Comments on

impacts to state and local government revenues, expenditures, taxes, and fiscal liabilities.

Initiative 2017-2018 #97

Assessing reduced drilling

The reduction in drilling that would be caused by initiative 2017-2018 #97 cannot be realistically calculated by drawing radii around homes and drinking water sources on non-federal land.

1. First, already permitted wells are not impacted.
2. Note the significant amount of federal land in Colorado in attachment 1. Also note that areas labeled oil and gas basins are more relevant.
3. Large swaths of land have already been efficiently drilled in many major high production areas within the state (e.g. Weld, Garfield Counties). Note the wellbores in attachment 2 (almost any part of Weld County will do), shown with purple, green and turquoise lines. It is difficult to anticipate where and how much additional / infill drilling would occur in these areas with or without the measure.

Other Considerations

1. The price of oil and gas, and hence the revenue from oil and gas, are highly volatile.
2. Expenditures for infrastructure, particularly roads, should be factored in for both the state and local governments. An example is Weld 49, improved to “ease some of the dangers fueled by rapid oil and gas development.”[[1]](#footnote-1)
3. The greatest impact of 2017-2018 #97 would be on local government revenue.
   1. Although the depletion rate for a well is high, especially after 3 years, revenue is also delayed by roughly two years after production occurs.[[2]](#footnote-2) The financial impact of the measure on local governments will take time to play out – in a highly volatile market.
   2. Emergency management is another cost related to wells near neighborhoods and communities. Since the Firestone explosion, there have been at least a dozen fires and explosions related to oil and gas.[[3]](#footnote-3)
   3. Within 2,500’ of occupied buildings and vulnerable areas, in areas where drilling and permitting has not yet occurred, local revenue and local expenditures for oil and gas will be as they are now.
4. Orphan wells should be considered as fiscal liabilities, especially near populated areas.
   1. The severance tax raised less than $11 million in 2017.[[4]](#footnote-4) With the capital costs deduction, Colorado has an extremely low effective severance tax rate, listed at 1.7% by the Boulder Weekly.[[5]](#footnote-5)
   2. As a fiscal liability Colorado cleans up roughly 10 orphan wells a year (a $455 million budget item), and the backlog grows every year. It was roughly at 700 in October 2017.[[6]](#footnote-6) This is a clear and growing “orphan well debt” being incurred. [[7]](#footnote-7)

1. https://www.denverpost.com/2015/06/15/weld-road-fix-aimed-at-oil-and-gas-traffic/ [↑](#footnote-ref-1)
2. <https://headwaterseconomics.org/wp-content/uploads/state-energy-policies-co.pdf-> [↑](#footnote-ref-2)
3. https://www.denverpost.com/2017/12/06/colorado-oil-gas-explosions-since-firestone-explosion/ [↑](#footnote-ref-3)
4. <https://dola.colorado.gov/sdd/ddSDDTier1.jsf?jfwid=5dc19aa1afe9bbd2443abe292676%3A0> [↑](#footnote-ref-4)
5. http://www.boulderweekly.com/news/cogcc-budget-peril/ [↑](#footnote-ref-5)
6. http://www.broomfieldenterprise.com/ci\_31347317/orphan-wells-discussed-at-energy-panel [↑](#footnote-ref-6)
7. https://www.wsj.com/articles/how-orphan-wells-leave-states-holding-the-cleanup-bag-1424921403 [↑](#footnote-ref-7)