



MEMORANDUM

TO: GOCO Board Members

FROM: Lise Aangeenbrug, Executive Director
Peter Ericson, Chief Operating Officer

DATE: May 07, 2015

RE: Fiscal Year (FY) 2016 Spending Plan & 5 Year Spending Plan Proposal

This memorandum, prepared in preparation for the Finance Committee meeting on May 14, 2015, will cover the following topics:

- Outline assumptions for the key external factors (constitutional cap; Lottery revenue) and internal Board policies (months ahead of Lottery; cash flow models; outstanding grants; de-authorized grants) pertinent to the FY 2016 spending plan which also set the stage for a 5 year spending plan;
- Provide an update on GOCO's plans related to developing a 5 year spending plan which reflects strategic plan priorities;
- Recommend an initial spending plan for FY 2016.

Financial Analysis for FY 2016 Spending Plan

Constitutional Cap: GOCO's Lottery proceeds are capped based on the consumer price index (CPI.) Staff reviewed the annual changes for CPI since 2003. Since 2003 the average increase has been 2.05% each year. The last five years have averaged a 1.93% increase. Staff is recommending GOCO assume a 2% increase of CPI each year for their revenue projections.

Lottery Revenue: After determining the maximum Lottery proceeds, GOCO needs to determine what is prudent to assume it will receive and how conservative it should be in its assumptions for revenue and months ahead of Lottery. Lottery sales are increasing but are behind when compared to the prior year. The main contributor to lagging sales, and therefore proceeds, is declining performance of Powerball. Currently Powerball is down 40% nationally – Colorado is only experiencing a 35% drop. This most recent \$500 million jackpot run was the first large jackpot “run” since February 2014. The previous 15 months saw five jackpot runs greater than \$400 million. The last twelve months are considered by Lottery to be an anomaly, as the lack of high jackpots was not the norm for the past five years.

Proceeds information through February 2015 has been reported to GOCO. GOCO earned \$43 million, \$1.6 million less than was earned in the first eight months of FY 2014. Yet, at the March

Lottery Commission meeting, Lottery staff announced sales had improved for the month of February and the GOCO constitutional cap would likely be reached for FY 2015.

Given the uncertainty of future performance of Powerball jackpots, GOCO staff recommends we budget revenue less than the maximum proceeds/estimated constitutional cap. This will allow us to have confidence we can meet projections, award funding to all proposed grant programs, and ensure we have the ability to pay all outstanding grants. Staff is recommending we reduce estimated GOCO constitutional cap amounts to 4% below cap for at least the next two years. With only one year of data that indicates a downward trend, we believe it is prudent to be more conservative for the next two years to see if this is, in fact, a trend. The Board could revisit these revenue projections after two years and make adjustment if these assumptions prove overly conservative.

Months Ahead of Lottery: GOCO manages cash through managing the amount of awards. This is measured through months ahead of Lottery. If GOCO is 12 months ahead of Lottery, this means that GOCO has awarded one year of revenue it expects to receive over the coming 12 month period. Historically GOCO was as much as 24 months ahead of earned revenue. In the current five year plan, GOCO proposed – and is on track - to be at 14.5 months ahead of Lottery by June 30, 2015.

Staff recommends the Committee consider increasing months ahead of Lottery to 18 months for three reasons. First, our experience over the last five years indicates 18 months is a better assumption for keeping cash at a reasonable level. Second, this will allow the Board to fund special initiatives at a meaningful level, and continue to fund important ongoing investments while still keeping in mind the need to preserve some funding for the future. Third, as we consider increasing months ahead of Lottery we must consider the impact on future decisions of the Board. Currently, Lottery will sunset on June 30, 2024, 9 years from now. If 18 months ahead of Lottery is adopted as the target for 2016 – and until/unless the Board adopts a different target – it would mean the last four years before the sunset date GOCO’s cash balances would, conservatively, be approximately \$46.5 million per year. Any de-authorizations and higher than projected revenue would increase this amount. As such, increasing months ahead of Lottery to 18 would not limit future Boards in their ability to fund projects at a meaningful level, regardless of what happens with Lottery reauthorization.

Cash Flow and Cash Balance: GOCO estimates our cash balance in two ways.

First, there is a quarterly cash flow model that estimates anticipated Lottery proceeds and payments it expects to make on a quarterly basis. This model is done with aggressive expenditure assumptions to pay out grants and agency investments. This ensures we are taking a conservative approach to our cash planning. This model works for planning purposes, but since it is quarterly, it doesn’t reflect the timing of cash receipts from Lottery. Consequently, cash can dip lower than the quarterly estimate right before a quarterly proceeds payment.

Second, GOCO estimates cash on a monthly basis looking out 18-24 months. This projection is based directly on grantee and staff estimates. This model assists us in seeing when cash might “dip,” but at times it has proven to be hard to rely on when looking out more than six months. This model has become useful in looking at the upcoming 2-4 months but gets a bit unreliable as we go further out in time.

According to the cash policy for maximizing awards adopted as Resolution #2015-01 at the April Board meeting, consideration of GOCO’s cash balance is included in development of the annual spending plan. Cash balances are currently almost 60% of outstanding grants, below the threshold amount the policy identified as warranting a formal analysis of outstanding grants, and the reasons for

this balance were discussed (CPW billing and outstanding grants.) The policy also indicates that the Board should consider adjustments to months ahead of Lottery as a viable route to addressing high cash balances. As such, the recommendation to go from 14 to 18 months ahead of Lottery to reduce this cash balance, along with staff efforts to reimburse outstanding grants, discussed immediately below, is consistent with this policy.

Outstanding Grants: There are two issues related to outstanding grants which warrant mention. First, as of April 30th, 50% of the 2012 River Corridor Initiatives grants are still outstanding. These grants expire on June 30th, 2015. Staff is working directly with grantees in an effort to have the grantees submit bills for significant portions of outstanding grants before the end of FY 2015. Second, CPW billings have lagged quite a bit due to the statewide change in accounting software. CPW has just recently started providing GOCO with bills for the current year that began July 1, 2014. GOCO reimbursed July and August 2014 bills. We are close to being able to provide reimbursement for the September and October bills, but the timing of future bills is still unclear. Given the fact that we are not specifying allocations for Parks or Wildlife purposes for FY2016 at this time, these outstanding CPW bills have no bearing on our calculations or recommendation.

De-authorized Open Space and Local Government Grants: In 2011, the Board adopted a policy to not re-award funds at the time of the de-authorization, but consider the funds as the next year's spending plan is developed. Not re-authorizing has the effect of reducing months ahead of Lottery proceeds.

From July 1, 2014 through May 5, 2015 the following funds have been de-authorized:

Open Space Purpose:	\$	350.00
Local Government Purpose:	\$	58,887.46

Wildlife and Parks purpose not re-authorized:

Wildlife:	\$	224,937.96
Parks:	\$	628,597.90

Consistent with the de-authorization policy, staff is requesting the open space, local government and wildlife purposes be used to reduce months ahead of Lottery. Staff is requesting the parks purpose funds be re-authorized as part of decisions at the June 18th Board meeting, due to the parks purpose cumulative awards being lower than the other purposes at 23%.

Proposed 5 Year Spending Plan Process & Timeline

At the February Finance Committee, GOCO staff proposed bringing forth a 5 year spending plan for the recently approved GOCO Strategic Plan at the current (May 2015) Finance Committee. However, since the February meeting, it has become clear that a five year spending plan would be premature. Pending completion of CPW strategic planning in the fall of 2015, ongoing efforts to refine both new and existing programmatic initiatives of the Strategic Plan, and continued discussion with the Board and affected stakeholders, staff recommends that we bring forth a full 5 year spending plan for consideration at the October 2015 Board meeting. This additional time will ensure the 5 year spending plan is comprehensive, consistent with the strategic goals of both CPW and GOCO, and takes into account opportunities related to the Governor's Colorado the Beautiful Initiative, including momentum and clarity gained from the June 11th Colorado the Beautiful summit.

FY 2016 Spending Plan and Discussion

Despite pushing the timeline for a 5 year spending plan back, GOCO staff requests that the Finance Committee recommend a preliminary spending plan for FY2016 to the full Board. This spending plan specifies amounts and timing of grant funding for Open Space, Local Government and Planning grants for the Inspire/Cornerstone Initiative programs for FY2016. The Board awarded the investments for July 2015 - 2016 for Colorado Parks and Wildlife on April 16, 2015 and we propose not including additional funding in the current year for the Parks and Wildlife purposes until further discussion about their Strategic Plan.

Our grantees would like us to give as much advance notice as possible and set clear goals for the timing and amount of ongoing grant cycles and any new initiatives. GOCO staff proposes that, if necessary, we amend this FY 2016 spending plan related to open space and local government purposes while also addressing allocations for the parks and wildlife purposes in conjunction with the 5 year spending plan no later than the October Board meeting. This approach seeks to strike a balance between moving ahead in a thoughtful manner with existing programs while being cognizant of the needs and timelines of agency partners. This plan does not unduly limit staff or Board's flexibility in regards to FY 2016 expenditures, nor in regards to assumptions and expenditures related to the 5 year spending plan.

Staff recommends that the Finance Committee approve \$14.4 million in spending consistent with the table below and forward it to the full Board for consideration at its June 18th meeting.

FY 2016 Proposed Spending Plan

Purposes (grant programs)	Total Proposed	Grant Cycle Timing
Wildlife	TBD	
Outdoor Recreation (State Parks)	TBD	
Local Government	\$7,950,000	
Regular and Mini Grants	Up to \$6,000,000	April 2016
Volunteer and Stewardship	\$250,000	December 2015
School Play Yard	\$500,000	April 2016
Planning Grants	Up to \$700,000	April 2016
Inspire/Cornerstone Initiative Planning Grants	Up to \$500,000	October 2015
Open Space	\$6,450,000	
Open Space	Up to \$5,000,000	December 2015
Open Space – Immediate Landscape-Scale Opp.	TBD	TBD
Volunteer and Stewardship	\$250,000	December 2015
Conservation Excellence	Up to \$200,000	June 2016

Transaction Costs	Up to \$500,000	June 2016
Cornerstone Initiative Planning Grants	Up to \$500,000	October 2015
Total Award	\$14,400,000	

Local Government Program: Funding recommended for the Local Government purpose’s biannual grant programs – Local Park and Outdoor Recreation (LPOR), Mini, and Planning – is \$6.7 million. This is a \$1.7 million increase from last year. This includes a \$200,000 increase in funding to the planning grant program through which GOCO staff will encourage planning efforts that help prepare Local Governments for upcoming Strategic Plan initiatives, such as regional trail projects.

While it is likely that GOCO will be directing a larger percentage of Local Government funding towards special initiatives over the next five years, it is important to note that overall funding for ongoing Local Government programs will increase.

Additionally, staff will seek stakeholder input regarding the number of grant cycles per year, the timing of grant cycles, and funding cap for the LPOR program to ensure that we are still meeting the needs of our constituents prior to June Board meeting.

We are recommending allocating \$500,000 to offer a fourth School Play Yard grant cycle. As part of the continued evolution of the School Play Yard initiative this year, the operating budget also includes funding for technical assistance for schools via a design consultant. Additionally, staff is coordinating with CPW’s Schools and Outdoor Learning Environments Program as well as their teacher training program to ensure the school yard learning spaces are programmed at their greatest potential and that teachers, children, families and greater communities are given meaningful, programmed opportunities to interact with these spaces.

Open Space Programs Discussion: Staff recommends moving to one Open Space grant cycle per year (instead of the typical two annual cycles) in FY 2016 in order to accommodate the new Transaction Cost program. GOCO received favorable stakeholder feedback on this approach when it solicited comment on the draft Strategic Plan. Staff will conduct additional stakeholder outreach prior to the June Board meeting to confirm stakeholder consensus.

There are numerous large, landscape-scale open space acquisitions coalescing across Colorado that will leave a lasting imprint on the state’s future. Given their size and complexity, these acquisitions are extremely urgent and may require GOCO’s consideration for funding in FY16 or else the opportunity to protect them will be placed in jeopardy. Staff recommends that the Board consider large-scale, urgent projects on a case-by-case basis in FY 2016 while staff develops a comprehensive program to address these types of projects in future fiscal years. Staff will establish specific criteria for projects it considers and recommends to the Board in FY 2016, such as:

- Overall impact/benefit to the State;
- Readiness;
- Urgency;
- How the project would have ranked in the last two Open Space cycles that contained Special Opportunity funds (project would have to have ranked in the top two projects in each cycle);
- How well the project addresses GOCO’s Strategic Plan goals of achieving riparian protection and landscape conservation and connectivity.

There is precedent for this as GOCO has funded urgent acquisitions in the past on a case-by-case basis, such as when GOCO helped fund the Hermit Park and Open Space acquisition in Larimer County.

Volunteer and Stewardship: Staff recommends allocating \$500,000 including \$250,000 in Local Government purpose and \$250,000 in Open Space purpose funds to continue investments through the Colorado Youth Corps Association. This will be the fifth funding cycle for this initiative. GOCO, the Colorado Youth Corps Association, local corps and local government and land trust grantees are very pleased with the results of the previous four cycles. This year, GOCO will explore ways to expand its investments to reach other volunteer and stewardship organizations doing important work in communities across the state.

Inspire/Cornerstone Initiative: Staff recommends allocating up to \$1million including \$500,000 in local government purpose and \$500,000 in open space purpose funds for planning grants that will kick-off the Cornerstone Initiative. In mid-May, GOCO will release a request for proposals from local community coalitions interested in collaborating to move the needle on youth connections to the outdoors. At least five pilot communities will be selected by the Board in October 2015 with funds awarded for planning and capacity building. Communities will have until summer of 2016 to propose implementation plans and we anticipate awarding implementation grants from the FY 2016-2017 spending plan. In addition, we will award planning grants to other communities who demonstrate a need, yet are not quite positioned to serve as one of the pilot communities. We know demand will be high, but we cannot yet anticipate the total funding needs for planning for this initiative. The up to \$1million described is a target assuming we award \$100,000 to each of the five pilot communities with additional awards going to up to 10 communities who will benefit from more extensive planning efforts as preparation for applying for implementation grants after 2016.

Recommendation

Staff recommends that the Finance Committee approve a preliminary Spending Plan of \$14,900,000 to fund grant programs as detailed in this memo and forward the spending plan to the full Board for consideration at its June 18th meeting.

Public Comment

We will distribute the Spending Plan recommended by the Finance Committee for public comment with replies due to GOCO prior to the Board meeting in June.

DRAFT
State Board of the GREAT OUTDOORS COLORADO TRUST FUND
Resolution #2015-07
(June 18, 2015)

A Resolution approving the FY2016 Spending Plan

This resolution is made in view of the following facts:

1. Lottery proceeds are expected by State Lottery to remain solid; and
2. Demand remains very high for GOCO grant dollars throughout the state; and
3. Per Article XXVII (6)(2)(e) the Board shall determine what portions of moneys allocated to the Trust Fund shall remain in an interest bearing account; and
4. GOCO's existing obligations exceed its cash balance by an estimated \$40 million.

Accordingly, the Board RESOLVES:

1. To approve the Spending Plan as follows:

FY 2016 Proposed Spending Plan

Purposes (grant programs)	Total Proposed	Grant Cycle Timing
Wildlife	TBD	
Outdoor Recreation (State Parks)	TBD	
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Transaction Costs	Up to \$500,000	June 2016
Cornerstone Initiative Planning Grants	Up to \$500,000	October 2015
Total Award	\$14,400,000	

2. GOCO's cash balance as of April 30th of \$53 million is appropriate due to the outstanding grant obligations exceeding cash and therefore no additional funding will be allocated to the spending plan. The cash balance is appropriate at this time due to the delay in CPW billings due to the statewide accounting system change.

I hereby certify that the foregoing resolution was duly adopted by the State Board of the Great Outdoors Colorado Trust Fund on June 18, 2015.

Attest:

Jacy Rock, Secretary

