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Fiscal Note

Drafting Number: LLS 21-0031 **Date:** March 17, 2021
Prime Sponsors: Rep. Cutter; Gray **Bill Status:** House Energy & Environment
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Bill Topic: NATURAL DISASTER MITIGATION ENTERPRISE

- Summary of Fiscal Impact:**
- State Revenue
 - State Expenditure
 - State Transfer
 - TABOR Refund
 - Local Government
 - Statutory Public Entity

The bill creates a hazard mitigation enterprise and charges fees on insurance premiums to create revenue for a grant program and technical assistance to local governments. Revenue and expenditure impacts in the enterprise are ongoing.

Appropriation Summary: No appropriation is required. Revenue in the new cash fund is continuously appropriated to the enterprise in the Department of Public Safety.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 21-1208

		Budget Year FY 2021-22	Out Year FY 2022-23
Revenue	Cash Funds	\$7,599,346	\$7,599,346
	Total Revenue	\$7,599,346	\$7,599,346
Expenditures	Cash Funds	\$7,548,259	\$7,548,229
	Centrally Appropriated	\$51,117	\$51,117
	Total Expenditures	\$7,599,346	\$7,599,346
	Total FTE	3.0 FTE	3.0 FTE
Transfers		-	-
TABOR Refund		-	-

Summary of Legislation

The bill creates the Natural Disaster Mitigation Enterprise as a Type 2 agency in the Department of Public Safety (DPS) to administer a grant program, provide public education, and supply technical assistance to local governments concerning natural hazard mitigation.

The enterprise is created as a state-owned business and funded by fees charged to insurance companies providing specific types of property and hazard insurance. The fee is equal to \$1.25 for each \$1,000 of total premiums for policies covering specified property or risks in the state. The fee is adjusted annually based on the annual percent change in the producer price index for property and casualty insurance maintained by the U.S. Department of Labor. Fee revenue collected by the enterprise are not subject to state revenue and expenditure limitations in the constitution. The bill creates the Natural Disaster Mitigation Cash Fund, which is continuously appropriated to the enterprise.

Background

TABOR defines an enterprise as "a government-owned business authorized to issue its own revenue bonds and receiving under ten percent of annual revenue in grants from all Colorado state and local governments combined." Because the share of revenue that an enterprise may receive from government sources is capped, enterprises are largely financially independent of core government agencies. Additionally, enterprises cannot levy taxes. TABOR limits the amount of money that can be spent or saved by the state government and all local governments within the state. However, revenue collected by enterprises is not subject to these constraints.

Current law requires voter approval to create a state government enterprise that collects more than \$100 million over its first five years of operation. The enterprise created in this bill is not expected to collect fee or surcharge revenue exceeding \$100 million over its first five fiscal years; therefore, the voter approval requirement does not apply.

State Revenue

The bill increases revenue to the new enterprise by approximately \$7.6 million per year beginning FY 2021-22. Fees paid to a state enterprise are exempt from TABOR.

According to the Division of Insurance in the Department of Regulatory Agencies, the total written premiums in 2018 for the types of insurance covered by the new fee was about \$6.1 billion. The bill requires that the new enterprise charge a fee \$1.25 on each \$1,000 of premium value, which will result in collections of about \$7.6 million annually.

State Expenditures

For FY 2020-21 and FY 2021-22, the bill increases expenditures in the new enterprise by about \$7.6 million and 3.0 FTE. New costs are displayed in Table 2 and described below.

Personal services. Beginning FY 2021-22, the new enterprise requires staff to adopt rules, manage the enterprise, collect premium fees, create application procedures and timelines for grants, develop program materials, and conduct outreach and work with contractors to provide technical assistance to local governments. Accounting staff is required to execute contracts, perform financial compliance reviews, and approve and track payments. In total, 3.0 FTE is required for the enterprise.

Hazard mitigation grants. Grants from the enterprise are the largest expenditure for the new program. Assuming about \$7.6 million in revenue from fees on insurance premiums, the enterprise is expected to award about \$7.0 million annually.

**Table 2
 Expenditures under HB 21-1208**

Cost Components	FY 2021-22	FY 2022-23
Hazard Mitigation Enterprise		
Personal Services	\$233,383	\$233,383
Operating Expenses	\$4,050	\$4,050
Capital Outlay Costs	\$18,600	-
Contract Services	\$250,000	\$250,000
Hazard Mitigation Grants	\$7,042,196	\$7,060,796
Centrally Appropriated Costs ¹	\$51,117	\$51,117
Total	\$7,599,346	\$7,599,346
Total FTE	3.0 FTE	3.0 FTE

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. This fiscal note assumes that both direct and indirect costs for the new enterprise are paid from the cash fund and the TABOR exempt revenue. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$51,117 per year.

Local Government

Local governments participating in the program will receive additional revenue to use for natural hazard mitigation. It is assumed that this funding will be used to both support direct assistance for local initiatives and to apply toward local matching fund requirements for federal grants.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

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Treasury

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Natural Resources

Regulatory Agencies