



Fact Sheet Clean Water Fee Bill Starting Scenario for Discussion Purposes Based on 2015 Joint Budget Committee Staff Recommendations

At the May 18, 2016 Clean Water Fee Bill stakeholder meeting, the Colorado Department of Public Health and Environment's Water Quality Control Division staff presented a starting scenario regarding fee changes for each of the Clean Water Sectors. Handouts summarizing the starting scenario were provided at the meeting; Staff discussed these with the stakeholders in attendance. The purpose of this fact sheet is to assist those who were not able to attend the meeting to understand the assumptions used to develop the starting scenario. In addition, the meeting presentation and recording of the meeting is available on the clean water fee structure discussion webpage: <https://www.colorado.gov/pacific/cdphe/clean-water-fee-structure-discussion>.

Initial Policy Assumptions and Recommendations

In order to develop the starting scenario, the department developed a starting set of recommendations that included:

1. Fees remain in statute.
2. Fee structure should remain the same. Existing sectors (Commerce and Industry, Construction, Municipal Separate Storm Sewer Systems (MS4), Pesticides, Public and Private Utilities and Water Quality Certifications) and associated categories do not require changes.
3. Services should remain the same, for now. The legislative fix that is required at this time would maintain existing level of services. The department is willing to discuss fees for new services outside of this current clean water fee bill process. However, this current process is focused on maintaining existing services. Existing services are at risk of being reduced if clean water fees are not addressed.
4. Develop sector specific fee changes based on General Fund/cash fund ratios. These fee changes would apply across the entire sector for all categories and subcategories within a given sector.
5. Fee changes should be based on a five year forecast. This means that fees would be set and would not require revision until the fiscal year 2022-23 timeframe. A shorter time period such as three years would require the department to begin another stakeholder process around fees in 2017.
6. Develop a two month reserve or 16.5 percent fund balance by sector over a five year period. Statute allows for cash funds to develop a two month reserve. The purpose of this reserve is to allow a smooth transition between fiscal years as revenue catches up with expenditures over the first two months of a fiscal year.

Five Year Forecast

The starting scenario was based on a five year forecast. The baseline for the forecast is presented in Table 1. The baseline is the General Fund and cash spending authority for fiscal year 2016-17 from the Long Bill (HB16-1405) plus the General Fund appropriation from HB16-1413.

Clean Water Sectors	Total	General Fund	Cash Funds	HB16-1413 General Fund
Commerce and Industry	\$1,775,484	\$687,209	\$725,873	\$362,402
Construction	\$1,412,261	\$335,081	\$1,077,180	\$0
MS4	\$203,413	\$62,468	\$80,545	\$60,400
Pesticide	\$17,600	\$0	\$17,600	\$0
Public/Private Utilities	\$2,696,111	\$1,103,322	\$807,584	\$785,205
WQ Certification	\$203,095	\$0	\$203,095	\$0
Total	\$6,307,964	\$2,188,080	\$2,911,877	\$1,208,007

This baseline (all three funding sources above) was escalated based on the consumer price index over a five year period. The consumer price index (for 10 years) was reviewed to develop the escalation factor of four percent per year. The average of the forecasted five years was calculated and the results are summarized in Table 2.

Clean Water Sectors	Total General Fund and cash funds spending authority. Split between General Fund and cash funds to be determined.			
	Total	General Fund	Cash funds	HB16-1413 General Fund
Commerce and Industry	\$2,000,252	\$774,206	\$817,765	\$408,280
Construction	\$1,591,046	\$377,501	\$1,213,546	\$0
MS4	\$229,164	\$70,376	\$90,742	\$68,046
Pesticide	\$19,828	\$0	\$19,828	\$0
Public/Private Utilities	\$3,037,425	\$1,242,997	\$909,820	\$884,608
WQ Certification	\$228,806	\$0	\$228,806	\$0
Total	\$7,106,521	\$2,465,080	\$3,280,506	\$1,360,935

In Table 2, the total by sector is the spending authority that will keep each sector "whole" or allow division services to be maintained for the next five years. The clean water fee bill stakeholder process will explore how much of each sector should be funded by General Fund and cash funds. The amount of each sector funded by cash will determine the fee change needed at the sector level to maintain division clean water services.

Starting Scenario for Discussion Purposes

The starting scenario for discussion purposes is based on the FY 2016-17 JBC staff budget briefing: http://www.tornado.state.co.us/gov_dir/leg_dir/jbc/2015-16/PUBHEAbrf.pdf. The JBC staff provided a recommendation of the split between General Fund and cash funds for each sector. Table 3 shows the General Fund/cash funds ratios for each sector and the resulting split of the total spending authority for each sector between General Fund and cash funds. Stakeholders have been asked to provide feedback on General Fund/cash funds split for their sector.

TABLE 3. SPENDING AUTHORITY ESTIMATES BASED ON GENERAL FUND/CASH FUND RATIOS					
Clean Water Sectors	General Fund Ratio	Cash Funds Ratio	Total Spending Authority	(A) General Fund	(B) Cash Funds
Commerce and Industry	25%	75%	\$2,000,252	\$500,063	\$1,500,189
Construction	25%	75%	\$1,591,046	\$397,762	\$1,193,285
MS4	75%	25%	\$229,164	\$171,873	\$57,291
Pesticide	50%	50%	\$19,828	\$9,914	\$9,914
Public/Private Utilities	75%	25%	\$3,037,425	\$2,278,069	\$759,356
WQ Certification	25%	75%	\$228,806	\$57,201	\$171,604
		Total	\$7,106,521	\$3,414,882	\$3,691,639

To understand how cash fees by sector would change, we have to understand the total costs associated with each sector. The spending authority in Table 3 does not include costs for administration, POTS, department indirect costs and developing a fund balance by sector. POTS refers to expenditure types common to the department. Examples include group health, life and dental, short-term disability, salary survey, performance based pay, amortization equalization disbursement, supplemental amortization equalization disbursement and shift differential. Indirect costs cover building lease, information technology and legal costs at the department level. For developing a fund balance, a 3.3 percent increase was included in the estimates. 3.3 percent is the 16.5 percent allowed by statute divided by five so that the fund balance would accumulate over a five year period. Table 4 at the end of this fact sheet summarizes the total cash costs associated with the cash spending authority from Table 3 (Column (B)). These total cash costs were subtracted from the estimated cash revenue to establish the revenue that would have to be increased or decreased by sector.

Table 5 at the end of this fact sheet summarizes the costs associated with the General Fund spending authority outlined in Table 3 (Column (A)). The additional costs related to the General Fund spending authority in Table 3 include administration, POTS and department indirect costs.

Note that the starting scenario is not a baseline scenario upon which other scenarios will be compared. It was meant to serve as starting point in developing other scenarios. Under the starting scenario summarized in Table 4, some sectors would see an increase in cash fees and some sectors would see a decrease in cash fees. If different General Fund/cash funds ratios are proposed for a given sector, the resulting fee change would be based on the same methodology. For example, if the General Fund percentage for the MS4 and Public and Private Utilities were decreased, cash spending authority would need to be increased to make each sector "whole". This does not mean that the services would be increased for the MS4 and Public and Private Utilities sectors. To increase services, the department would need to make a legislative request to increase spending authority to cover the additional services. The additional spending authority would have to be covered through new fees or additional general fund. Again, the purpose of the current clean water fee stakeholder process is to focus our legislative proposal efforts on maintaining existing services or to cover expenses for our current spending authority and not to increase spending authority to cover new services. A spreadsheet has been posted to the clean water fees website that details the calculations and assumptions to generate the information presented in Tables 1 through 5. The direct link to this spreadsheet is available here:

https://www.colorado.gov/pacific/sites/default/files/WQ_CW-Fee-Tool.xlsx.

TABLE 4. RESULTING CASH REVENUE DIFFERENCES AND FEE CHANGES BASED ON GENERAL FUND/CASH FUND RATIOS FROM TABLE 3

Clean Water Sectors	(B) Estimated Cash Sector Spending Authority	Estimated Cash Admin Spending Authority	Estimated Cash POTS	Estimated Cash Indirect	Total Estimated Cash Expenses	3.3% Fund Balance	Total Estimated Cash Expenses + 3.3% Fund Balance	Estimated Cash Revenue	Revenue Difference ²	Fee Change
Commerce and Industry	\$1,500,189	\$89,310	\$344,425	\$531,829	\$2,465,752	\$81,370	\$2,547,122	\$1,014,284	\$1,532,838	151%
Construction	\$1,193,285	\$132,534	\$286,139	\$443,289	\$2,055,247	\$67,823	\$2,123,070	\$2,091,206	\$31,864	2%
MS4	\$57,291	\$9,910	\$14,440	\$22,451	\$104,093	\$3,435	\$107,528	\$145,875	(\$38,347)	-26%
Pesticide	\$9,914	\$2,165	\$2,588	\$4,034	\$18,701	\$617	\$19,318	\$17,772	\$1,546	9%
Public/Private Utilities	\$759,356	\$99,364	\$185,062	\$287,040	\$1,330,822	\$43,917	\$1,374,739	\$1,919,994	(\$545,255)	-28%
WQ Certification ¹	\$171,604	\$24,988	\$42,323	\$65,702	\$304,618	\$10,052	\$314,670	\$140,000	\$174,670	125%
Total	\$3,691,639	\$358,272	\$874,977	\$874,977	\$6,279,233	\$207,215	\$6,486,448	\$5,329,131	\$1,157,317	22%

¹Water Quality Certification fees were established to cover costs so this revenue and fee change should be ignored. CDPHE recommends no changes in fees for Water Quality Certifications for Tiers 3 and 4 at this time. Tiers 1 and 2 may need to be revised slightly based on the outcome of this stakeholder process.

²Positive numbers reflect cash fee increase and negative numbers (red) indicate a cash fee decrease.

TABLE 5. RESULTING GENERAL FUND DIFFERENCES FROM BASELINE FORECAST BASED ON GENERAL FUND/CASH FUND RATIOS FROM TABLE 3

Clean Water Sectors	(A) Estimated General Fund Sector Spending Authority	Estimated General Fund Admin Spending Authority	Estimated General Fund POTS	Estimated General Fund Indirect	Total Estimated General Fund Expenses
Commerce and Industry	\$500,063	\$123,561	\$133,379	\$208,176	\$965,178
Construction	\$397,762	\$60,248	\$98,562	\$153,057	\$709,628
MS4	\$171,873	\$11,232	\$39,658	\$61,260	\$284,022
Pesticide	\$9,914	\$0	\$2,159	\$3,320	\$15,393
Public/Private Utilities	\$2,278,069	\$176,669	\$531,144	\$821,118	\$3,807,000
WQ Certification	\$57,201	\$0	\$12,458	\$19,156	\$88,816
Total	\$3,414,882	\$371,710	\$817,360	\$817,360	\$5,870,038