



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Initiative # 173

INITIAL FISCAL IMPACT STATEMENT

Date: February 4, 2020

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LCS TITLE: SETBACK REQUIREMENT FOR OIL AND GAS DEVELOPMENT

Disclaimer. *This initial fiscal impact statement has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available.*

Summary of Measure

If approved by voters, Initiative 173 requires that new oil and natural gas development not on federal land be located at least 2,500 feet from an occupied structure or vulnerable area. A state or local government may require a setback greater than 2,500 feet. 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 that requires a certificate of occupancy or is 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. The state or a local government may designate additional vulnerable areas, which must then be considered for any setback site calculation.

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 reduced. 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 setback requirement is applicable to oil and natural gas production on state and private land, and does 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. 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. 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 property taxes collected for the local governments in those areas. The measure is also expected to decrease the amount of severance tax revenue that state government collects and shares with 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 Impact

The measure constrains oil and gas well location throughout the state by increasing the current setback to 2,500 feet. This will prohibit oil and gas development on about 450 acres surrounding a given point, instead of 18 acres under the current setback of 500 feet. 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 some homeowners. 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

If approved by voters at the 2020 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State and Local Government Contacts

Counties	Municipalities
Natural Resources	Public Health and Environment

Abstract of Initiative 173: SETBACK REQUIREMENT FOR OIL AND GAS DEVELOPMENT

The abstract includes estimates of the fiscal impact of the proposed 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 and the abstract will be included in the ballot information booklet that is prepared for the initiative.

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of February 4, 2020, identifies the following impacts:

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. 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.