



**Colorado  
Legislative  
Council  
Staff**

**Initiative # 163**

**INITIAL FISCAL  
IMPACT STATEMENT**

**Date:** April 3, 2018

**Fiscal Analyst:** Josh Abram (303-866-3561)

**LCS TITLE:** SETBACK REQUIREMENT FOR OIL AND GAS DEVELOPMENT

<b>Fiscal Impact Summary</b>	<b>FY 2020-21</b>	<b>FY 2021-2022</b>
<b>State Revenue</b>	Reduction. See State Revenue Section	
<b>State Expenditures</b>	Reduction. See State Expenditures Section	

**Note:** This *initial* fiscal impact estimate has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the Blue Book Voter Guide if new information becomes available.

**Summary of Measure**

If approved by voters, the measure requires that new oil and natural gas development not on federal land be located at least 2,500 feet from the nearest occupied structure or vulnerable area. If two or more local governments with overlapping jurisdictions establish different setback requirements, the larger setback is applied.

Oil and gas development is defined as the exploration for, and the drilling, production, and processing of gas and liquid hydrocarbons. This includes gas flowlines, and the treatment of waste associated with oil and gas development. Renewed production of an oil or gas well that had previously been plugged or abandoned is considered new development.

Occupied structures means any building intended for human occupancy, including homes, hospitals, and schools.

Vulnerable areas include playgrounds, permanent sports fields, amphitheaters, public parks, public open space, public and community drinking water sources, irrigation canals, reservoirs, lakes, rivers, perennial or intermittent streams, and creeks.

**Background**

**Setback requirements for oil and natural gas facilities.** The required distance from an oil and natural gas facility and a home or other structure is commonly known as a setback requirement. Current state regulations, approved in 2013, prohibit oil and natural gas wells and production facilities from being located closer than:

- 500 feet from a home or other occupied building; and
- 1,000 feet from high-occupancy buildings such as schools, health care institutions, correctional facilities, and child care centers, as well as neighborhoods with at least 22 buildings.

Currently, the 500-foot setback prohibits oil and gas development on about 18 acres surrounding a given point, and the 1,000-foot setback prohibits development on about 72 acres. This measure increases the setback to a minimum of 2,500 feet, or about 450 surrounding acres.

***State and local revenue from oil and natural gas.*** Companies that extract mineral resources, including oil and natural gas, coal, and metallic minerals, pay severance taxes to the state. Oil and natural gas producers also pay income taxes, sales taxes, use taxes, and local property taxes.

## **State Revenue**

The measure is expected to decrease state revenue in the future from severance taxes, royalty payments from development on state land, and lease revenue from development on non-federal land. Because the measure does not impact existing development, no immediate impact on state revenue is anticipated; however, because the measure reduces the surface land available for the development of new oil and gas production, future state revenue from these sources will be affected. The measure may also reduce future income, sales, and use taxes to the state to the degree that oil and natural gas production is decreased.

The setbacks are applicable to production on state and private land, and do not affect current wells or new production on federal land. The impact on production will vary regionally depending on the share of overall land privately held, population density, and proximity to vulnerable areas. Production in the Julesberg Basin in northern Colorado will be the most affected. Production in the Piceance Basin in western Colorado and the San Juan Basin in southern Colorado will also be affected, but to a lesser extent. Since the economic conditions and geographic limitations affecting oil and natural gas production are uncertain, the specific reductions in state revenue cannot be estimated.

## **State Expenditures**

Severance tax revenue received by the state funds both general operating expenses of and specific programs in the Department of Natural Resources, including water supply project grants, low-income energy assistance, control of invasive species, and a variety of other programs. Any decrease in severance taxes will reduce the amount of funds available for these uses.

## **Local Government Impact**

The measure will reduce property tax collections at the local level. For FY 2016-17, \$469.6 million was collected from property taxes, representing 82.5 percent of all tax revenue from oil and gas development. In heavily populated counties and counties with geographically vulnerable areas, the measure is anticipated to reduce the surface land available for future oil and gas exploration and development, therefore reducing the amount of property taxes collected for local governments. The measure is also expected to decrease the amount of severance tax revenue that state government collects and shares with those local governments most directly impacted by oil and natural gas development. The measure's impact on local revenue and expenditures will depend on the overall impact on state severance tax revenue and the assessed value of oil and natural gas development in each taxing jurisdiction as a result of future prohibitions on new development. As such, the change in local revenue and expenditures cannot be estimated.

**Economic Impacts.**

The measure constrains oil and gas well location throughout the state by increasing the current 500 foot setback to a 2,500 foot setback. This will prohibit oil and gas development on about 450 acres surrounding a given point, instead of 18 acres under current law. As a result, future oil and gas development will be prohibited on significant portions of land in the Raton basin in south-central Colorado and the Denver-Julesberg basin in central and northern Colorado, and by lesser amounts in western Colorado. Since proximity to a well has been shown to reduce home values, larger setbacks will help preserve property values for homeowners. To the extent that well proximity impacts health outcomes, larger setbacks will prevent lost economic productivity from illness and reduce medical costs. Lower oil and gas production will constrain regional economic activity by reducing industry employment and profits, and reducing rent and royalty income to mineral owners.

**Effective Date**

The measure takes effect upon official declaration of the governor and applies to oil and gas development permitted on or after that date.

**State and Local Government Contacts**

Counties	Municipalities
Natural Resources	Public Health and Environment

Information provided by interested persons may be accessed at the following web link:

<https://leg.colorado.gov/content/setback-requirement-oil-and-gas-development-0>

## **Abstract of Initiative 163: SETBACK REQUIREMENT FOR OIL AND GAS DEVELOPMENT**

**This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of January, 2018, identifies the following impacts:**

The abstract includes estimates of the fiscal impact of the initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at [www.ColoradoBlueBook.com](http://www.ColoradoBlueBook.com) and the abstract will be included in the ballot information booklet that is prepared for the initiative.

***State and Local Government Revenue and Expenditures.*** The measure is expected to decrease the amount of severance tax, royalty payments, and lease revenue that state and local government collects in the future, and the amount of state and local expenditures of that revenue.

***Economic Impacts.*** The measure constrains oil and gas well location throughout the state by increasing the current 500 foot setback to a 2,500 foot setback. This will prohibit oil and gas development on about 450 acres surrounding a given point, instead of 18 acres under current law. As a result, future oil and gas development will be prohibited on significant portions of land in the Raton basin in south-central Colorado and the Denver-Julesberg basin in central and northern Colorado, and by lesser amounts in western Colorado. Since proximity to a well has been shown to reduce home values, larger setbacks will help preserve property values for homeowners. To the extent that well proximity impacts health outcomes, larger setbacks will prevent lost economic productivity from illness and reduce medical costs. Lower oil and gas production will constrain regional economic activity by reducing industry employment and profits, and reducing rent and royalty income to mineral owners.