Joint Budget Committee

Interim Supplemental Budget Requests FY 2025-26

Department of Local Affairs

Prepared by:
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Interim Supplemental Requests

→ Local Government Severance Tax Fund Deficit

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Request	$4,423,013	$4,423,013	$0	$0	$0	0.0
Recommendation	4,423,013	4,423,013	0	0	0	0.0
Staff Recommendation Higher/-Lower than Request	$0	$0	$0	$0	$0	0.0

Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.? **YES**

The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? **YES**
An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.

Explanation: JBC staff and the Department agree that this request is the result of an unforeseen contingency due to net-negative severance tax collections resulting from ad valorem tax credits.

Request

The Department requests $4,423,013 General Fund overexpenditure authority to effectively swap all Local Government Severance Tax Fund appropriations in line items that also include General Fund appropriations in FY 2025-26.

Recommendation

Staff recommends that the Committee approve the request.

Analysis

Under the OSPB June 2026 forecast, severance tax collections are expected to be net-negative by $44.8 million in May due to a near record high number of ad valorem tax credits issued. DOLA's Local Government Severance Tax Fund is expected to end FY 2025-26 in a deficit due to this drastic swing in the severance tax forecast, combined with transfers out of the fund on June 30 and July 1. Absent the requested General Fund overexpenditure, the Department expects to be in a $4.7 million deficit on July 1. With approval of the request, this amount would be around $300,000.

Pursuant to H.B. 26-1405 (Cash Fund Transfers to General Fund), $19.4 million will be transferred from the Local Government Severance Tax Fund to the General Fund on June 30, 2026, and $27.3 million will be transferred on June 30, 2027. Additionally, S.B. 25-256 (Funds for Support of Digital Trunked Radio System) requires $15.0 million to be transferred out on July 1st of each year. The transfers that will occur on the last day of FY 2025-26 and first day of FY 2026-27 are the primary cause of the cash flow problems DOLA expects to incur over the next few months. The Department is also statutorily required to send out direct distribution funds to local governments on August 30th; this amount is estimated at $7.7 million for the August 2026 distribution.

The interim supplemental process only allows for overexpenditures of existing appropriations; scheduled transfers out of the Local Government Severance Tax Fund cannot be altered while the General Assembly is not in session. Due to the limited options available, the Department is requesting to essentially swap all of its FY 2025-26 Local Government Severance Tax Fund appropriations with General Fund in every line item where both fund sources are appropriated. The total by line item is shown at the end of this document.

The Department requests $4,423,013 General Fund in FY 2025-26 to execute this swap. This amount is not enough to completely avoid the estimated July deficit of $4.7 million. The Office of the State Controller has confirmed that the Department will be allowed to operate in a deficit position with a loan from the General Fund in the near term. The General Fund will be repaid as severance tax collections recover. The Department submitted this request to minimize the deficit and ensure the Local Government Severance Tax Fund is able to repay the General Fund as quickly as possible.

Current projections show the Local Government Severance Tax Fund ending the first quarter of FY 2026-27 with a modest balance. At this time, the Department does not know if it will be able to do any Energy Impact Assistance Fund grant rounds in FY 2026-27. Any grants that do happen are likely to come entirely from federal mineral lease revenue. Staff did not have access to the detailed June severance tax and federal mineral lease forecasts from OSPB or LCS at the time of this writing.

FY 2025-26 Severance to General Fund Refinance

Division and Line Item	Amount
Executive Director's Office	
Capitol Complex Leased Space	$100,867
CORE Operations	12,139
Health, Life, and Dental	644,855
Information Technology Asset Maintenance	28,924
Leased Space	1,280
Legal Services	713
Paid Family Medical Leave Insurance	15,883
Payments to OIT	417,193
Payments to Risk Management and Property Funds	21,515
PERA Direct Distribution	90,635
Salary Survey	96,858
Short-term Disability	2,425
Step Pay	19,459
Unfunded Liability AED Payments	350,051
Vehicle Lease Payments	11,612
Workers' Compensation	19,247
Executive Director's Office subtotal	$1,833,656
Division of Property Taxation	
Division of Property Taxation	$139,217
Division of Housing	
Affordable Housing Program Costs	$206,374
Division of Local Government	
Personal Services	$13,830
Operating Expenses	428,377
Field Services Program Costs	1,801,559
Division of Local Government subtotal	$2,243,766
Total	$4,423,013