



**Legislative
Council Staff**

Nonpartisan Services for Colorado's Legislature

Initiative # 178

INITIAL FISCAL IMPACT STATEMENT

Date: February 4, 2020

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LCS TITLE: OIL AND GAS OPERATOR FINANCIAL ASSURANCE

Summary of Measure

Under current law, oil and gas operators are required to provide financial assurance to the Colorado Oil and Gas Conservation Commission that the operator is capable of fulfilling every obligation imposed by the Oil and Gas Conservation Act and specified in commission rules. Initiative 178 requires that the minimum financial assurance be at least \$270,000 per well.

Background

The COGCC's current regulations allow operators to submit a statewide blanket financial assurance of \$60,000 for fewer than 100 wells, or \$100,000 for 100 or more wells. The majority of operators provide financial assurance in the form of a cash bond, which is held by the COGCC, or surety from an insurance provider. Senate Bill 19-181 requires that the COGCC adopt rules to require operators to provide assurance that they are financially capable of fulfilling every obligation imposed by the Oil and Gas Conservation Act (the Act).

Assumptions

This fiscal analysis assumes that the financial assurance required by Initiative 178 is prospective and not retroactive. Operators will post the required financial assurance on all future permits to drill; the measure does not apply to existing permits or operations.

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 is expected to decrease future oil and gas development, 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. Because it is unknown how the increased financial assurance requirement will affect future oil and gas activity, 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 is 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. Property tax revenue may also be affected to the extent the bill limits development that increases assessed values. 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 changes in oil and gas activity. As such, the change in local revenue and expenditures cannot be estimated.

Economic Impact

By increasing the costs of obtaining financial assurance for oil and gas wells, the measure is expected to decrease oil and gas activity, which will reduce industry employment and profits as well as rent and royalty income to mineral owners in affected areas. The measure will increase income to providers of financial assurance and increase available mitigation funding for oil and gas wells.

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

Natural Resources

Abstract of Initiative 178: OIL AND GAS OPERATOR FINANCIAL ASSURANCE

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. By increasing the costs of obtaining financial assurance for oil and gas wells, the measure is expected to decrease oil and gas activity, which will reduce industry employment and profits as well as rent and royalty income to mineral owners in affected areas. The measure will increase income to providers of financial assurance and increase available mitigation funding for oil and gas wells.