Joint Budget Committee

Interim Supplemental Budget Requests FY 2025-26

Natural Resources and Higher Education

Prepared by:
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Contents

Interim Supplemental Requests

→ Statewide: Severance Tax Funds (operational fund)

Item	Total Funds	General Fund	Cash Funds	Reapprop. Funds	Federal Funds	FTE
Request	$0	$10,548,369	-$10,548,369	$0	$0	0.0
Recommendation	0	10,548,369	-10,548,369	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.

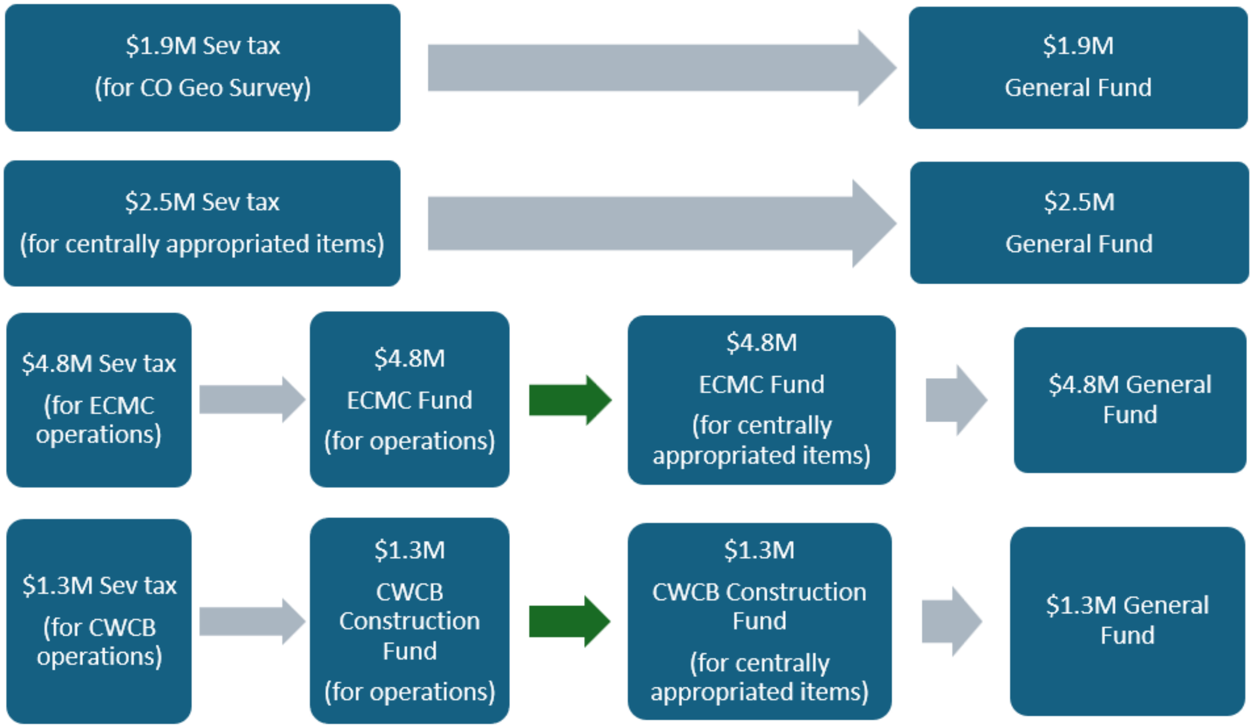
Explanation: JBC staff and the Department agree that this request is the result of an unforeseen contingency, which is the near-record high severance tax refunds in May 2026. The Office of State Planning and Budgeting (OSPB) indicates that this resulted in net-negative severance tax collections of $44.8 million in May 2026, and a downward revision of $90.0 million for FY 25-26 severance tax revenue. As a result, the operational fund is projected to have a deficit of $10.5 million.

Request

The Department requests to refinance $10,548,369 from the severance tax operational fund to the General Fund in FY 25-26, which is equal to the operational fund's projected deficit. This refinance is composed of adjustments to the Colorado Geological Survey, centrally appropriated line items, and multi-step refinances within the Colorado Water Conservation Board and Energy and Carbon Management Commission.

Line item detail for the requested refinances is available in Appendix A.

$10.5 million in proposed operational fund refinances to General Fund



Recommendation

In light of the balancing actions already taken regarding the operational fund, staff recommends that the Committee approve the Department's request.

Alternate Option

If the Committee is not comfortable with the resulting $10.5 million General Fund increase, the Committee could consider only refinancing $7.3 million to the General Fund. This is the approximate amount of funds that the operational fund is statutorily required to transfer to the General Fund in FY 25-26.

While the transfer must occur since it is in statute, staff believes that it is appropriate to then backfill this amount of General Fund. The General Assembly was unaware of this shortfall when it initiated the transfer, and it does not seem appropriate to transfer funds from the operational fund if it is running a deficit. This second option could look like:

- $1.9 million refinance for Colorado Geological Survey to General Fund
- $2.5 million refinance for centrally appropriated line items to General Fund
- $4.8 million refinance for ECMC operations to the ECMC fund; $2.9 million General Fund backfill
- $1.3 million refinance for aquatic nuisance species work to the ANS fund (see page 6)

The Department has indicated that not approving the full refinance to General Fund has trade-offs. It would accelerate the insolvency of the ECMC Fund, reduce funding available for water projects from the CWCB Construction Fund, and reduce funding for potential aquatic nuisance species emergencies. The CWCB and ECMC funds are already more limited in the future due to the Committee's FY 26-27 severance tax restructure.

Analysis

The supplemental budget request seeks to minimize the impact of a sudden shortfall in severance tax revenue.

Solutions are limited due to the nature of the 1331 emergency supplemental process. For example, the process can only authorize overexpenditure authority. As such, General Fund can only be overexpended in line items that already receive General Fund.

The only line items that receive both General Fund and severance tax operational funds are the Colorado Geological Survey and centrally appropriated line items.

Revenue Shortfall

The severance tax operational fund receives 25.0 percent of severance tax revenues.

Under the June forecast, the operational fund is projected to only receive $10.9 million in FY 25-26 as compared to $34.8 million that was forecasted in March. The Department projects that this will lead to a $10.5 million deficit within the fund. This deficit includes a $7.3 million transfer to the General Fund.

FY 25-26 OSPB Forecast for Operational Fund

Item	March 2026	June 2026
Beginning Fund Balance	$21,889,302	$21,889,302
Revenue	34,831,680	10,931,450
Program Expenditures	-36,232,354	-36,116,125
Transfer to General Fund	-7,252,996	-7,252,996
Ending Fund Balance	13,235,632	-10,548,369
Reserve as Percent of Expenditures	18%	-15%

Due to the volatility of operational fund revenue, S.B. 21-281 (State Severance Tax Trust Fund Allocation) increased the statutory reserve to 200.0 percent. Last year depleted much of the reserve, and there has been inadequate revenue to fully replenish the reserve in FY 25-26.

FY 25-26 Appropriations and Recent Budget Balancing

Over the past few years, the operational fund has been part of multiple budget balancing measures including $36.8 million in one-time transfers to the General Fund[1] and a $14.2 million conditional, ongoing transfer to the General Fund[2].

Furthermore, the FY 26-27 appropriation will be very different from the FY 25-26 appropriation due to the Committee's FY 26-27 operational fund restructure that. The restructure: (1) spends from other cash funds (e.g.,

[1] H.B. 24-1413 (Severance Tax Transfers): $18.3 million transfer to General Fund in FY 24-25; H.B. 26-1405 (Cash Fund Transfers to General Fund): $7.3 million transfer to General Fund in FY 25-26; $11.2 million transfer in FY 26-27.

[2] H.B. 26-1410 (2026-27 Long Bill): refinanced $10.7 million from the operational fund to various cash funds; H.B. 26-1387 (Severance Tax Fund Expenditures): authorized an annual transfer of $14.2 million to the General Fund contingent on adequate operational fund revenue; refinances $3.0 million for species conservation with the severance tax perpetual base fund.

ECMC, CWCB Construction) instead of the operational fund and (2) transfers from the operational fund to the General Fund. More detail on this restructure is on page 2 of the bill draft memo for H.B. 26-1387.[3]

Department of Higher Education Refinance

The Geological Survey has indicated support for the requested solution for backfilling operational fund revenue with General Fund, with the understanding that the approach maintains current year appropriations.

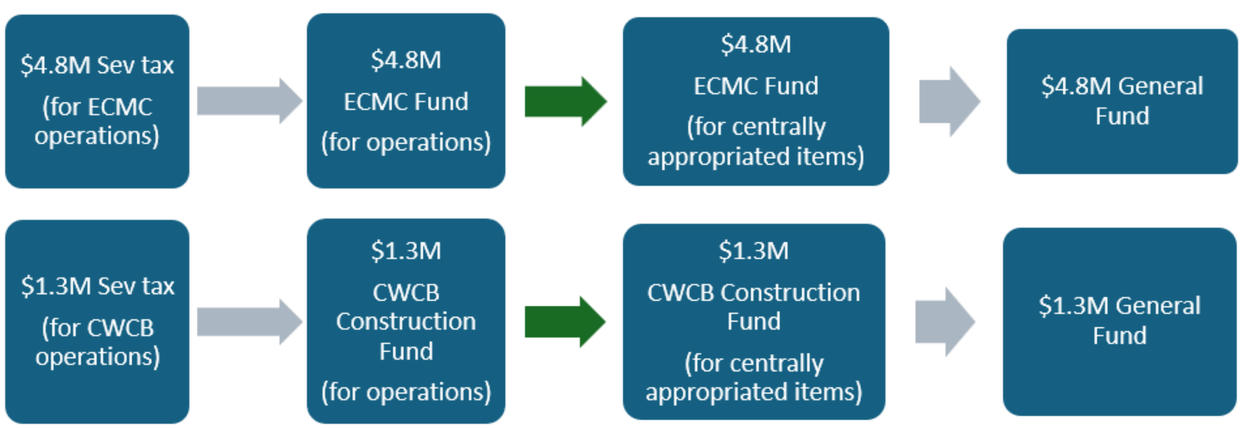
Alfredo Kemm, JBC staff assigned to the Department of Higher Education, does not have concerns with this request.

Department of Natural Resources Refinance

The only line items in DNR that are also funded by General Fund are centrally appropriated line items. As such, the Department has requested:

1. Refinancing operational fund appropriations for centrally appropriated line items with General Fund

2. Multi-step refinances to allow General Fund to backfill department operations outside of centrally appropriated line items



If the Committee does not approve this request, the Department is unlikely to have adequate revenue to support current year appropriations. As such, if the Department has already spent their full appropriation – it would now be considered an unauthorized overexpenditure and its funds in FY 26-27 would be restricted.

Colorado Water Conservation Board (CWCB)

The CWCB Construction Fund supports operations and staff as well as water projects across the state. The fund receives primarily federal mineral lease revenue. CWCB is responsible for the Colorado Water Plan, weather modification support, data for Colorado River negotiations and Endangered Species Act compliance, flood mitigation, and other efforts.

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[3] https://content.leg.colorado.gov/sites/default/files/LLS%200990%20Severance%20Tax.pdf.

The CWCB estimates that the Construction Fund will end FY 25-26 with a balance of $36.4 million. While this is more than adequate to pay for the requested $1.3 million refinance, the trade-off is reduced funding for water projects. As such, the Department has requested General Fund to backfill the $1.3 million refinance in order to reduce the impact on water project funding.

CWCB water projects are primarily funded by the CWCB Construction Fund and Severance Tax Perpetual Base Fund. The Severance Tax Perpetual Base Fund receives 25.0 of severance tax revenue and is already expecting $24.0 million less than anticipated as a result of the same revenue shortfall as the operational fund.

Furthermore, due to the Committee's FY 26-27 severance tax restructure – the CWCB Construction Fund is projected to take on an additional $1.3 million annually that was previously funded by the operational fund.

Due to these recent, increased pressures on the CWCB Construction Fund, staff recommends the additional General Fund to backfill the fund.

Energy and Carbon Management Commission (ECMC)

ECMC regulates the exploration, development, and conservation of Colorado's oil and natural gas resources. It is mostly cash funded ($34.0 million), including:

- the ECMC Cash Fund ($18.4 million);
- the Orphaned Wells Cash Fund ($9.5 million); and
- the severance tax operational fund ($6.1 million).

The ECMC has historically had a fund balance of about 100.0 percent of annual expenditures[4], but recent actions have spent down the balance and the Department indicates that the fund is quickly approaching its limits. The Department has spent the balance on:

- the Stationary Sources Control Fund in the Department of Public Health and Environment in FY 23-24 ($10.0 million);
- Decarbonization Tax Credits in FY 24-25 ($2.5 million);
- an IT capital project that began in FY 25-26 ($2.0 million); and
- budget balancing actions in the FY 26-27 Long Bill ($5.0 million).

Without the General Fund backfill, the Department projects that the fund will have a negative balance by FY 2030-31. Due to the recent, increased pressures on the ECMC Fund, staff recommends the additional General Fund to backfill the fund.

The Department has also indicated that they are limited in their ability to adjust revenue from the conservation mill levy to the ECMC fund. They noted that it would take "significant time" to refill the proposed $4.8 million refinance if it were not backfilled with General Fund.

Additional refinance options not proposed

There is one alternative refinance option (the ANS fund) that staff feels may be feasible if the Committee does not wish to adjust CWCB or ECMC funding. The ANS program cannot be easily backfilled with General Fund at this time. However, the fund also does not face the same pressure as the ECMC or CWCB funds that are part of the Committee's FY 26-27 operational fund restructure. It was not part of the restructure.

[4] Net cash assets of $40.0 in FY 23-24 and $35.0 million in FY 24-25.

The ANS fund receives revenue from ANS stamps purchased by boaters, federal funds, and the operational fund. The Department has previously indicated that a short-term refinance of operational fund appropriations with the ANS fund reserve may be feasible without significant programmatic challenges.

However, the Department has more recently indicated that drawing down the ANS fund balance will reduce Colorado Parks and Wildlife's capacity to respond to potentially costly emergencies and increase their reliance on federal funds to support the program. Staff still believes that the fund balance is rather high and could sustain a refinance of a $1 to 3 million.

Aquatic Nuisance Species Fund

	FY 2023-24 Actual	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate
Revenues	$9,274,600	$10,513,110	$11,563,534	$12,670,776
Expenditures	8,264,064	8,388,023	10,694,224	11,247,845
Net Cash Flow	1,010,536	2,125,087	869,310	1,422,931
Ending FY Balance (net cash assets)	14,326,905	16,435,279	17,304,590	18,727,521

At a higher level, the below table shows the operational fund distribution and range of refinance options. Items that were part of the Committee's FY 26-27 operational fund restructure are flagged on the right-most column. These cash funds are projected to have more limited funds in FY 26-27 and moving forward.

Severance Tax Operational Fund Distribution – and refinance options

Program	Distribution	FY 25-26 Appropriation	FY 25-26 refinance options (without legislation)	Already refinanced beginning FY 26-27?
The general assembly may appropriate the following:				
Energy and Carbon Management Commission	Up to 35.0%	$6,148,067	ECMC Cash Fund	Yes
Colorado Geological Survey (Dept of Higher Education)	Up to 15.0%	1,898,062	General Fund	No
Colorado Avalanche Information Center	Up to 5.0%	1,522,456	-	-
Division of Reclamation, Mining, and Safety	Up to 25.0%	5,906,439	-	-
Colorado Water Conservation Board	Up to 5.0%	1,319,250	CWCB Construction Fund	Yes
Colorado Parks and Wildlife - state parks	Up to 10.0%	2,521,682	Parks Cash Fund	Yes
If the general assembly appropriates less than 100.0% of the funds available to the above programs, they may additionally appropriate the following:				
Species Conservation Trust Fund	Up to $5.0 million	5,000,000	Wildlife Cash Fund (increases TABOR revenue)	Yes
Aquatic Nuisance Species (ANS) Fund	Up to $4.0 million	4,006,005	ANS Fund Balance	No
Soil Conservation Grant Fund (Dept of Agriculture)	Up to $700,000	700,000	Agricultural Management Fund	Yes
COSWAP (wildfire mitigation)	Up to $5.0 million	5,000,000	-	-
Total		$34,021,961		

Appendix A: Line Item Detail for Requested Refinance

Line Item Detail: FY 25-26 Requested Refinance

Item	General Fund	Operational Fund	CWCB Construction Fund	ECMC Fund
Dept of Higher Education				
Colorado Geological Survey	$1,898,062	-$1,898,062		
Dept of Natural Resources				
Health Life Dental	4,611,943	-782,173	-900,270	-2,929,500
Short-term Disability	3,338	-3,338		
Paid Family and Medical Leave	21,468	-21,468		
Unfunded Liability Amortization Equalization Disbursement Payments (ULAED)	477,071	-477,071		
PERA Direct Distribution	90,107	-90,107		
Salary Survey	175,511	-131,441		-44,070
Step Pay	4,900	-4,900		
Workers' Compensation	32,110	-32,110		
Legal Services	349,068	-349,068		
Risk Management	27,340	-27,340		
Vehicle Lease	90,165	-90,165		
IT Asset Maintenance	29,616	-29,616		
Leased Space	43,205	-43,205		
Capitol Complex Leased Space	143,469	-143,469		
CORE Operations	3,157	-3,157		-1,821,040
Payments to OIT	2,547,839	-307,819	-418,980	
ECMC Program Costs		-4,794,610		4,794,610
CWCB Operating Expenses		-43,750	43,750	
CWCB FEMA		-70,000	70,000	
CWCB Severance Tax Fund		-1,205,500	1,205,500	
Total	$10,548,369	-$10,548,369	$0	$0