

Severance tax revenue drop fuels Water Resources funding debate

Written by K.C. Mason

New estimates that show severance tax revenue plummeting next year is fueling debate over how to fund the Colorado Division of Water Resources, also known as the state engineer's office, without hefty fee increases.

The Legislative Council's economists estimate an 83.7 percent drop to only \$40.5 million from severance taxes in fiscal year 2009-10, while the governor's Office of Planning and Budgeting estimates a 43.5 percent drop to \$148.4 million.

Gov. Bill Ritter's media spokesman, Evan Dreyer, offered no explanation for the disparity in numbers, but noted the Joint Budget Committee, which is tasked with balancing the budget, normally uses their own economists' numbers.

"The bottom line is that our budget is still in need of significant work to get it balanced," Dreyer said.

While about \$200 million still needs to be cut from state government spending in the next 10 weeks, several rural lawmakers, including Rep. Jerry Sonnenberg, R-Sterling, and the Democratic chairs of both the House and Senate Agriculture Committees, are looking at severance taxes to help fill a \$2.5 million gap in the state engineer's budget.

The budget hole is partially to blame for the freezing of eight water commissioner positions statewide.

"There's water running right now and we have to have people on the ground administering our prior appropriations system in Colorado immediately," Sonnenberg said. "If not, we better increase our law enforcement because there will be fights at the head gates."

State Engineer Dick Wolfe said the frozen positions are a problem, but not as large as Sonnenberg fears.

"It's a matter of determining the highest priority," Wolfe said. "Some things will go unadministered and we will reprioritize and reassign commissioners where they are most needed."

Wolfe said his division also will continue to trust the water users themselves.

"A lot is based on the trust of the people out there," he said. "We have a pretty good compliance with our water users and don't spend a lot of time on enforcement. That's not to say people might not do mischievous things but generally people are pretty cooperative."

Sen. Jim Isgar, D-Hesperus, and Rep. Kathleen Curry, D-Gunnison, who chair their respective Senate and House committees, are eyeing \$13 million in severance tax revenue currently used to help low-income residents with their energy bills as a possible source of funding for Wolfe's division.

"We have to take a look at all these different accounts, see what we have, see what are the most critical things to fund," Isgar said. "Kathleen and I have been meeting with the Joint Budget Committee and trying to get them to give us some direction" on the Low-income Energy Assistance Program (LEAP).

A hefty influx of federal funds for energy and conservation programs has made the assistance programs an attractive target for other cash-strapped programs, including water rights administration.

The executive director of Energy Outreach Colorado, Skip Arnold, said efforts to reduce state funding for the energy assistance programs would be resisted, even though federal funding is up this year for both LEAP, which is administered by the Department of Human Services, and energy conservation programs administered by the Governor's Energy Office.

"The state funds still will be needed because of restrictions on how the federal funds can be spent," Arnold said. He added that any apparent surplus in funds this year will be gone by next

winter when federal funding is drastically reduced.

By Arnold's estimates, when the expected reductions in severance tax funding are factored in, the out-of-pocket energy expense for low income households that receive LEAP funding, will jump from \$272 this winter to \$624 next year.

Isgar and Curry also are cosponsoring a bill that would move the water resources division into a better position to get funding from severance tax revenue.

By doing so, they hope to avoid substantial fee increases that officials have proposed for well permits and inspections, dam design review and administering substitute water supply plans.

"We're trying to get more money to the (water) division to cope with expected budget cuts the next two years," Curry said. "If the fees are not increased, then we have to find a way to fund this division. These people are needed out in the field to administer our water."

Curry's committee has advanced two bills to deal with the budget crisis.

House Bill 1308, with Curry and Isgar as the primary sponsors, puts the State Engineer's office in the same category as all other agencies within the Department of Natural Resources to receive a share of funding from the operational account of the Severance Tax Trust Fund.

Currently, the water division is the only DNR agency that gets most of its funding from the general fund. The rest, including the Colorado Water Conservation Board, the Division of Wildlife and the Oil and Gas Conservation Commission, are the so-called Tier One agencies that are funded from the operational account.

Other programs funded from the operational account are considered Tier Two programs and include LEAP, the Endangered Species Trust Fund, and the Water Supply Reserve Account.

The diminishing severance tax revenue only adds to the competition among those funds.

Scheduled for debate on the House floor later this week is Senate Bill 216, which originally contained the proposed \$2.5 million worth of fee increases to make up for general fund budget cuts to the state engineer's office.

The House Agriculture Committee approved Sonnenberg's amendment to delay the fee increases until at least July 1 and replace them with \$500,000 from unallocated funds within the Governor's Energy Office.

"This is not a long-term solution; it only deals with the shortage of trying to manage the waters of the state in this fiscal year," Sonnenberg said. "Rather than funding the state engineer with premature fee increases, we look at unused funds in the governor's office."

Rep. Jack Pommer, D-Boulder, defended the JBC's original version of SB 216 and indicated he would seek to restore the fee increases.

"The point of the bill was to move costs of providing various water-well and related service from general public to the people who use those services," Pommer said. "Right now we're taxing everyone to subsidize a small group who receives services."

Committee members countered that water administration is a statewide issue.

"There is no doubt in my mind that the public as a whole benefits from proper administration of water rights and ensures our dams are safe," said Rep. Frank McNulty, R-Highlands Ranch. "Taking money for the general fund should be the first option and now we're making the jump to user fees."