	52,151	-	-
(4) Oil and Gas Conservation Commission, Program Costs		Total	-	5,925,222	429,026	404,980
	FTE	67.0	-	67.0	5.0	5.0
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	5,812,371	-	5,925,222	429,026	404,980
	RF	-	-	-	-	-
	FF	-	-	-	-	-
Letternote Text Revision Required? Yes: <input checked="" type="checkbox"/> No: <input type="checkbox"/> If yes, describe the Letternote Text Revision:		The FY 2012-13 OGCC letternote "a" will need to be revised to reflect an additional \$429,026 coming from the Oil and Gas Conservation and Environmental Response Fund.				
Cash or Federal Fund Name and COFRS Fund Number:		Oil and Gas Conservation and Environmental Response Fund (#170)				
Reappropriated Funds Source, by Department and Line Item Name:						
Approval by OIT? Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/>						
Schedule 13s from Affected Departments:		Department of Personnel and Administration, State Fleet				
Other Information:						



DEPARTMENT OF NATURAL RESOURCES

*FY 2012-13 Funding Request
November 1, 2011*

*John W. Hickenlooper
Governor*

*Mike King
Executive Director*

***Department Priority: R-1
Field and Technical Support Staff***

Summary of Incremental Funding Change for FY 2012-13	Total Funds	Cash Funds	FTE
OGCC – Additional Field and Technical Support	\$430,472	\$430,472	5.0

Request Summary:

Due to increased workload, the Oil and Gas Conservation Commission (OGCC) is requesting an expansion of its field and technical support staff by 5.0 FTE and \$430,472. The budget increase would be funded by the Oil and Gas Conservation and Environmental Response Fund. This fund receives revenue through a mill levy on the value of oil and gas produced in Colorado.

The OGCC needs to expand its hearings, inspection, engineering, and environmental programs to keep pace with industry activity. The growth in the number of active wells, hearing applications, enforcement matters, and wells that are drilled either directionally or horizontally threaten the agency's ability to credibly foster balanced oil and gas development.

To manage the workload over the last few years, the agency has relied extensively on contractors, which have exceeded 15% of total staff at times. Some contract support allowed the OGCC to completely avoid hiring FTE in work units that experienced extreme, but short term workload increases. Other contractors merely delayed and further validated the need for additional FTE. As an example of the former, the agency's recent successful implementation of electronic drilling permit applications and other electronic forms resulted in the elimination of three data input positions that had been held by an FTE and two contractors. The two contractors were released, and the FTE was reassigned to the OGCC's

production unit, where another contractor had been filling longer term needs. In the four situations discussed below, contractors are either inappropriate or they have been used to such an extent that State personnel and procurement rules prohibit the continued use of them.

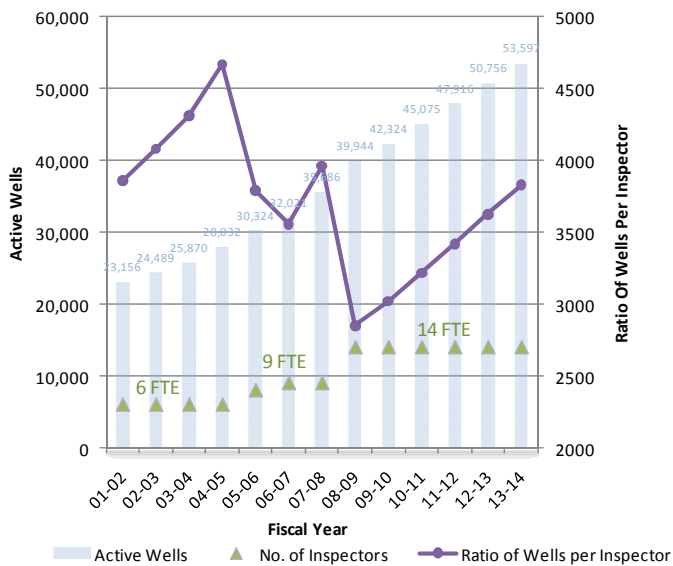
Hearings and enforcement program (1.0 FTE, Hearing Officer, \$88,481):

The hearings and enforcement program received its most recent staff increase in FY 2007-08, when the annual number of hearing applications reached 104, nearly double the number of applications received just a few years earlier. In fiscal years 2009-10 and 2010-11, the number of applications jumped even higher to 125 and 254, respectively. With the approval of drilling permits frequently tied to the outcome of hearing applications, delays in hearings could force the average permit processing time to creep back up after two years of focused effort to reduce it from a median of 70 days to a median of 26 days. Furthermore, the unit has been inundated with enforcement matters in recent years. Staff is currently prosecuting serious rule violations that date back to 2008. Eliminating the enforcement backlog and taking action on new violations in a timely manner would enhance the State's regulatory credibility. The requested hearing officer would focus on hearing applications, allowing the enforcement officer to spend more time on enforcement matters.

Inspection Program (2.0 FTE, field inspectors, \$175,500, including 2 vehicles)

The inspection program has experienced significant workload increases over the last few years without staff adjustments. By the end of FY 2012-13, Colorado will be home to about 51,000 active wells, a 28% increase over FY 2008-09 when the last inspector positions were added as the active well count reached 40,000. To achieve the agency’s goal of inspecting each well, on average, at least once every three years, the number of wells per inspector should stay below 3,000. As shown in Figure 1 below, the FY 2011-12 ratio of 3,400 wells per inspector already exceeds the 3,000 well/inspector mark. Without additional resources, the ratio will increase to about 3,600 in FY 2012-13. With each inspector conducting about 1,000 inspections annually, a ratio of 3,600 wells per inspector equates to an average inspection rate of once every 3.6 years.

Figure 1: Wells Per Inspector - Impact of No Additional Staff

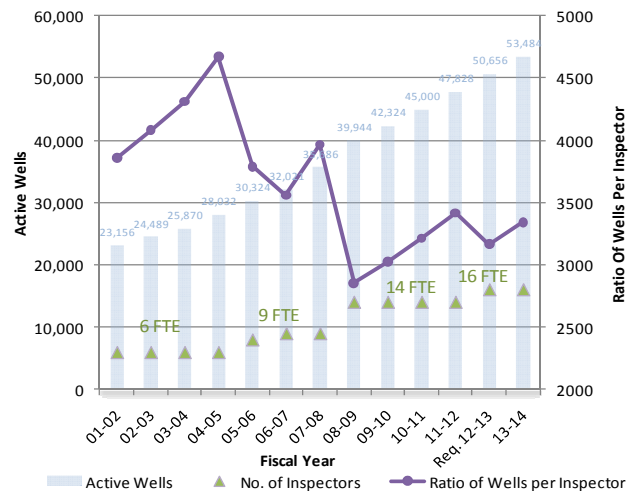


Though, on average, wells are inspected every 3.6 years, wells with known problems, such as leaking pits or insufficient interim reclamation, may require multiple visits over the course of several years, thus delaying inspections of other wells for as long as eight to ten years. Furthermore, the state currently has 50,000 plugged and abandoned wells, of which 1,200 are awaiting final reclamation inspections before the

OGCC can release the operators’ performance bonds. These final inspections often consume significant time; especially when issues are found and follow-up visits are needed to confirm work was completed.

To maintain an average inspection rate of once every three years for the active wells, the OGCC should add at least one inspector per year. In light of the state’s difficult fiscal situation, however, the Department did not request inspection staff increases for fiscal years 2010, 2011, and 2012, and is now requesting only two inspectors for FY 2013, although more may be justified. To be clear, expanding the program from the current 14 inspectors to the proposed 16 inspectors (Figure 2) would provide much needed resources, improve the inspection rate, and reduce risks associated with oil and gas activity. However, this decision item would not provide the resources necessary to fully keep pace with bond release requests, the current level of drilling, and all the activity and complaints associated with a robust oil and gas industry. Inspectors’ duties extend far beyond routine inspections. Inspectors frequently respond to complaints regarding light, dust, and noise from drilling activities, as well as ensure that exploration and production wastes are disposed of properly and that best management practices are followed during well pad construction.

Figure 2: Wells Per Inspector - Impact of 2 Additional FTE in FY 12-13

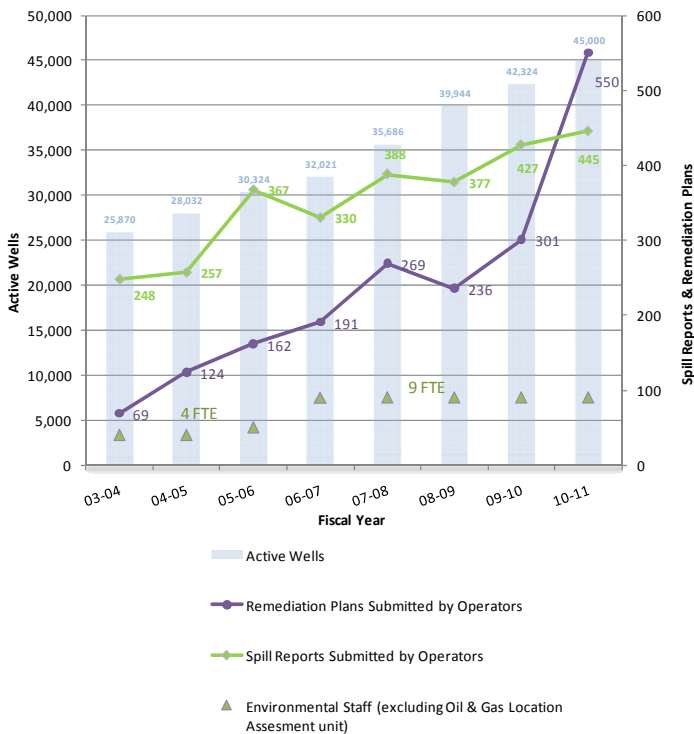


The requested field inspectors would be located in Weld County and Northwest Colorado, the two areas experiencing the highest levels of industry activity.

Environmental Program (1.0 FTE, Environmental Protection Specialist II, \$87,703)

The OGCC’s environmental program faces workload increases that, if not addressed, could also impede industry development. If the State does not demonstrate an ability to protect the environment, while there is an ever increasing number of oil and gas wells, well pads, production, waste management, and other associated facilities, there could be a stronger push by some groups to either curb oil and gas development or shift regulatory responsibilities to the federal government or local governments. Since the last staff increase, the annual number of spills reported and the number of remediation plans submitted by industry have increased 35% and 188%, respectively (see Figure 3).

Figure 3: Spill/Release Reports & Remediation Plans vs Environmental Staffing



Note: The number of spill/release reports does not necessarily correlate with the number of spills

and releases in any given year. Operators frequently discover old releases when upgrading equipment, conducting new activity, or transferring properties. Each spill/release report requires staff time, however, and some require on-site visits.

Remediation plans are submitted for spills and releases, as well as other types of environmental impacts. The initial review of each plan consumes between 1/2 day to several days, depending on its quality and complexity. All plans require a follow-up review and closing letter. Some of the more complex remediations can require months of staff time.

Moreover, as operators seek to treat, reuse, and recycle waste fluids, they are submitting a record number of centralized exploration and production (E&P) waste management facility applications and reuse/recycling plans to the OGCC for approval. For example, the E&P waste management facility applications have increased from one per year in calendar years 2008 and 2009, to three in 2010, and to six through June 2011. Reviewing the applications, their associated annual reports, reuse/recycling plans, and keeping track of fluids as they move from one location to another is essential to regulating these operations effectively, but cannot be done in a timely manner with current resources.

The agency also lacks the resources to maintain, manage, routinely review, and proactively respond to: 1) analytical data sets from thousands of water wells, oil and gas wells, springs, monitoring wells, other fluids, such as drilling, production and hydraulic fracturing fluids, or other sources of water or gas that are the subject of OGCC regulations, investigations or baseline studies; 2) results of formation pressure tests; and 3) analytical and geographical information about gas seeps around the state. The analytical data on water, other fluids, and gas, in particular, is voluminous and growing daily. With hydraulic fracturing in the national spotlight, the OGCC receives frequent water sampling requests from concerned property owners, especially those

living in areas that are new to oil and gas development. In FY 2010-11, the OGCC collected and analyzed 182% more water well samples than it did the previous year. The investigations also trigger the need to collect samples for laboratory analysis from nearby oil and gas wells. The results from these samples are compared to the results from the water wells to determine whether the allegations of impact from oil and gas activities can be confirmed. In some areas of the State, such as La Plata County, operators with coalbed methane (CBM) wells have been required for more than a decade to collect water samples before, during, and after the drilling of an oil and gas well. Similar requirements now apply statewide to all CBM wells. Operators with wells in close proximity of surface water that is the source of public drinking water supply must collect samples to demonstrate that the water has not been impacted. Additionally, operators with proposed wells in certain areas of the Greater Wattenberg field in Weld County must collect samples from water wells to establish baseline water quality. Operators drilling in other parts of the State may soon begin doing the same. Therefore, it is imperative that the OGCC has the resources required to manage all of this analytical and field data in such a way that it can be mapped, analyzed, and used for investigative purposes and policy direction. Colorado is the only state that has been collecting baseline and subsequent water quality data, and the benefits of such forward thinking are just now being recognized on a national scale as politicians, industry leaders, and environmental groups from around the country debate the merits and risks of hydraulic fracturing.

The requested position would:

- Manage and maintain information on: water and oil and gas wells that are the subject of OGCC investigations; gas seeps around the state; and analytical results from formation pressure tests, as well as prepare maps, summary reports, and trend analyses of these and other data. The organized and compiled

data would facilitate analysis by the environmental staff to determine whether impacts from oil and gas operations are occurring or have the potential to occur.

- Track compliance with requirements to submit environmental data that is contained in various commission orders, rules, drilling and waste management permits, and remediation projects to ensure that public health, safety, welfare, wildlife, and the environment are being protected and, should impacts occur, that they are quickly detected. This compliance tracking, while very important, has not been performed on a regular basis due to other high priority tasks. This work would allow the OGCC to take a more proactive role in anticipating, responding to, and mitigating public health, safety, and welfare and environmental impacts related to oil and gas operations.
- Maintain complaint, spill/release, remediation, and special project files.
- Improve the efficiency of the environmental unit by reviewing and entering analytical data that is received in a variety of formats from different laboratories and working with industry and laboratories to develop a consistent method for submitting the data in an electronic format.

Engineering Program (1.0 FTE, Engineering Technician, \$78,788)

Additionally, the OGCC needs to address workload increases associated with a surge of directional and horizontal drilling. Approximately 76% of all wells are now drilled directionally, as compared to 57% as recently as 2007. To further complicate matters, 16% of all wells are now drilled horizontally. In the years prior to 2009, the OGCC permitted a total of 149 horizontal wells. In comparison, the OGCC permitted 169 horizontal wells in 2009 alone, 462 in 2010, and 449 during the first six months of 2011. This trend is expected to continue, with oil and gas operators announcing plans to drill

hundreds more of these wells in northern Weld County and potentially in other areas of eastern Colorado, including counties as far south as Douglas and Elbert. While this economic boost is welcomed by the state, horizontal drilling brings a host of new challenges to the OGCC. For the agency to continue providing the level of service expected by the industry, local governments, and the general public, an additional engineering technician is essential.

The requested engineering technician would focus on the review of routine regulatory reports, such as: completion reports, of which the agency currently has a total of about 1,200 in backlog; well abandonment reports, of which 315 are in backlog; and sundry reports, of which 238 are in backlog, thus freeing time for the experienced engineers to work on the inevitable, complicated exceptions to these routine reports. Additional duties would include:

- Evaluating well spacing requests, which require a considerable amount of time to ensure optimal well density and prevent waste. There were 24 spacing requests in 2009, 43 in 2010, and already 157 in the first six months of 2011.
- Evaluating new drilling, cementing, and well stimulation techniques, such as multi-stage hydraulic fracturing of a tight oil formation. The OGCC needs to increase the frequency in which it witnesses the cementing of surface and production casing strings from about 7% to 10% of wells. Surface casing is the primary protection of fresh water aquifers, and the placement of cement should be observed to at least some extent by OGCC staff engineers. The placement of production casing cement should also be monitored to verify the isolation of the hydrocarbon zones. As a comparison, the State of Ohio witnesses 90% of surface casing cement jobs, while Oklahoma reports that it witnesses between 40% and 60% of these procedures. With industry's development of new cement designs to support new completion

techniques, observing the effectiveness of these designs is imperative.

Cost of FTE vs Contractor: In FY 2010-11, with the use of one-time vacancy savings, the OGCC contracted with an engineer to review completion reports on a near full-time basis, without the distractions and problems that staff engineers routinely face. The contractor significantly reduced the backlog from 5,500 reports to 1,200 reports. Unfortunately, the workload continues at a very high rate, due to the daily inflow of reports. As such, there is little confidence that the reports can be reviewed in a timely manner when the workload is returned to the engineering staff in FY 2011-12, when funding from vacancy savings is no longer available. Shifting this work to the requested engineering technician would save a significant amount of money. The annual cost of a contract engineer at an hourly rate of \$53.46 is \$111,197. However, an Engineering Technician with some previous oil and gas experience and whom the OGCC believes can be trained to review some of the more routine regulatory reports would cost the state \$78,788 in the first year and \$74,610 in the second.

In summary, the five requested positions for the hearings, inspection, environmental, and engineering programs will not solve all the aforementioned issues and backlogs, but they will provide a stopgap measure and prevent serious degradation of the OGCC's services and its credibility with the public and industry.

Assumptions for Calculations:

Due to competition with the oil and gas industry for skilled employees, the OGCC has been unable to attract 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. To successfully compete for qualified candidates, the OGCC is requesting that funding be appropriated at 29%

above range minimum for the Field inspector and Engineering Technician positions, 17% above range minimum for the Hearings Officer, and 11% above range minimum for the Environmental Specialist position. These figures represent the salaries required of the most recent candidates for these job classes.

For the two requested home-based field inspectors to perform their tasks, vehicles, travel expenses, laptops, field equipment, safety equipment, and cell phones, as described below, will also be necessary.

- Two state vehicles are required for the requested home-based field inspectors that will live in northwest and northeast Colorado. State Fleet Management has reported that 4x4 Jeep Liberties will cost approximately \$241 per month, per vehicle. Four wheel drive vehicles are necessary to access oil and gas fields, which are frequently located in rough terrain.
- Travel expenses are estimated at \$1,000 per year per inspector
- Laptops: Field Inspectors require laptops with upgraded processors and storage to allow them to use GIS software and OGCC custom applications, both of which are necessary to carry out the agency's mission. The most recent laptop purchase on May 4, 2011 was priced at \$1,800.
- Appropriate field and safety equipment for field inspectors include: GPS units (for precise mapping of orphan wells, spills, etc.), digital cameras, gas detectors (to detect dangerous levels of H₂S, methane, and other gases), SPOT units (for search and rescue if inspector does not return from remote well location in timely manner), and FRC (fire retardant clothing, i.e. coveralls, as required by many operators before allowing OGCC's inspectors on an oil and gas site). The request includes \$1,000 to cover a portion of these costs in the first year and \$250 per year thereafter for routine maintenance, new batteries, and the purchase of new equipment, as needed.
- Cell Phones: Verizon's basic plan is currently \$31.53/month.

Consequences if not Funded:

Many of the consequences of not funding this request, such as increased time between well inspections, slower release of performance bonds, delayed hearings and associated drilling permit approvals, and an ongoing, severe backlog of regulatory reports and enforcement matters, have already been discussed above, but other consequences, such as a delayed response to public complaints could be on the horizon. Currently, the OGCC inspectors respond to complaints within 24 hours. This response time, which is an important public service, especially for people with drilling activity on their property, may not be possible without additional resources. A less responsive state regulatory agency would ultimately be detrimental to a thriving sector of the state's economy, because if the OGCC, as well as its counterparts in other states, lack the resources to adequately oversee the oil and gas industry, public confidence would be lost and regulatory responsibilities could be shifted to the federal government or local governments, adding unnecessary regulatory burden to the industry.

Furthermore, increased field presence of the OGCC's professional engineers is important for ensuring compliance with cementing and hydraulic fracturing standards and for maintaining credibility with the EPA, the industry, and the public. The engineering unit has had little field presence since about 2006, due to the seemingly endless, high volume of paperwork. Without additional technical support to absorb some of the workload, the current staff will remain at their desks. Engineers need to be observing field operations as often as possible, to give them a better understanding of complex drilling and completion technologies that they are routinely asked to review and approve.

Impact to Other State Government Agency:

The Department of Personnel and Administration, State Fleet, will be impacted by the two State-owned vehicles included in this request.

Current Statutory Authority or Needed Statutory Change:

This request will *not* necessitate a statutory change. The following statutes give the OGCC broad authority to request these additional resources:

CRS 34-60-102(1): Oil and Gas Conservation Act – declares it is to be in the public interest to foster the responsible, balanced development, production, and utilization of the natural resources of oil and gas in the state of Colorado in a manner consistent with protection of public health, safety, and welfare, including protection of the environment and wildlife resources...

CRS 34-60-106(2)(d): The commission has the authority to regulate...Oil and gas operations so

as to prevent and mitigate significant adverse environmental impacts on any air, water, soil, or biological resource resulting from oil and gas operations to the extent necessary to protect public health, safety, and welfare, including protection of the environment and wildlife resources, taking into consideration cost-effectiveness and technical feasibility.

Cash Fund Projections:

The Oil and Gas Conservation and Environmental Response Fund (Fund 170) is capable of funding this request without a mill levy increase, under current production and product price projections. Table 1 below shows the agency’s projections through FY 2013-14.

Table 1

Cash Fund Name	Cash Fund Number	FY 2010-11 Expenditures	FY 2010-11 End of Year Cash Balance	FY 2011-12 End of Year Cash Balance Estimate	FY 2012-13 End of Year Cash Balance Estimate	FY 2013-14 End of Year Cash Balance Estimate
Oil and Gas Conservation and Emergency Response Fund	170	\$5,454,078	\$7,867,464	\$7,500,000	\$6,500,000	\$5,800,000

**Schedule 13
Funding Request for the 2012-13 Budget Cycle**

Department: Natural Resources
 Request Title: Asset Management System Upgrade
 Priority Number: R-2

Dept. Approval by: Will. H. Levine 10/12/2011 Date
 OSPB Approval by: Walt H. Smith 10/12/11 Date

Decision Item FY 2012-13
 Base Reduction Item FY 2012-13
 Supplemental FY 2011-12
 Budget Amendment FY 2012-13

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
		Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
	Fund					
Total of All Line Items	Total	-	-	-	750,000	750,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	750,000	750,000
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(5) State Board of Land Commissioners, Asset Management System Upgrade (new line item)	Total	-	-	-	750,000	750,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	750,000	750,000
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:
 "This amount shall be from the State Land Board Trust Administration Fund established pursuant to Section 36-1-145 (2)(a), C.R.S. and is derived from mineral royalties, bonus income, lease rental revenue, timber sales, and related interest income."
 Cash or Federal Fund Name and COFRS Fund Number: 162 - Trust Administration Fund
 Reappropriated Funds Source, by Department and Line Item Name:
 Approval by OIT? Yes: No: Not Required: Pending:
 Schedule 13s from Affected Departments: N/A
 Other Information: N/A



DEPARTMENT OF NATURAL RESOURCES

*FY 2012-13 Funding Request
November 1, 2011*

John W. Hickenlooper
Governor

Mike King
Executive Director

Bill Ryan
Director

Department Priority: R-2
Request Title: Asset Management System Upgrade

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
Asset Management System Upgrade: Application Development	\$750,000	\$0	0.0

Request Summary:

The State Land Board requests an appropriation of \$750,000 Cash Funds in FY 2012-13 and \$750,000 Cash Funds in FY 2013-14 for the application development phase of an ongoing project to replace and upgrade the State Land Board asset management system. The old system, known as SAMS, has reached the end of its useful life and lacks essential functionality to support the efficient and effective work of the Board and its staff. In keeping with the priorities in its Strategic Plan, the Board proposes replacing SAMS with a system that is GIS-based, utilizes the OIT-approved Microsoft.net application platform, and provides significantly enhanced capabilities for electronic document management. The source of funding for the request is from revenues of the Board maintained in the Trust Administration Fund (Fund #162).

Project History. The early phases of the project involved database conversion work which is being accomplished within the base budget of the State Land Board. Development of an application that will utilize the database is a much more expensive undertaking that will require appropriations of \$750,000 in FY 2012-13 and FY 2013-14 – for a total application development cost of \$1.5 million. The benefits of the project include a dramatic enhancement of the State Land Board's ability to identify opportunities for increasing the value generated by its holdings as

well as reduced data entry times, elimination of errors related to a paper-intensive system, and greater payment flexibility for our customers.

The first phase of the project will be completed at the end of FY 2010-11, with the movement of the existing SAMS database from old, unsupported, database software known as SYBASE to the industry-standard database software, Microsoft SQL-Server. The second phase of the project will be completed with existing funding and will involve rewriting the table structure in the new database and developing the link between the lease information in the new database and the Department of Natural Resources GIS system. With completion of the second phase of this project, work on the database will be nearly complete; however work on the application (the user interface) software will not have begun.

Proposed Solution. The funding requested in this decision item is for phase three of the project: development of an application that will make use of the upgraded database. The State Land Board has a critical need to integrate map data contained in the GIS system with lease information contained in the existing asset management system. This integration will greatly enhance the Board's ability to manage its portfolio of assets by making information about land values, lease payments, tenant status, and other critical data

readily available to staff and the Board for purposes of identifying and evaluating opportunities to increase the value of the Board's holdings. This improvement includes expanding the Board's asset management practices and the classes of assets that are tracked.

Anticipated Outcomes:

A new system, the Colorado Cartographic Asset Management System (COCAMS) will allow assets to be identified, managed, and tracked apart from the asset's use and/or lease. For example, property leased for grazing might be irrigated property that has been temporarily put to pasture. In addition, surface use does not preclude minerals use and certain surface uses may be able to co-exist on a parcel. Consequently, the COCAMS system will allow the State Land Board to track, analyze, and report on a large quantity of additional information not contained in the lease, such as mineral potential, current land value, and other potential uses for each parcel of land.

The State Land Board requires the ability to track its assets and all potential uses independent of the current lease(s) that may be in place on the property. That ability requires linking existing lease and revenue data to a Geographic Information System (GIS) so that both current and potential uses can be identified, analyzed, and managed. Without a systematic way to track and report on assets, the Board stands to lose opportunities to increase the value and income generated by its holdings.

This request is the State Land Board's top priority for FY 2012-13. The project is essential to the Board's ability to generate increased revenue to support K-12 education, not only in FY 2012-13, but for many years to come. Some of the key reasons that funding is essential in FY 2012-13 include the following:

- The State Land Board is in the midst of a portfolio analysis project that will identify strategic opportunities for investments to increase annual revenue generation and long-

term asset values. Implementing a new asset management system is essential to ensure that the Board has the necessary capabilities to implement recommendations that arise from the portfolio analysis.

- In order to achieve the goal of maintaining consistently higher returns on state trust assets and provide stable long-term income for K-12 education, the State Land Board must have the necessary tools to properly manage its assets. FY 2010-11 was a record revenue year for the State Land Board due to exceptionally high one-time mineral bonus revenues. Higher-than-expected revenues from state trust lands were directly responsible for more than \$62 million in additional funding that became available to K-12. There is a strong likelihood that revenues will also be higher in FY 2011-12, but could easily fall off after this fiscal year due to various market factors.

The new AMS system would generate substantial improvement in the efficiency and effectiveness of the Board's asset management function. Among the improvements are:

- Consolidating functions into one application rather than having to manually reconcile data from multiple sources including COFRS, SAMS, the Ranchland Database, the revenue database, GIS asset and revenue maps, the auction database, the escrow database, the trust transfer reconciliation, the cash reconciliation, quarterly and annual revenue reports, the advanced mineral royalty spreadsheet, and several other data sources;
- Providing a consistent classification scheme for all assets and the associated revenue, valuation, and other data – currently multiple systems have different schemes for classifying SLB assets;
- Linking critical data elements (both in tables and in GIS format) that are currently not linked together in a single system – for example, the SAMS system cannot generate a report that identifies the mineral potential on properties that surround the Board's existing

leases – the COCAMS system would capture this data, thus providing a tool for evaluating the production potential of such parcels;

- Tracking all assets in a single system – for example the Board currently owns over \$100 million in non-land assets that are tracked in separate systems or paper files; and
- Automation of multiple manual functions, which will significantly reduce processing times and allow for staff resources to be redirected to value-added activities. These functions include: instant tabular and map-based identification of land status; converting up to 60 paper-based forms and applications to electronic submissions; electronic payment acceptance; and use of checklists and tasks to automatically route, remind, and verify completion of work tasks.

By investing in improved electronic asset management capabilities, the staff of the State Land Board will be able to redirect their focus to value-added activities that will further strengthen the Board’s management of its portfolio. Among the functions that will benefit from an enhanced system are:

- Revenue generation through analysis of revenue trends, parcel valuation, and market opportunities to identify potential transactions that can increase the value and income generated by the portfolio;
- Audits of leases, payments, and transactions to ensure all revenue is paid in a timely manner in accordance with lease terms;
- Instant, rather than delayed, generation of reports for both business workflow and decision support; and
- Greater depth and sophistication in financial and management reporting for both the Board and key stakeholders including the Governor’s Office, the JBC, the SAO, and other legislative committees.

Assumptions for Calculations:

Because much of the design work is already complete due to the staff and consultant work performed in the past fiscal year, The State Land Board is confident the cost of the project can be explicitly detailed and managed. In order to meet this goal, staff is undertaking a four-part process to manage costs. Because of this process, the Board capped the funding request at \$1.5 million, split into \$750,000 per year for two fiscal years (with an ongoing maintenance and development fee paid from the existing budget of the State Land Board as required for support in future years).

1. The most critical mechanism for controlling costs is a module-based approach to application development. In the development of the RFP, the State Land Board will prioritize the modules so that the application itself can be built within the \$1.5 million budget by postponing development of lower-priority modules, if necessary.
2. The State Land Board staff will consult with other states that are developing similar systems, including Idaho, Oregon, and Montana. Both system design and cost control considerations will be integrated into the COCAMS project based on the lessons learned from these states.
3. Funding for the project will be based on achieving predetermined outcomes, not on hours worked. This “deliverables-based” approach will ensure that payment for work is provided only when complete and fully-tested components of the application are successfully delivered.
4. State Land Board staff will work with OIT to fully evaluate the cost components of the project. Based on the initial project scope developed when database work began, the Board expects to employ a technical Project Manager and a firm or individuals with strong Microsoft.Net and SQL-Server application and database development experience. Overall

management of the project and will come from a State Land Board manager and project steering committee.

Return on Investment Analysis

The State Land Board anticipates the newer system providing significant long term financial benefits as a result of the ability to make better land management decisions and generate more revenues on the many properties that the Board manages. For example, the State Land Board has been receiving a significant number of nominations for properties that could be auctioned for oil and gas development. When examining parcels to potentially include in auctions, the State Land Board has begun to develop a strategic analytical review process to ensure the interests of the beneficiaries are protected/enhanced. Without an upgrade of the SAMS system, this process will remain limited in scope and effectiveness.

In FY 2010-11, the Board asked the staff to undertake a strategic analytical review of its oil and gas auction process to ensure that the process sets an economically-viable price that enhances the revenues generated at auction. One consideration that the staff would like to evaluate is whether there should be a minimum bid placed on a property (and the value of any minimum bid). Currently, the SAMS system does not provide the State Land Board with the functionality to pull together key data (such as location, proximity to producing wells, production at nearby sites, etc.) for similar properties with similar potential uses. As such, any analysis for an auction must be done manually and is both time consuming and limited in scope.

The new system would provide broad query capabilities as well as the ability to use GIS to look for matching property characteristics. By more easily and thoroughly identifying comparable parcels, the State Land Board will be able to better value the parcels to be auctioned. To ensure that it is receiving competitive bids, the State Land Board will set minimum bids, when

appropriate. In the event that a short-term downturn in the market or other unexpected factor creates little interest in bidding on a property, appropriately set minimum bids will prevent State Land Board assets from being auctioned off for below market values.

Another consideration that faces the State Land Board when lands are nominated for auction is whether there would be an advantage to waiting before auctioning a property. This is especially pertinent in light of the Board's Constitutional obligation to "ensure a reasonable and consistent return over time." For example, the State Land Board owns in excess of 137,000 unleased acres in Morgan and Elbert counties (interestingly staff had to conduct multiple separate queries of the existing SAMS system and then manually combine the results just to generate this number), some substantial portion of which, may hold oil and gas potential as part of the Niobrara formation. As it is not clear how far the economically-viable portion of the Niobrara formation extends into these counties, the oil and gas potential of these properties is also unclear.

For these properties, it may make sense to initially auction a fraction of the State Land Board's properties. The first step taken by the Oil and Gas companies who begin to develop these lands will be to complete further testing to determine the potential for oil and gas drilling. If this testing actually results in an oil and gas company finding enough promise to merit drilling (an expensive investment by the oil and gas company), then this will be a strong indicator that there is potential in nearby properties located on the same or similar geologic formations. This analysis and information would likely increase the auction value of those similar properties. If the SLB waits to auction those properties after more information becomes available, a higher price is likely - all other factors being equal. A new asset management system, with ties to spatial geologic data, would greatly facilitate such analysis and strategic management by the State Land Board.

The State Land Board staff developed an initial estimate of how much increased revenue the Board might realize as a result of better analysis using the new State Land Board asset management system. In order to maximize the revenues received at auction, the Board could, for example, use a minimum bid or a strategic release of parcels for roughly ten parcels at each of its four auctions each year. In FY 2010-11, the Board leased a total of 263 parcels for oil and gas development. The typical size of a parcel offered at auction is 640 acres. At its most recent auction, the bids for various parcels ranged from a low of \$24 per acre to a high of \$5,850 per acre. If the Board's use of minimum bids or strategic release of parcels raised the value of each of the ten parcels by \$100 per acre, the trust beneficiaries (namely schools) would receive additional revenue totaling \$640,000 per auction or \$2.56 million per year.

This example of the additional revenue that can be generated with the use of the COCAMS system provides a clear indication of the financial benefit. Because market factors have historically caused significant fluctuations in revenue levels, the State Land Board is not implying that the system will lead to record income levels year-after-year. Instead, this additional revenue would represent income above and beyond whatever the state trust lands would otherwise generate in a given year. Multiple other examples exist which demonstrate similar potential to enhance school trust revenues. State Land Board staff can provide additional examples as requested by the Governor's Office and/or the General Assembly.

Consequences if not Funded:

The State Land Board invested significant time and resources over the past two years to complete work on the database and application design portions of the project. The enhanced capabilities of the database can only be realized if the new application is deployed. If the application development phase is not approved, the State Land Board will have a robust database, but will lack the tools to get information out of the

database and into the hands of the staff and decision-makers who need it.

The strategic direction of the State Land Board and the business plans developed by the staff are heavily dependent on deployment of a robust asset management system. The Board is currently overseeing completion of a Portfolio Analysis Project which involves financial and market analysis of both existing assets and potential opportunities for enhancing the portfolio. This project is a precursor to development of the COCAMS system. When the project is complete, the Board will have guidance on the opportunities it can pursue to strengthen its portfolio. Without COCAMS, the Board lacks the proper tools to pursue these opportunities.

Specifically, the COCAMS system will help enhance annual income for state trust lands and make realization of the Board's strategic goals more likely. COCAMS will eliminate numerous problems associated with the current system, including:

- The lack of data integration;
- The absence of GIS-based land use data;
- Duplicative data entry for current lease information;
- Inefficient allocation of resources to support multiple spreadsheets and databases to fill in gaps in the SAMS system; and
- The absence of electronic reporting and payment functions.

Impact to Other State Government Agency:

This request primarily affects the Office of Innovation and Technology, which will provide a significant degree of support and guidance from OIT staff who are familiar with DNR applications, including SAMS and the GIS system. The State Land Board expects to follow all OIT guidelines for the project and is committed to having OIT staff on the project steering committee.

Cash Fund Projections:

In FY 2010-11, the State Land Board generated over \$122 million for all State Trusts. This level of revenue exceeded all projections and beat the previous high revenue year by \$47 million. The Board's official projection for FY 2011-12 will be issued in September. We expect that projection to be in excess of \$80 million and quite possibly above \$100 million. More than half of these revenues are one-time in nature owing to an unusual demand for oil and gas leases caused by new development opportunities and high oil prices. In the opinion of the State Land Board, this time period provides an excellent opportunity to use a small portion (less than 1.0%) of these funds to invest in infrastructure that will help the Board provide consistently higher revenues beyond the current year.

Relation to Performance Measures:

The Board's Constitutional mandate is to generate a "reasonable and consistent return" on its portfolio over time. Consequently, this investment should be measured in those terms. Specifically for the ten-year period starting roughly 2 years after the system is up and running (approximately 2015), the General Assembly should expect to see the Board's total return and the percentage yield on its investments steadily improve as implementation of the new system allows the Board to more efficiently and effectively pursue its strategic objectives.

Schedule 13 Funding Request for the 2012-13 Budget Cycle						
Department:		Natural Resources				
Request Title:		Line Item Consolidation				
Priority Number:		R-3				
Dept. Approval by:		<i>Will H. Lewis</i> 10/12/2011 Date		<input checked="" type="checkbox"/> Decision Item FY 2012-13 <input type="checkbox"/> Base Reduction Item FY 2012-13 <input type="checkbox"/> Supplemental FY 2011-12 <input type="checkbox"/> Budget Amendment FY 2012-13		
OSP Approval by:		<i>Carol R. Schulz</i> 10/19/11 Date				
Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
Fund		Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items	Total	19,107,758	-	19,522,011	-	-
	FTE	248.1	-	248.1	-	-
	GF	18,108,554	-	18,520,052	-	-
	GFE	-	-	-	-	-
	CF	999,204	-	1,001,959	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources (a) Division Operations (1) Water Administration (new line item)	Total	-	-	-	19,162,021	19,162,021
	FTE	-	-	-	248.1	248.1
	GF	-	-	-	18,520,052	18,520,052
	GFE	-	-	-	-	-
	CF	-	-	-	641,969	641,969
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources (a) Division Operations (2) Well Inspections (new line item)	Total	-	-	-	359,990	359,990
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	359,990	359,990
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources, Personal Services	Total	17,276,471	-	17,652,932	(17,652,932)	(17,652,932)
	FTE	243.1	-	243.1	(243.1)	(243.1)
	GF	16,762,664	-	17,136,370	(17,136,370)	(17,136,370)
	GFE	-	-	-	-	-
	CF	513,807	-	516,562	(516,562)	(516,562)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources, Operating Expenses	Total	1,399,974	-	1,430,824	(1,430,824)	(1,430,824)
	FTE	-	-	-	-	-
	GF	960,466	-	991,316	(991,316)	(991,316)
	GFE	-	-	-	-	-
	CF	439,508	-	439,508	(439,508)	(439,508)
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Department of Natural Resources
Request Title: DWR Line Item Consolidation

Schedule 13
Funding Request for the 2012 Budget Cycle

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
Fund		Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
(8) Division of Water Resources, Interstate Compacts	Total	76,002	-	76,002	(76,002)	(76,002)
	FTE	-	-	-	-	-
	GF	76,002	-	76,002	(76,002)	(76,002)
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources, Republican River Compact Compliance	Total	309,422	-	316,364	(316,364)	(316,364)
	FTE	5.0	-	5.0	(5.0)	(5.0)
	GF	309,422	-	316,364	(316,364)	(316,364)
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources, Augmentation of Water for Sand and Gravel Extraction	Total	44,400	-	44,400	(44,400)	(44,400)
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	44,400	-	44,400	(44,400)	(44,400)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(8) Division of Water Resources, S.B. 04-225 Well Enforcement	Total	1,489	-	1,489	(1,489)	(1,489)
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	1,489	-	1,489	(1,489)	(1,489)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
Letternote Text Revision Required?		Yes: <input checked="" type="checkbox"/>	No: <input type="checkbox"/>	If yes, describe the Letternote Text Revision:		
<p>A new letter note "a" will be assigned to the new Water Administration line's Cash Funds and will read "Of this amount, \$538,133 shall be from the Ground Water Management Cash Fund established pursuant to Section 37-80-111.5(1)(d), C.R.S.; \$44,400 shall be from the Gravel Pit Lakes Augmentation Fund established pursuant to Section 37-90-137(11)(f), C.R.S.; \$1,489 shall be from the Well Enforcement Cash Fund established pursuant to Section 37-90-111.5(5)(b), C.R.S.; and \$57,947 shall be from various sources of cash." A new letter note "b" will be assigned to the new Well Inspections line's Cash Funds and will read "This amount shall be from the Well Inspection Cash Fund established pursuant to Section 37-80-111.5(1)(d), C.R.S." Current letter note "b" will become letter note "c." Current letter note "c" will be deleted. Current letter note "g" will be deleted.</p>						
Cash or Federal Fund Name and COFRS Fund Number:						
Reappropriated Funds Source, by Department and Line Item Name:						
Approval by OIT? Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/>						
Schedule 13s from Affected Departments:						
Other Information: This DI is not requesting additional funding only consolidating existing lines.						



DEPARTMENT OF NATURAL RESOURCES

John W. Hickenlooper
Governor

*FY 2012-13 Funding Request
November 1, 2011*

Mike King
Executive Director

Department Priority: R-3
Division of Water Resources Line Item Consolidation

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
Consolidating personnel services, operating and various other line items into more efficient programmatic lines.	N/A	N/A	N/A

Request Summary:

The Division of Water Resources (DWR) is currently funded through a total of 12 Long Bill line items. The Division proposes consolidating this into 8 total line items, organized in 2 groups. DWR believes that this consolidation will allow the Division to manage its budget in a more efficient and flexible manner, without any loss of budgetary transparency.

The 12 budgetary line items currently managed by the Division (see Attachment A) have evolved historically, as specific programmatic responsibilities have been added over time to the Division's overall statutory mission. However, the Division feels that the duties and oversight responsibilities embodied by the existing lines can be represented by a slightly smaller group of line items.

Reducing the number of line items managed by the Division is consistent with the 2010 SMART Government Act (HB 10-1119), which reads in part:

“If a principal department of the Executive Branch of state government as specified in Section 24-1-110, C.R.S., submits a plan approved by the Office of State Planning and Budgeting to improve budgetary efficiency or administrative flexibility by recommending line

item consolidation in the annual General Appropriation Act, the [Joint Budget] Committee shall consider such a plan for recommendation to the General Assembly.”

This provision is included because lawmakers recognized that as the State transitioned to a performance-based budgeting model, as envisioned by the SMART Act, it was important that state agencies be given flexibility to best use their appropriations to achieve performance objectives.

As such, the Division proposes the following adjustments to its existing line items:

- 1) Consolidating the existing Personal Services, Operating Expenses, Interstate Compacts, Republican River Compact Compliance, Augmentation for Sand and Gravel Extraction, and SB04-225 Well Enforcement line items into a proposed new line item called Water Administration. The activities covered by these current line items all clearly fall within the definition of Water Administration, etc.
- 2) Creating a new Well Inspection line item. The inspection of groundwater wells is one of the four core responsibilities of the Division, along with water right administration, dam safety inspection,

and intrastate compact compliance. This program is 100% cash funded, in the form of fees collected for well inspections statewide. This cash funding was previously intermingled with General Fund in the Personal Services and Operations lines. Reorganizing the program into its own line item will help clearly delineate it as a key program area.

3) The Federal Grants, Satellite Monitoring System, RDSS, Temporary Interruptible Water Supply Agreements, Dam Emergency Repair, and Indirect Cost Assessment line items will remain fundamentally unchanged, but will be reorganized into new Long Bill groups (see below).

4) The 8 resulting lines will then be organized into two main Long Bill groups: Division Operations and Special Purpose. See attachment A for specifics.

As part of a larger effort to increase the operational efficiency of State agencies, the Hickenlooper Administration has proposed several Long Bill line item consolidations in its FY 2012-13 budget request. These line item consolidations will allow Executive Branch departments both to respond more effectively to changes in their operating environment and to improve service to Colorado's citizens. In the current environment, the separation of appropriations for personnel and operating expenses forces a perverse disincentive to efficiency. This prescriptive budgetary structure compels departments to eschew opportunities for more effective operations that may come through the exchange of operating expenses for personal services (or vice versa). These limitations frequently prohibit the timely replacement of aging equipment, restrict the implementation of time-saving technologies, facilitate circumstances that create backlogs, and allow for degradation in the level of service provided to Coloradans. Improving flexibility in this area is a critical component in allowing State government agencies to operate like private sector entities; as

needs and circumstances change, so too can managerial decisions.

At the same time, however, merging personal services and operating expenses line items can certainly contribute to a limitation in budgetary transparency that is rightly unacceptable to the Legislature. For this reason, the FY 2012-13 budget request contains an unprecedented level of detail for review by the General Assembly. The Schedule 3 document contains a return to multi-year reporting of object code detail, which had been eliminated during the last three annual budget submissions. Moreover, each Executive Branch department has included a level of detail regarding the sources of its funding that has not existed in any previous budget submission. And the Department of Personnel and Administration has developed a new reporting mechanism that will provide the Legislature with new visibility into the use of Full-Time Equivalent positions (FTE) in the Executive Branch.

In addition, as the General Assembly agrees to collapse Personal Services and Operating Expenses line items in the FY 2012-13 Long Bill, OSPB will direct Executive Branch departments to provide specific, detailed reports in future budget submissions detailing the following:

- Specific reporting on how the department has expended Personal Services and Operating Expenses in two prior fiscal years.
- An estimate of how the department anticipates expending its Personal Services and Operating Expenses appropriations in the current fiscal year and the request year.
- A narrative description of how the department has made use of its enhanced budgetary flexibility to improve service delivery to Colorado's citizens.

Anticipated Outcomes:

This new line item structure will give the Division much greater flexibility in managing its funding to help meet its statutory mission, particularly in the case of the newly created Water Administration line item. Water

management by its very nature is unpredictable – literally, as unpredictable as the weather. The ability to allocate funding in direct response to changing circumstances and emerging priorities will significantly increase DWR’s efficiency. Two key examples (from among other possible scenarios) of the advantages of budgetary flexibility are as follows:

1) In years in which Colorado experiences heavy precipitation, DWR frequently hires additional temporary water commissioners to help manage the higher-than-usual workload. Currently, this increased cost can only come out of the Division’s existing Personal Services line. However, recent cuts to this have effectively limited this as an option. Under the proposed new scenario, DWR leadership could choose to prioritize water commissioner duties over other planned expenditures and allocate funding as needed.

2) Vehicles are critical for several of the Division’s core functions, including water right administration by water commissioners, dam safety inspection, and well inspection and administration. State-owned vehicles are used by approximately 100 DWR staff in the routine performance of job duties. The continuing escalation in fuel prices, coupled with rising vehicle maintenance and self-insurance costs, have resulted in a significant increase to the Division’s variable operating expenses for state-owned vehicles. It is unlikely that the Division will receive increased General Fund appropriations in the current budget environment. Under the proposed new scenario, Division leadership would have the flexibility to allocate funding within the Water Administration line as needed to provide sufficient vehicle operating costs.

Assumptions for Calculations:

N/A. No funds are being requested

Consequences if not Funded:

No funds are being requested, but if this consolidation was not approved DWR would continue with current required business practices which are not be as efficient as they could be. Eventually the lack of flexibility would catch up to DWR and impact the day to day business of water administration, i.e. paid overtime for water commissioners and mileage.

Impact to Other State Government Agency:

N/A

Cash Fund Projections:

N/A

Relation to Performance Measures:

The consolidation of lines would impact all performance measures by making it more efficient to carry out the mission of DWR.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:

N/A

Current Statutory Authority or Needed Statutory Change:

There is no statutory authority that needs to be changed to consolidate lines, however, DWR is considering consolidating the eight cash funds it currently has, some are very small less than \$5,000, into a more efficient general cash fund and that would take statutory change. However, please note they are not reliant on each other, but they will make the accounting, budgeting and reporting easier and more efficient.

1) Current Line Items	FY 12-13 Base Request	2) Proposed Consolidation	Adjusted Base Request	3) Proposed Final Long Bill Format	Adjusted Base Request
Personal Services	17,652,932				
Operating Expenses	1,430,824				
Interstate Compacts	76,002				
Republican River Compact Compliance	316,364				
Augmentation for Sand/Gravel Extraction	44,400				
SB 04-225 Well Enforcement	1,489				
			19,162,021		19,162,021
		Water Administration			
		Well Inspection			359,990
Satellite Monitoring Systems	399,857	Satellite Monitoring Systems	399,857	River Decision Support Systems	399,857
Federal Grant	167,260	Federal Grant	167,260		167,260
River Decision Support Systems	206,232	River Decision Support Systems	206,232		206,232
Dam Emergency Repair	50,000	Dam Emergency Repair	50,000		50,000
HB 03-1334 Temp Water Supp Agreements	61,589	HB 03-1334 Temp Water Supp Agreements	61,589		61,589
Indirect Cost Assessment	29,598	Indirect Cost Assessment	29,598		29,598
Total:	20,436,547	Total:	20,436,547	Total:	20,436,547

Schedule 13						
Funding Request for the 2012-13 Budget Cycle						
Department:		Natural Resources				
Request Title:		Interagency Water Expertise				
Priority Number:		R-4				
Dept. Approval by:		<i>Will H. Lavin</i> 10/12/2011		<input checked="" type="checkbox"/> Decision Item FY 2012-13 <input type="checkbox"/> Base Reduction Item FY 2012-13 <input type="checkbox"/> Supplemental FY 2011-12 <input type="checkbox"/> Budget Amendment FY 2012-13		
		Date				
OSPB Approval by:		<i>Erin A. ...</i> 10/15/11				
		Date				
Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items		3,642,707	-	3,702,589	120,000	120,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	3,642,707	-	3,702,589	120,000	120,000
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(5) State Board of Land Commissioners, Program Costs		3,642,707	-	3,702,589	120,000	120,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	3,642,707	-	3,702,589	120,000	120,000
	RF	-	-	-	-	-
	FF	-	-	-	-	-
Letternote Text Revision Required? Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/> If yes, describe the Letternote Text Revision:						
Cash or Federal Fund Name and COFRS Fund Number: 162 - Trust Administration Fund						
Reappropriated Funds Source, by Department and Line Item Name:						
Approval by OIT? Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/>						
Schedule 13s from Affected Departments: N/A						
Other Information: N/A						



DEPARTMENT OF NATURAL RESOURCES

*FY 2012-13 Funding Request
November 1, 2011*

John W. Hickenlooper
Governor

Mike King
Executive Director

Bill Ryan
Director

Department Priority: R-4
Request Title: Interagency Water Expertise

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
Program Costs	\$120,000	\$0	0.0

Request Summary:

The State Land Board requests a continuing appropriation of \$120,000 Cash Funds from the Trust Administration Fund (Fund #162) to engage private consultants or the expertise of other divisions in the Department of Natural Resources to maintain, manage and expand the Board's water asset portfolio.

Project History. The State Land Board increasingly finds itself engaged in transactions which involve water. These transactions may include reservoir construction or expansion, water transmission, and/or water rights acquisition. The Board's existing water portfolio is small and, consequently, any expansion will greatly increase the Board's income and portfolio value for these assets.

For a 135-year-old institution with nearly 3 million acres of land, the Colorado State Land Board has a relatively small and underdeveloped water portfolio. The current estimate of the Board's water rights totals about 400 surface structures and 2,200 well permits. Over eighty percent of these water rights are agricultural and/or are tied to agricultural property.

- The Board's water rights are generally location specific (e.g. irrigation company shares or ground water well permits) and generally cannot be reallocated to increase income or value elsewhere.

- While irrigation vastly improves trust land income, the Board only has 13,650 irrigated acres or 0.5% of state trust land. Irrigated property produces an average of \$47/acre, while grazing pays \$2.50/acre.

The Board does not have any resources devoted to expanding its water portfolio and/or responding to water opportunities. The Board's resources for protecting its water assets were partially augmented by the hiring of an inventory manager in January 2011 and the dedication of water attorneys at the Attorney General's office.

In the past, the Board managed its water assets on an ad hoc basis and had no system for tracking assets. The inventory manager has been tasked with developing an inventory system to make sure the Board's the water assets are being put to beneficial use as required by law. In terms of water court cases and associated water filings, the Attorney General's office assembled three attorneys that review and forward issues to State Land Board staff for review and comment. The inventory manager is coordinating the staff response to these issues.

Tracking water assets and responding to water court filings allows the State Land Board to identify major issues for further study. However, when a major issue or opportunity arises, there are effectively no specialized resources for the

Board to deploy. The proposed Lowry Range reservoir and ground water lease analysis, the National Hog Farm augmentation water court case, and the El Paso County reservoir request are recent examples where Board staff is unable to provide much more than descriptive analysis. Each project requires specialized expertise in areas such as regional water planning, ground water analysis, and reservoir valuation that are not part of the State Land Board's staff expertise.

For example, the proposed El Paso County reservoir is a project that could generate an eight-figure return for the School Trust. Without adequate technical and feasibility analysis of water rights, water storage, reservoir development, and ecological impacts, the State Land Board can not complete an adequate due diligence analysis of both the feasibility of the project and the best means to derive consistent income and value for its beneficiaries.

Proposed Solution. Three other DNR agencies (the Division of Water Resources, the Colorado Geological Survey, and the Colorado Water Conservation Board) have the necessary expertise to provide guidance and insight on water issues, but they lack the spending authority to accept payment from the State Land Board and undertake the work. Consequently, in addition to this request for interagency water expertise, the Department of Natural Resources is requesting reappropriated spending authority to allow agencies within DNR to pay for services using revenue received from other DNR divisions. Approval of both decision items would provide the Board with a highly cost-effective mechanism for increasing the value and income derived from water and related assets.

If the reappropriated spending authority is not approved, the State Land Board will pursue the use of private consultants. Private consultants will come at a higher cost, but given the revenue potential associated with potential water deals, the expertise will generate substantial net benefits even at this higher cost.

In order to effectively identify and manage existing water rights and lay the groundwork for future water-related projects, the State Land Board identified a plan for assessing its holdings. The plan calls for developing a water rights inventory makes and significant use of data and expertise from the Division of Water Resources. There has never been a complete and updated water rights database at the State Land Board.

There are about 2,000 water rights records that have an unmatched name and need to be linked to the Board's lease records. Unless these records are properly linked to the State Land Board, other parties would effectively be able to make use of the Board's water rights without proper compensation. In addition, the actual locations of surface structures need to be determined for the 80% of all water structures that are not identified by location.

Anticipated Outcomes:

Water issues are approaching a critical juncture with the progress made on planning and infrastructure for three major regional water supply and distribution systems:

- The Water Infrastructure and Supply Efficiency program (WISE);
- The Northern Integrated Supply Project (NISP); and
- The Southern Delivery system.

In order to leverage its resources during this critical period, the State Land Board needs to position itself as an effective player in working on water transactions with jurisdictions that include Denver, Aurora, El Paso County, and the South Metro area.

In order to meet this need, the Board identified three goals related to this request:

1. Properly maintain the existing water rights inventory and avoid relinquishing valuable rights;
2. Acquire technical and opportunity review and analysis for water acquisitions; and

3. Obtain advice on the value and feasibility of various storage projects that are likely to come before the Board in the next 12-36 months.

This request will help to open up an entire new class of assets for acquisition and development. The potential increase in revenues generated for K-12 education is significant. For example, irrigation greatly improves the income from State Trust lands. In FY 2009-10, The Board had 13,650 acres under irrigation which earned \$641,000. This is an average of \$47 per acre as compared to the average grazing rent, which is about \$2.50 per acre. Based on a recent analysis completed for the portfolio valuation project, staff believes that approximately 1.6 million acres (or 58%) of The Board's total farm and grazing lands could be classified as high-value farmland if a source of irrigated water was available and could be delivered to the appropriate parcels.

In addition to its programmatic and revenue goals, the State Land Board seeks to accomplish this work in the most cost effective manner possible. Using a comparison of hourly costs for water consultants and professional staff at the Division of Water Resources, we expect this request will save roughly \$360,000 compared to the cost of hiring outside consultants for this work. Although the Board will always have occasional needs for specialized consulting services, if the DNR request for reappropriated spending authority is approved, a majority of the consulting services required by the Board could be addressed through this cost-effective mechanism.

Assumptions for Calculations:

Staff calculated the approximate cost of dedicating the equivalent of 1.0 FTE to provide services for water-related projects. That cost, based on the classification of staff needed to provide these services (senior engineers, other technical staff, and project managers), equates to roughly \$120,000 in salary and benefits.

The cost savings attributable to this request are based on a comparison of staff costs in the Division of Water Resources. Using the average salary/benefits for a Professional Engineer III and 1800 hours worked per year, resulted in a rate of approximately \$60 per hour. A qualified senior water consultant hired from a major engineering firm can earn approximately \$240 per hour for their services. Consequently, \$120,000 spent on services provided by DNR staff delivers a value equal to roughly \$480,000 in consulting time.

Consequences if not Funded:

Without the ability to pay for water expertise, the State Land Board would not have the support needed to address critical water rights, management, and valuation issues.

For example, since there has never been a staff member dedicated to water rights management, there were some water rights applications on State lands, in the past, that the State Land Board did not oppose. Because of a lack of adequate resources to identify and provide advice on such transactions, the Board has entered into agreements which did not take into account the value of the associated water rights. These shortcomings resulted in a loss of current and future revenues. This is an outcome that the Board seeks to avoid in future transactions.

Finally, without adequate consulting assistance, the Board would be required to spend a significant amount of time completing an inventory of its existing assets. In addition to the records work and evaluation of water structures discussed earlier, the Board would need to divert existing staff resources to investigate roughly 160 well records that show an unknown status, identify the location of use for ditch shares, contact lessees to verify beneficial use of water rights, and measure water flow at all State Land Board diversions. In addition, the Board would like the ability to send a questionable water court application to a qualified water engineer who can then determine if the application impairs the Board's water rights.

Impact to Other State Government Agencies:

As described throughout this request, the State Land Board would enter into contracts either with private consultants or with other DNR agencies (namely the Division of Water Resources, the Colorado Geological Survey, and the Colorado Water Conservation Board) to provide professional services to help with the identification and management of water assets. This work would include referrals on water acquisition opportunities, identification of storage availability, analysis of storage and re-charge options in all basins, assistance with adjudication, and analysis of technical standing, seniority, and viability of water rights.

Cash Fund Projections:

In FY 2010-11, the State Land Board generated over \$122 million for all State Trusts. This level of revenue exceeded all projections and beat the previous high revenue year by \$47 million. Our official projection for FY 2011-12 will be issued in September. We expect that projection to be in excess of \$80 million and quite possibly above

\$100 million. More than half of these revenues are one-time in nature owing to an unusual demand for oil and gas leases caused by new development opportunities and high oil prices. In the opinion of the State Land Board, this time period provides an excellent opportunity to dedicate a less than one-tenth of one percent of these funds to strengthen its ability to protect and enhance the value and income of water assets.

Relation to Performance Measures:

The Board's Constitutional mandate is to generate a "reasonable and consistent return" on its portfolio over time. Consequently, this investment should be measured in those terms. The Board believes that, in five years, an analysis of returns on water-related activities and transactions should show an increase in both the value and annual rate of return associated with these assets.

Schedule 13						
Funding Request for the 2012-13 Budget Cycle						
Department:		Natural Resources				
Request Title:		Integrated Resource Services				
Priority Number:		R-5				
Dept. Approval by:		<i>Will H. Lewis</i> 10/12/2011 Date		<input checked="" type="checkbox"/> Decision Item FY 2012-13 <input type="checkbox"/> Base Reduction Item FY 2012-13 <input type="checkbox"/> Supplemental FY 2011-12 <input type="checkbox"/> Budget Amendment FY 2012-13		
OSPB Approval by:		<i>Earl H. Lewis</i> 10/15/11 Date				
Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items		-	-	-	250,000	250,000
	Total	-	-	-	250,000	250,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	-	-	-	250,000	250,000
	FF	-	-	-	-	-
(1) Executive Director's Office, <NEW LINE ITEM> Integrated Resource Services		-	-	-	250,000	250,000
	Total	-	-	-	250,000	250,000
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	-	-
	RF	-	-	-	250,000	250,000
	FF	-	-	-	-	-
Letternote Text Revision Required?		Yes: <input checked="" type="checkbox"/> No: <input type="checkbox"/>		If yes, describe the Letternote Text Revision:		
The letter note for reappropriated funds will need to be changed to reflect that "\$250,000 will be from various sources as payment for Integrated Resource Services"						
Cash or Federal Fund Name and COFRS Fund Number:						
Reappropriated Funds Source, by Department and Line Item Name:						
Approval by OIT?		Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/>				
Schedule 13s from Affected Departments:						
Other Information:						



DEPARTMENT OF NATURAL RESOURCES

John W. Hickenlooper
Governor

*FY 2012-13 Funding Request
November 1, 2011*

Mike King
Executive Director

**Department Priority: R-5
Integrated Resource Services**

Summary of Incremental Funding Change for FY 2012-13	Total Funds	Reappropriated Funds
Reappropriated funds to facilitate interagency cooperation	\$250,000	\$250,000

Request Summary:

The Department of Natural Resources is requesting \$250,000 in Reappropriated Funds for FY 2012-13, appropriated as a new Long Bill line item in the Executive Director's Office titled "Integrated Resource Services." This new potted allocation will be used to facilitate payments for services between DNR agencies.

The Department of Natural Resources deals with a diverse range of natural resource management issues and employs subject matter experts in a variety of scientific and technical fields. Despite this diversity, however, natural resource management often involves fundamentally interconnected issues.

As just one example, the State Land Board manages more than 3 million acres of land in Colorado with the goal of generating revenue for public education, primarily through leases for grazing, agriculture, and mineral development. Within a given parcel there might be ground water or surface water issues; geologic hazards such as heaving bedrock or collapsing soils; oil, gas, or mineral production potential; and wildlife issues including rare and endangered species. Any of these issues could affect the lease revenue potential of a given parcel. Should such issues arise, the Land Board could clearly benefit from expertise housed within one of DNR's other divisions.

Currently, however, if one DNR agency could benefit from the expertise of another DNR agency, any assistance provided comes at the detriment of the assisting agency. Because of statutory restrictions, many DNR divisions do not currently have the authority to accept and expend gifts, grants, and donations. Therefore, assistance must be absorbed within the assisting agency's base budget and the work must be done in addition to, or in place of, the assisting agency's existing work. Often, an agency is unable to simply absorb the request for assistance and the requesting agency is forced to contract with private vendors at a much higher cost.

As recently as FY 2010-11, DNR encountered multiple examples of situations in which inter-agency payment for services would have proved beneficial to the Department as a whole, including:

- 1) The Colorado Water Conservation Board (CWCB) manages roundtables representing each of the river basins in Colorado, with the goal of developing basin-specific water needs assessments. In 2010 CWCB staff determined that certain modeling software used by the Basin Roundtables would benefit from certain enhancements, which would require additional software programming. The Division of Water

Resources (DWR) has significant expertise in water modeling and was willing to hire and manage programming staff to undertake this work on behalf of the CWCB. However, since DWR is unable to accept grants, and was unable to absorb the additional cost with its own budget, DWR was unable to provide this assistance.

2) The State Board of Land Commissioners wishes to expand their investments in water as an asset class. There is a great deal of expertise within the Department which has the potential to help the Board, but it is not currently possible for the board to reimburse other divisions for their employee's time. As such, it may be necessary for the Board to hire private consultants at an estimated rate as high as \$240 an hour instead of an existing employee at roughly \$60 an hour. This case is discussed further in Decision Item #X "State Board of Land Commissioners – Interagency Water Expertise"

3) The State Board of Land Commissioners has a constitutional mandate to maintain a long-term stewardship trust of lands. Though the staff of the Land Board does an excellent job of managing these lands, they are not specialists in conservation issues. Some staff in other DNR divisions have extensive experience in these issues and could help the Land Board demonstrate the value of good stewardship of these lands.

As these examples illustrate, there are situations that exist within the Department where the ability to make payments between divisions could create cost savings or increase revenues. This could be accomplished by the creation of a new Long Bill line item titled "Integrated Resource Management." This line item would be funded entirely with reappropriated funds and therefore would not be increasing overall state spending. Though the situations above are the only ones that have been particularly identified, the Department hopes that once this funding is made available to the divisions more opportunities for efficiencies will be recognized.

The requested funds would remain unallocated in the DNR Executive Director's Office until such time as they are requested by a division. Once a division has identified a need, and the assisting agency has agreed that they have the resources to help and are willing to do so, the Executive Director's Office would then allocate the necessary spending authority to the assisting agency.

If this request is approved, as part of its annual budget request the Department will report on how these funds have been used in the most recently completed fiscal year. Such a report would include a description of the work performed along with the divisions involved and the amount spent.

Alternatively, this problem could be resolved legislatively. The General Assembly could provide the divisions of the Department with statutory authority to receive and expend gifts, grants, and donations. This would provide the same flexibility that the Department is seeking with this change request.

The Department believes that the creation of a new potted item in the Executive Director's Office, funded entirely with reappropriated funds, will allow the divisions of the Department to work more closely together in mutually beneficial situations. By fostering cooperative efforts, this decision item will help to break down organizational "silos" whereby agencies focus on their primary purposes to the detriment of other important natural resource issues. Further, this decision item will give divisions an opportunity to work with their sister agencies, at a lower cost, instead of contracting with private agencies in order to meet their needs.

Anticipated Outcomes:

The flexibility afforded by this request will allow the divisions of the Department to receive expert guidance from their sister agencies without placing an uncompensated burden on the assisting agency. This will foster more frequent use of cross division resources and will allow divisions to obtain expert guidance and advice at a lower

cost than may otherwise be possible. In the current budget environment, the ability to receive services at a reduced cost helps the divisions to maintain current service levels in spite of reduced budgets.

Assumptions for Calculations:

The Department did not perform a rigorous calculation to arrive at the \$250,000 requested in this Decision Item. The \$250,000 is a rough estimate of two high-level employees with benefits for an entire year. It is anticipated that in reality, the funding will be used for many different employees working on various projects throughout the year. Actual utilization of these funds will depend on what resources are needed, the individual employees participating, and the individual Health, Life, and Dental elections. Projects will vary from year to year, depending on the exact issues being addressed by agencies in a given year.

Consequences if not Funded:

If this request is not funded, interagency help will need to continue to come at the detriment of the assisting agency. In some cases, the lack of flexibility will make it unfeasible for agencies to work together. Additionally, divisions will continue to pay private agency rates for assistance when they could be receiving the same, or superior, assistance from their sister agencies at a reduced cost. In this time of shrinking state budgets, a chance for cost-effective coordination between DNR agencies will have been squandered.

Schedule 13
Funding Request for the 2012-13 Budget Cycle

Department: Department of Natural Resources, Colorado Parks and Wildlife
 Request Title: Consolidation of GOCO Long Bill Line Items into State Park Operations Long Bill Line Item
 Priority Number: R-6

Dept. Approval by: Will H. Levin 10/12/2011 Date Decision Item FY 2012-13
 Base Reduction Item FY 2012-13
 Supplemental FY 2011-12
 Budget Amendment FY 2012-13

OSP Approval by: Erin M. Schmitt 10/18/11 Date

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items	Total	28,014,514	-	28,031,283	-	-
	FTE	269.8	-	269.8	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	27,575,806	-	27,592,575	-	-
	RF	-	-	-	-	-
	FF	438,708	-	438,708	-	-
(B) Great Outdoors Colorado Board Grants, Land and Water Protection	Total	709,000	-	709,000	(709,000)	(709,000)
	FTE	2.0	-	2.0	(2.0)	(2.0)
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	709,000	-	709,000	(709,000)	(709,000)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(B) Great Outdoors Colorado Board Grants, Operations and Maintenance	Total	1,969,000	-	1,969,000	(1,969,000)	(1,969,000)
	FTE	14.5	-	14.5	(14.5)	(14.5)
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	1,969,000	-	1,969,000	(1,969,000)	(1,969,000)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(B) Great Outdoors Colorado Board Grants, Statewide Programs	Total	1,657,000	-	1,657,000	(1,657,000)	(1,657,000)
	FTE	6.0	-	6.0	(6.0)	(6.0)
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	1,657,000	-	1,657,000	(1,657,000)	(1,657,000)
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
(A) State Park Operations						
	Total	23,679,514	-	23,696,283	4,335,000	4,335,000
	FTE	247.3	-	247.3	22.5	22.5
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	23,240,806	-	23,257,575	4,335,000	4,335,000
	RF	-	-	-	-	-
	FF	438,708	-	438,708	-	-

Letternote Text Revision Required? Yes: No: If yes, describe the Letternote Text Revision:

(A) State Park Operations, letternote "a" language will be changed to include \$4,335,000 from the Great Outdoors Colorado Board established in Article XXVII, Section 1 of the State Constitution, for informational purposes only.

Cash or Federal Fund Name and COFRS Fund Number: 426 Great Outdoor Colorado Fund

Reappropriated Funds Source, by Department and Line Item Name: N/A

Approval by OIT? Yes: No: Not Required:

Schedule 13s from Affected Departments: N/A

Other Information:



**DEPARTMENT OF
NATURAL RESOURCES
COLORADO PARKS AND WILDLIFE**

John W. Hickenlooper
Governor

Mike King
Executive Director

FY 2012-13 Decision Item

November 1, 2011

***Department Priority: R-6
Consolidation of GOCO Long Bill Line Items into State Park Operations Long Bill Line Item***

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
(B) Land and Water Protection	(\$709,000)		(2.0)
(B) Operations and Maintenance	(\$1,969,000)		(14.5)
(B) Statewide Programs	(\$1,657,000)		(6.0)
(A) State Park Operations	\$4,335,000		22.5

Request Summary:

Colorado Parks and Wildlife is requesting to consolidate the GOCO Long Bill line items into the existing State Park Operations Long Bill line item starting FY 2012-13. Currently, there is a separate section in the Long Bill “(B) Great Outdoors Colorado Board Grants” that provides appropriation information shown “for informational purposes only”. The Division is requesting elimination of this separate section (B) by consolidating the GOCO funding into the existing State Park Operations Long Bill line in order to enhance budgetary efficiencies and better reflect how these funds are used to help operate state park system. The request has a net-zero impact on the State Parks operational budget.

The Great Outdoors Colorado Program was established in 1992 to preserve, protect, enhance and manage the state's wildlife, park, river, trail and open space heritage using net proceeds of every state-supervised lottery game operated under the authority of Article XVII, Section 2.

Colorado Parks and Wildlife is requesting the consolidation of the GOCO Long Bill line items into the existing State Park Operations Long Bill line item starting FY 2012-13. This request will

achieve several important outcomes. First, this request will better reflect how the GOCO dollars are spent to help operate the state park system. Currently, the Long Bill might lead one to believe it costs \$23.7 million to operate Colorado’s state park system. This \$23.7 million figure is the appropriation for State Park Operations Long Bill line item. However, the reality is that each year Great Outdoors Colorado contributes millions of dollars for on-the-ground operations at Colorado’s state parks. Inclusion of the estimated \$4,335,000 in GOCO funds that will be used for this purpose directly in the State Park Operations line item will provide a more comprehensive and accurate picture of the cost and FTE required to operate Colorado’s 44 state park system.

Moreover, separate GOCO line items in the Long Bill require booking separate Long Bill line item appropriations in the State’s accounting system (COFRS) to match the Long Bill. This is duplicative and unnecessary because the reality is that Colorado Parks and Wildlife will book GOCO grant awards in COFRS – as an addition to the State Park Operations Long Bill line item appropriation – that exactly match grant awards from the GOCO Board. Further, separate budget

schedules 3 and 14 are created for these GOCO line items even though the line items are not actually utilized. For example, creating a Schedule 14 to provide personal service and object code detail is a meaningless exercise when the reality is that GOCO funds are used to reimburse expenditures made out of the State Park Operations budget. As such, DNR does not report any expenditures in the GOCO line items in its Schedule 14. Eliminating the GOCO line items will preclude duplicative and unnecessary budget and accounting work associated with the GOCO line items.

As part of a larger effort to increase the operational efficiency of State agencies, the Hickenlooper Administration has proposed several Long Bill line item consolidations in its FY 2012-13 budget request. These line item consolidations will allow Executive Branch departments both to respond more effectively to changes in their operating environment and to improve service to Colorado's citizens.

At the same time, however, merging line items can certainly contribute to a limitation in budgetary transparency that is rightly unacceptable to the Legislature. For this reason, the FY 2012-13 budget request contains an unprecedented level of detail for review by the General Assembly. The Schedule 3 document contains a return to multi-year reporting of object code detail, which had been eliminated during the last three annual budget submissions. Moreover, each Executive Branch department has included a level of detail regarding the sources of its funding that has not existed in any previous budget submission. And the Department of Personnel and Administration has developed a new reporting mechanism that will provide the Legislature with new visibility into the use of Full-Time Equivalent positions (FTE) in the Executive Branch.

Finally, with regards to transparency, the Great Outdoors Colorado Program provides detailed annual reports on the expenditures of GOCO moneys. Regardless of how non-appropriated

GOCO funding is reflected in the Long Bill, GOCO's Annual Report has always been the best source of information on how GOCO moneys have been expended. These detailed annual reports are available to the public on GOCO's website at <http://goco.org> (if you can't find the report from the main page, please use the following link to access the FY 2010 Annual Report:

http://goco.org.s57353.gridserver.com/?page_id=59.

Anticipated Outcomes:

Under this request, \$4,335,000 of GOCO operational funding and associated 22.5 FTE would be reflected in the State Park Operations line because GOCO funding is used as a vital funding component to keep the state park system running. Correspondingly, the three GOCO Long Bill line items will not be a separate part of the Long Bill. The total operational appropriation will be unchanged with this request.

Assumptions for Calculations:

This request does not involve any calculations. The request seeks to streamline the Division's Long Bill by reflecting GOCO cash funds in the annotation to the State Parks Operations Long Bill line item "for informational purposes", similar to the current Lottery fund annotation language. This request has a net-zero impact on Colorado Parks and Wildlife's operational budget.

Consequences if not Funded:

The Division is seeking to consolidate GOCO Long Bill Line Items to improve budgetary efficiency and to provide a more comprehensive picture of the funding required to operate Colorado 44 state park system. The SMART Government Act of 2010 puts emphasis on a department's performance against objectives identified through strategic planning. In this regard, the SMART Act recognized that departments may need to look at line item consolidation and otherwise identify opportunities to improve budgetary efficiencies as

a means of best using available funds to achieve performance objectives. (See Section 2. 2-3-203(2), C.R.S.).

Current Statutory Authority or Needed Statutory Change:

No statutory changes will be necessary as a result of this request. Great Outdoors Colorado Grants (GOCO) program is statutorily authorized in Article XXVII of the Colorado Constitution pursuant to Amendment 8 passed by the citizens of Colorado in 1992.

Schedule 13
Funding Request for the 2012-13 Budget Cycle

Department: Department of Natural Resources, Colorado Parks and Wildlife

Request Title: Consolidation of State Parks Information Technology Long Bill Line Items

Priority Number: R-7

Dept. Approval by: Wick H. Levi 10/12/2011 Date Decision Item FY 2012-13
 Base Reduction Item FY 2012-13
 Supplemental FY 2011-12
 Budget Amendment FY 2012-13

OSPB Approval by: Erin A. ... 10/15/11 Date

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items	Total	1,301,500	-	1,301,500	-	-
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	1,301,500	-	1,301,500	-	-
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(C) Special Purpose, System Operations and Support	Total	661,500	-	661,500	(661,500)	(661,500)
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	661,500	-	661,500	(661,500)	(661,500)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(C) Special Purpose, Connectivity at State Parks	Total	370,000	-	370,000	(370,000)	(370,000)
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	370,000	-	370,000	(370,000)	(370,000)
	RF	-	-	-	-	-
	FF	-	-	-	-	-
(C) Special Purpose, Asset Management	Total	270,000	-	270,000	(270,000)	(270,000)
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	270,000	-	270,000	(270,000)	(270,000)
	RF	-	-	-	-	-
	FF	-	-	-	-	-

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
(C) Special Purpose, Information Technology (New Line)	Total	-	-	-	1,301,500	1,301,500
	FTE	-	-	-	-	-
	GF	-	-	-	-	-
	GFE	-	-	-	-	-
	CF	-	-	-	1,301,500	1,301,500
	RF	-	-	-	-	-
	FF	-	-	-	-	-
Letternote Text Revision Required? Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/> If yes, describe the Letternote Text Revision:						
Cash or Federal Fund Name and COFRS Fund Number: 427 Parks Lottery Distribution						
Reappropriated Funds Source, by Department and Line Item Name: N/A						
Approval by OIT? Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/> Not Required: <input type="checkbox"/>						
Schedule 13s from Affected Departments: N/A						
Other Information:						



**DEPARTMENT OF
NATURAL RESOURCES
COLORADO PARKS AND WILDLIFE**

John W. Hickenlooper
Governor

Mike King
Executive Director

FY 2012-13 Decision Item

November 1, 2011

Department Priority: R-7

Consolidation of State Parks Information Technology Long Bill Line Items

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
(C) System Operations and Support	(\$661,500)		
(C) Connectivity at State Parks	(\$370,000)		
(C) Asset Management	(\$270,000)		
(C) Information Technology	\$1,301,500		

Request Summary:

Colorado Parks and Wildlife is requesting to consolidate the three Information Technology Long Bill line items that are currently in the (C) Special Purpose section of the Long Bill into one new Information Technology Long Bill line item starting FY 2012-13. Currently, there are three separate IT-related Long Bill Line Items: System Operations and Support, Connectivity at State Parks, and Asset Management. All three lines are cash funded by the 10% of net lottery proceeds distributed directly to State Parks. Further, these three appropriations are shown “for informational purposes only”. The Division is requesting consolidation of these three IT lines into one “Information Technology” line in order to enhance budgetary efficiencies and flexibility. The request has a net-zero impact on the State Parks operational budget.

Currently, there are three IT Long Bill line items. “System Operation and Support” is used to support several administrative and line of business systems. “Connectivity at State Parks” is for both external connectivity (from the park outward) and connectivity within the parks (at specific locations only). “Asset Management” is

used to fund the on-going replacement of computers and other IT equipment.

This request to consolidate three separate information technology Long Bill line items into one line will achieve several important outcomes. First, this request will give the IT group more flexibility to better serve its customers. Throughout the year many items are purchased that can easily fit under either “Asset Management” or “Connectivity at State Parks”. An example is the purchase of a network switch. The switch is an asset but it is being used to complete a connectivity project. We have the same example with the purchase of routers, VoIP phones and equipment, wireless equipment, and many other items. Technically, just about every item purchased under connectivity is an asset as well. The “System Operations and Support” line is encumbered at the beginning of each fiscal year. This line item is used to pay our contractors for helpdesk, system support and development. There is basically no advantage to having this Long Bill line item separate from “Asset Management” and “Connectivity at State Parks” since there is no activity against this line all year with the exception of the beginning of the year

encumbrance and the monthly receiving reports against that encumbrance.

Second, this IT line item consolidation will provide additional budgetary flexibility and better IT operational support. The Division must often consider cutting back on making necessary IT replacements for laptops and desktops because the “Asset Management” line item is usually depleted well before the “Connectivity at State Parks” line item. At this point, Division management must decide whether to live within its Long Bill appropriation (even though such appropriation is for informational purposes only), whether to use its Constitutional authority to reallocate amongst these IT purposes, or whether individual expenses could be reasonably re-assigned to free up space with the “Asset Management” line item. None of this budget management work actually saves the State money or helps the Division to better achieve performance objectives. As mentioned previously, the distinction between these line items is so small as to be essentially meaningless if not confusing to people looking at the Division’s budget. Consolidating line items will eliminate this confusion, preclude unnecessary and counter-productive budget and accounting decisions, and let staff focus on the countless other, more important issues facing Colorado Parks and Wildlife.

Finally, separate IT Long Bill line items create duplicative and unnecessary administrative work. Even though all three IT lines are interlinked and can be often used interchangeably, separate budget schedules 3 and 14 are created for these three IT line items. Additionally, the accounting function has to book the appropriation into three separate appropriation codes rather than one appropriation code. Condensing these three IT line items into one line will preclude duplicative and unnecessary budget and accounting work associated with having three line items.

Anticipated Outcomes:

Under this request, \$1,301,500 of information technology appropriation would be reflected in

one “Information Technology” Long Bill line instead of in three separate lines. This will help eliminate redundancy as the current three lines can often times be used interchangeably. The total operational appropriation will be unchanged with this request.

As part of a larger effort to increase the operational efficiency of State agencies, the Hickenlooper Administration has proposed several Long Bill line item consolidations in its FY 2012-13 budget request. These line item consolidations will allow Executive Branch departments both to respond more effectively to changes in their operating environment and to improve service to Colorado’s citizens.

At the same time, however, merging line items can certainly contribute to a limitation in budgetary transparency that is rightly unacceptable to the Legislature. For this reason, the FY 2012-13 budget request contains an unprecedented level of detail for review by the General Assembly. The Schedule 3 document contains a return to multi-year reporting of object code detail, which had been eliminated during the last three annual budget submissions. Moreover, each Executive Branch department has included a level of detail regarding the sources of its funding that has not existed in any previous budget submission. And the Department of Personnel and Administration has developed a new reporting mechanism that will provide the Legislature with new visibility into the use of Full-Time Equivalent positions (FTE) in the Executive Branch.

Finally, to improve transparency with regards to Lottery Funds spend for information technology purposes, the Division proposed to provide an annual report on the Information Technology line item which breaks down expenditures into the following four logical and distinct categories: (1) IT servers and network charges; (2) PC replacements and maintenance; (3) Purchased IT consulting services, and; (4) Other IT expenses. The Department has attached a sample copy of this report, with actual spending of Lottery

dollars on IT projects in FY 2008-09, FY 2009-10, and FY 2010-11

Assumptions for Calculations:

This request does not involve any calculations. The request seeks to streamline the Division's Long Bill by reflecting three existing IT-related Long Bill lines in one "Information Technology" line. This request has a net-zero impact on Colorado Parks and Wildlife's operational budget.

Consequences if not Funded:

The Division is seeking to consolidate three IT Long Bill Line Items to improve budgetary efficiency and to provide a more comprehensive picture of the funding required to operate Colorado 44 state park system. The SMART Government Act of 2010 puts emphasis on a department's performance against objectives identified through strategic planning. In this regard, the SMART Act recognized that

departments may need to look at line item consolidation and otherwise identify opportunities to improve budgetary efficiencies as a means of best using available funds to achieve performance objectives. (See Section 2. 2-3-203(2), C.R.S.).

Current Statutory Authority or Needed Statutory Change:

No statutory changes will be necessary as a result of this request.

Schedule 13 Funding Request for the 2012-13 Budget Cycle						
Department:		Natural Resources				
Request Title:		Adjustments to Leased Space				
Priority Number:		R-B				
Dept. Approval by:		<i>Will. H. Levine</i> 10/12/2011		<input checked="" type="checkbox"/> Decision Item FY 2012-13 <input type="checkbox"/> Base Reduction Item FY 2012-13 <input type="checkbox"/> Supplemental FY 2011-12 <input type="checkbox"/> Budget Amendment FY 2012-13		
		Date				
OSPB Approval by:		<i>David M. ...</i> 10/19/11				
		Date				
Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	6
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items		1,366,140	-	1,366,140	(20,258)	(20,258)
	FTE	-	-	-	-	-
	GF	536,714	-	536,714	(5,484)	(5,484)
	GFE	-	-	-	-	-
	CF	801,645	-	801,645	(17,106)	(17,106)
	RF	-	-	-	-	-
	FF	27,781	-	27,781	2,332	2,332
(1) Executive Director's Office, Leased Space		1,366,140	-	1,366,140	(20,258)	(20,258)
	FTE	-	-	-	-	-
	GF	536,714	-	536,714	(5,484)	(5,484)
	GFE	-	-	-	-	-
	CF	801,645	-	801,645	(17,106)	(17,106)
	RF	-	-	-	-	-
	FF	27,781	-	27,781	2,332	2,332
Letternote Text Revision Required?		Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/>		If yes, describe the Letternote Text Revision:		
Cash or Federal Fund Name and COFRS Fund Number:		NA				
Reappropriated Funds Source, by Department and Line Item Name:						
Approval by OIT?		Yes: <input type="checkbox"/> No: <input type="checkbox"/>		Not Required: <input checked="" type="checkbox"/>		
Schedule 13s from Affected Departments:		N/A				
Other Information:						



DEPARTMENT OF NATURAL RESOURCES

John W. Hickenlooper
Governor

*FY 2012-13 Funding Request
November 1, 2011*

Mike King
Executive Director

Department Priority: DI-8
Department of Natural Resources Adjustments to Leased Space

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	Cash Funds	Federal Funds	FTE
Executive Director's Office – Leased Space	(\$20,258)	(\$5,484)	(\$17,106)	\$2,332	0.0

Request Summary:

The Executive Director's Office of the Department of Natural Resources (DNR) is requesting a reduction to its Leased Space line item for fiscal year 2012-13 totaling \$20,258.

During FY 2012-13 the divisions of the Department will manage 46 separate leases for office space or parking. The majority of these represent either renewals of existing leases or ongoing leases, some with contractual annualizations that will adjust the cost up or down slightly. In addition to these very minor adjustments, DNR has identified 4 leases that merit further discussion. The net cost adjustment to these 4 leases and the other 42 renewals/ongoing leases is a reduction to the DNR Leased Space line of \$20,258.

The Department's four FY 2012-13 leases of note are as follows:

1) Division of Wildlife Southwest Region Office

The Division of Wildlife has operated a Southwest Region Office in Durango since 1986. However, in recent years maintaining a regional office in this location has proved to be problematic for a number of reasons. The location

is very remote from the rest of the state and results in significant travel time for staff to attend meetings in locations like Denver and Grand Junction. The previous facility was housed in a 75-year old structure that is small (700 square feet) and not well suited for customer service. Recruiting qualified staff for the Durango office has been a challenge; very few applicants from outside the immediate area have been willing to relocate to Durango because of cost of living and travel concerns.

In light of these and other issues, in July 2010 the Wildlife Commission unanimously approved the construction of a new facility in Gunnison to serve as the division's Southwest Regional Office. The new regional office facility was originally scheduled for completion by 2013, but in the meantime, it was decided that some division staff would relocate from the Durango office to a temporary office in Gunnison, in order to begin the process of transitioning regional office duties to the new location. Accordingly, in July 2010 the Division of Wildlife took occupancy of a temporary Southwest Regional Office in Gunnison. The temporary Gunnison facility consists of approximately 2800 square feet and lease costs are \$36,079 per year. The Division entered into this new lease despite the

fact that it was not specifically included as part of the Department's FY 2011-12 Leased Space appropriation. For FY 2011-12, DOW is covering the cost of this lease out of its Wildlife Management line item. DNR recognizes that this is technically incorrect from a budget perspective; all contracts that meet the statutory definition of leased space (pursuant to Section 24-75-112 (g) C.R.S.) should be funded via the Leased Space line item. To prevent this type of mistake from being made in the future, DNR has added an internal control whereby one of the required signatories on all DNR leases (specifically, the Departmental Controller) will review proposed leases against the master spreadsheet used to justify and create DNR's annual Leased Space appropriation.

In June 2011, the Division of Wildlife and the Division of Parks and Outdoor Recreation merged into the Division of Parks and Wildlife (DPW). As part of the merger a new Director was hired in July 2011. The merger is an ongoing effort that will take time to fully implement. One significant component of the merger will be an examination of the regional structure of the newly formed Division. The existing regional structures of State Parks and DOW were established to accomplish very different goals and do not correspond to each other to any significant degree. As such, constructing a new regional office prior to developing a regional structure for the new Division would be premature.

Additionally, DOW recently determined that the balance of the Division's Wildlife Cash Fund, which is the fund that supports the Division's capital construction projects, is lower than previously thought.

Given new Division leadership, the complexity of the merger, an undetermined regional structure, and a declining balance in the Wildlife Cash Fund, the status of the proposed new office construction (approved by the Wildlife Commission in July 2010) is unknown at this time. The Division is currently reviewing options and will make a decision about whether to

proceed with the construction project sometime later this fiscal year.

In the meantime, Division staff continue to occupy the Gunnison facility and operate it as the Regional Office. The Department's leased space request for FY 2012-13, even though it would be adjusted downward under this decision item, would provide enough funding such that the Gunnison lease could be appropriately funded out of the DNR Leased Space line item.

2) Division of Wildlife Glenwood Springs Office

This lease provides office space for the Division's Glenwood Springs Area office, including a customer service desk. Because of its location along the I-70 corridor this office receives a relatively high volume of customers. The cost of this space in FY 2011-12 is \$58,830. However, as of June 30, 2012 this lease terminates and the Area Office will be relocating to a newly constructed Glenwood Springs office facility. As such, FY 2011-12 Leased Space costs of \$58,830 are effectively removed from the Department's FY 2012-13 Leased Space line.

3) Division of Wildlife Fort Collins Modular Office

This lease provides office space for the Division's Wildlife Health Research facility in Fort Collins. This modular building is located on property owned by the Division and supports research activities on several mammal species. The facility also includes office, meeting, and educational space. The FY 2011-12 appropriation for this space is \$24,750. However, DOW has recently purchased this modular office, making an FY 2012-13 appropriation for the space unnecessary. As such, FY 2011-12 Leased Space costs of \$24,750 are effectively removed from the Department's FY 2012-13 Leased Space line.

4) State Land Board Northeast Regional Office

The State Land Board is proposing to relocate its Northeast Region Office to a more suitable location in Sterling. The Land Board has been a somewhat reluctant tenant in its existing leased space (also in Sterling) for more than five years. During that period, SLB staff has been collocated with Parole and Intervention offices in a physical environment that includes shared bathroom facilities and open access throughout the building. The State Land Board is concerned that this situation is inherently unsafe, poses a threat to vital records, and directly affects the quiet and peaceful enjoyment of the leased space. SLB staff has frequently raised concerns about the need to limit entry to the State Land Board premises by unauthorized persons, particularly parolees and vagrants. When staff communicated these concerns verbally to the landlord, they were apparently told that the problems would/could not be remedied.

In Sterling, as in many smaller Colorado communities, the availability of suitable rental space is severely limited. Consequently, when other options fell through, the Land Board ultimately settled on a site that increased the number of square feet that staff will occupy. In total, the new lease will cost \$7,784 per year for 1,368 square feet, an increase of \$3,545 per year over the cost of the current space leased in Sterling.

If approved, Land Board staff will take occupancy of the new facility in September 2011. However, if this decision item is not approved, the State Land Board would terminate its lease

due to lack of funding and would seek alternate office space within available funding.

Anticipated Outcomes:

If approved, this Decision Item will allow the Department to “true up” its Leased Space expenditures and ensure that all departmental leases for office space and parking are funded out of the Leased Space line.

Assumptions for Calculations:

Costs are determined by the terms of the specific leases, although there may be some variance. Division of Water Resources leases can be impacted by certain tax credit scenarios, for example, which can adjust lease costs up or down slightly throughout the course of the year.

Consequences if not Funded:

Because DNR’s FY 2011-12 Leased Space appropriation is higher than the Department’s estimated leased space costs for FY 2012-13, a continuation budget for this line item will not impact the Department’s ability to meet its leased space needs. This Decision Item is intended primarily to provide full disclosure and transparency about the Department’s overall leased space situation.

Current Statutory Authority or Needed Statutory Change:

NA



DEPARTMENT OF NATURAL RESOURCES

*FY 2012-13 Budget Reduction Proposal
November 1, 2011*

Mike King
Executive Director

Henry Sobanet
Office of State Planning and
Budgeting

BRI-1: Severance Tax Perpetual Base Account Transfer

Proposal:

The Department of Natural Resources (DNR) proposes a transfer of \$33.85 million from the Severance Tax Perpetual Base Account to the General Fund in Fiscal Year 2012-13.

Summary of Request:

- The Severance Tax Perpetual Base Account (“Account”) is authorized through Section 39-29-109 (a), C.R.S. The Account was created to provide loans to municipalities and water districts for the construction, improvement, rehabilitation, or enlargement of flood control, water supply or hydroelectric facilities in Colorado. The Account is administered by the Colorado Water Conservation Board (CWCB).
- DNR proposes a transfer of \$33.85 million from the Account to the General Fund in FY 2012-13.
- Per direction from the Governor’s Office, a reserve estimated at \$16.0 million will be accumulated in FY 2011-12. This reserve is intended to help buffer against severance tax revenue volatility. In combination with the proposed transfer, this reserve will also allow for an estimated \$20.0 million to be spent on water projects in FY 2012-13.
- DNR does not anticipate any cash flow problems to result from this proposed transfer. The transfer will not result in the cancelation of any previously awarded loans or previously approved projects.
- Including FY 2011-12 transfers authorized by S.B. 11-226, more than \$163 million has been transferred from the Account to the General Fund since FY 2008-09. This figure would increase to almost \$197 million under this proposal.
- The transfer will decrease the amount available for loans to municipalities and water districts in FY 2012-13. For FY 2011-12, CWCB has already received loan pre-qualification requests totaling more than \$9.1 million. CWCB staff have also been contacted by potential borrowers about an additional \$122.8 million in loans for a variety of projects statewide that could commence in the next 1-3 years.
- CWCB estimates that Colorado’s population will double by 2050, requiring more than \$2 billion in water supply projects to help meet the water needs of that population.
- The low-interest loans provided from the Account are used for a variety of crucial water infrastructure projects, including the rehabilitation of diversion structures, dams, and reservoirs and acquisition of water rights for augmentation to ameliorate the effects of recent court opinions. In

many cases, the account is the only practical option for small municipalities and water districts in obtaining loans; banks are unlikely to make these loans at the interest rates that CWCB is able to provide, especially in the current economic climate.

Assumptions and Tables to Show Calculations:

Perpetual Base Account of the Severance Tax Trust Fund

	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Estimate	FY 2012-13 Estimate
Cash Balance - Beginning of Year	\$18,058,960	\$40,454,321	\$4,865,510	\$22,130,017	\$83,358
Total Revenues	\$85,424,497	\$29,070,759	\$45,638,199	\$54,053,341	\$51,182,867
Loans/Grants	(\$28,029,136)	(\$659,570)	(\$12,373,692) ¹	(\$12,000,000) ¹	(\$13,000,000) ¹
Transfers	(\$35,000,000)	(\$64,000,000)	(\$16,000,000)	(\$48,100,000)	(\$33,850,000)
Reserve				(\$16,000,000)	(\$4,000,000)
Ending Balance	\$40,454,321	\$4,865,510	\$22,130,017	\$83,358	\$15,044 ²

¹Each of these amounts includes \$12.0 million that is obligated for the purchase of water rights associated with the Animas-La Plata project, pursuant to HB 10-1250.

²This amount includes a reduction of \$401,181 to reflect a legislative proposal to refinance the Department of Revenue's Severance Tax collections, beginning in FY 2012-13.

Current Statutory Authority or Needed Statutory Change:

Section 39-29-109 (a), C.R.S. (2011) – Title 39 of the Colorado Revised Statute describes the creation, administration, and distribution of moneys of the Severance Tax Trust Fund Perpetual Base Account.

Section 37-60-101 through 130, C.R.S. (2011) – Article 60 in Title 37 of the Statutes lays out the creation of, definitions for, roles of, duties of, and uses for funds of the Colorado Water Conservation Board.

This proposed transfer will require statutory changes to implement.

Schedule 13						
Funding Request for the 2012-13 Budget Cycle						
Department:		Department of Natural Resources				
Request Title:		Vehicle Replacements				
Priority Number:		NP-1				
Dept. Approval by:		<i>Will H. Levine</i> 10/18/2011 Date			<input checked="" type="checkbox"/> Decision Item FY 2012-13 <input type="checkbox"/> Base Reduction Item FY 2012-13 <input checked="" type="checkbox"/> Supplemental FY 2011-12 <input type="checkbox"/> Budget Amendment FY 2012-13	
OSPB Approval by:		<i>Greg M. ...</i> 10/18/11 Date				
Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
	Fund	1 Appropriation FY 2011-12	2 Supplemental Request FY 2011-12	3 Base Request FY 2012-13	4 Funding Change Request FY 2012-13	6 Continuation Amount FY 2013-14
Total of All Line Items	Total	2,898,675	(59,508)	2,898,675	207,431	207,431
	FTE	-	-	-	-	-
	GF	293,114	25,530	293,114	38,778	38,778
	GFE	-	-	-	-	-
	CF	2,553,410	(91,665)	2,553,410	169,380	169,380
	RF	-	-	-	-	-
	FF	52,151	6,627	52,151	(727)	(727)
(1) Executive Director's Office, Vehicle Lease Payments	Total	2,898,675	(59,508)	2,898,675	207,431	207,431
	FTE	-	-	-	-	-
	GF	293,114	25,530	293,114	38,778	38,778
	GFE	-	-	-	-	-
	CF	2,553,410	(91,665)	2,553,410	169,380	169,380
	RF	-	-	-	-	-
	FF	52,151	6,627	52,151	(727)	(727)
Letternote Text Revision Required? Yes: <input checked="" type="checkbox"/> No: <input type="checkbox"/> If yes, describe the Letternote Text Revision: The letternotes will need to change to reflect an increase of \$172,425 from "various sources of cash" and a reduction of (\$3,045) from severance tax						
Cash or Federal Fund Name and COFRS Fund Number: Reappropriated Funds Source, by Department and Line Item Name: Approval by OIT? Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/> Schedule 13s from Affected Departments: Department of Personnel and Administration Other Information:						

