

# Impacts of Energy Development in Colorado: With a Case Study of Mesa and Garfield Counties

Headwaters Economics, Bozeman, Montana  
December, 2008  
[www.headwaterseconomics.org/energy](http://www.headwaterseconomics.org/energy)



**Contacts:** Ben Alexander, 406.599.7423, [ben@headwaterseconomics.org](mailto:ben@headwaterseconomics.org)  
Mark Haggerty, 406.570.5626, [mark@headwaterseconomics.org](mailto:mark@headwaterseconomics.org)

## OVERVIEW

This report explores four topics:

1. The significance of fossil fuel energy development for Colorado;
2. The implications of superimposing rapid energy development on top of a more diverse and already thriving West Slope economy;
3. The effectiveness of Colorado's fiscal policy toward fossil fuels;
4. Options for state and local governments to consider.

The Colorado report is the fifth in a series of white papers published by Headwaters Economics concerning fossil fuel energy development. The reports are designed to assist the public and elected officials in making informed choices about energy development that will benefit the region over the long term. Reports can be found at [www.headwaterseconomics.org/energy](http://www.headwaterseconomics.org/energy).

## CURRENT ECONOMIC AND ENERGY SITUATION

The return of volatility to energy production and markets, especially in the context of the recent worldwide economic turmoil, raises a number of questions for decision-makers concerning how Colorado and the West Slope will benefit from future energy development while maintaining the state and region's diverse economy.

### Significance of Fossil Fuels for Colorado

Today, Colorado's economy is very different than several decades ago. Colorado has traded successfully on a range of assets—educational institutions, natural amenities and recreation, and transportation and telecommunications infrastructure—to cultivate high paying jobs in new and emerging economic sectors, as well as retirees and investment income. During the last 35 years, Colorado more than doubled its population, almost tripled the number of jobs, and nearly quadrupled total personal income.

Because of this strong growth and diversification, energy development is no longer a major player. By 2005, Colorado's economy employed more than three million people and generated almost \$175 billion in personal income, with only 27,000 of these workers (0.9% of state total) and \$4 billion of the personal income (2.3% of state total) in the energy sector. The statewide fiscal picture shows a similar story: energy contributed more than \$500 million in tax and royalty revenue to the state and local governments in 2005, accounting for 1.6 percent of all government revenues.

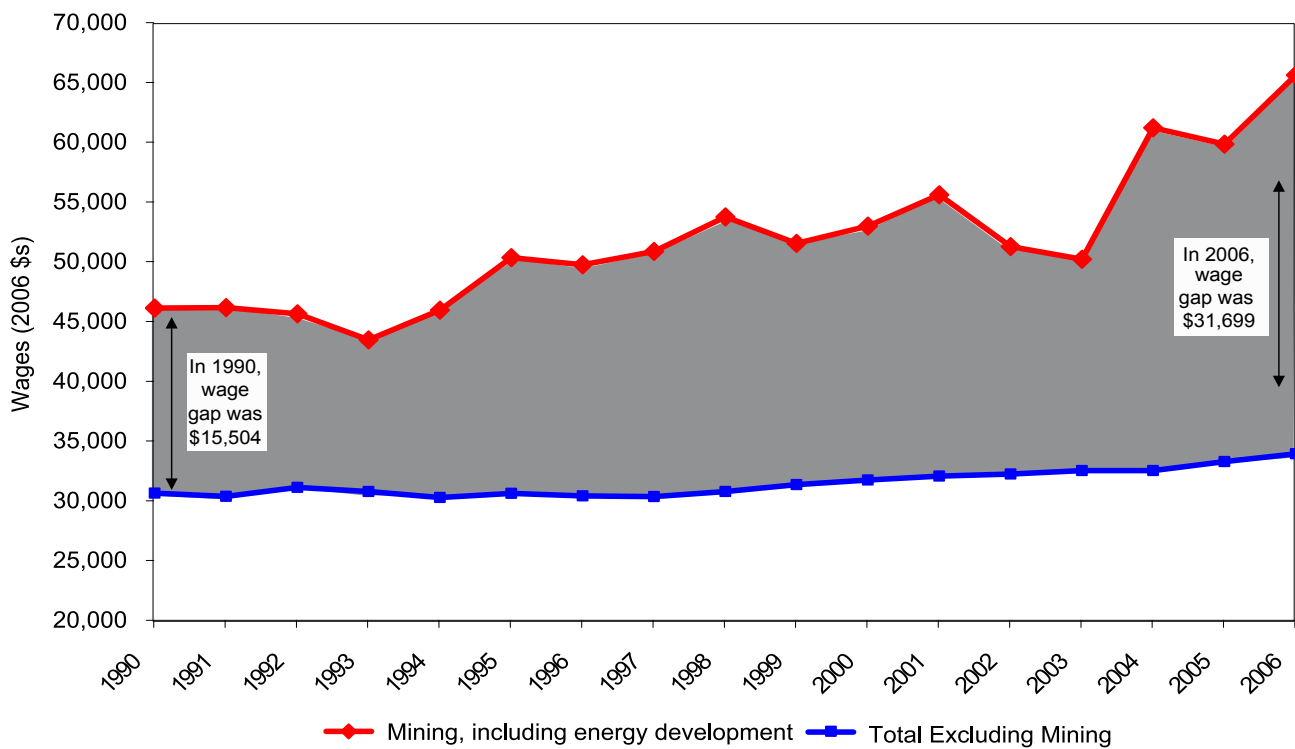
## WEST SLOPE: SUPERIMPOSING ENERGY DEVELOPMENT ON TOP OF A MORE DIVERSE ECONOMY

The West Slope’s recovery from the economic bust of the early 1980s parallels broader economic trends in Colorado and across the West. High amenity areas that offer a mix of transportation infrastructure, recreational opportunities, attractive scenery, and in some cases affordability, have developed a thriving modern service and knowledge-based economy while also capturing retirement and investment dollars. More recently, Mesa and Garfield counties successfully trade on quality of life as a way to attract and retain new residents and businesses across a range of industries.

At the same time, Colorado’s West Slope is once again the focus of intensive energy development, now centered on the extraction of natural gas. On the positive side, energy development on the West Slope has created new economic opportunities, reduced unemployment, spurred rapid in-migration, and raised wages for many workers.

On the negative, fast growth has exacerbated inflation, housing, and commuting pressures; contributed to a growing wage and wealth gap; and made it more difficult for other industries to thrive. Although mining and energy wages have risen significantly, wages in the rest of the economy have not kept pace. (See Figure 1.) This has enabled the natural gas industry to compete successfully for labor from other industries and put pressure on other workers as the cost of living increases.

**Figure 1. Average Annual Wages in Mining Compared to the Rest of the Economy, Mesa County, 1990–2006.**



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW).

The most recent evidence suggests that the natural gas surge on the West Slope is making it harder, not easier, for other sectors of the regional economy to thrive. The concern is that the energy industry will grow to a large enough scale, while making it hard for other industries to compete for labor, that the regional economy once again becomes more narrowly specialized and subject to slower long-term growth as well as greater volatility.

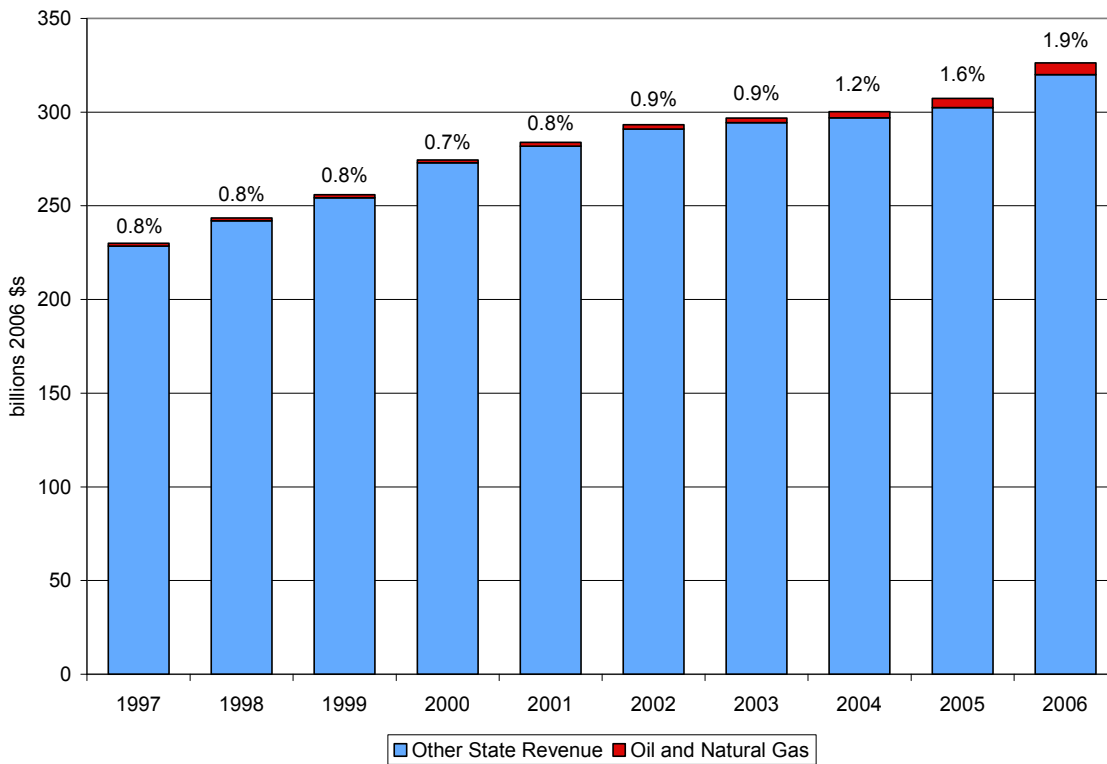
Yet it is today's more diverse industry mix that brought the region out of its last energy bust, and currently sustains most households on the West Slope. The challenge and opportunity facing the West Slope is to manage the surge in natural gas development so that it expands regional employment, wages, and tax revenue without undercutting affordability, an attractive environment, and the health of local government finances.

## COLORADO'S FISCAL POLICY

From a fiscal perspective, the West Slope's energy surge presents pros and cons as well. Energy development generates new revenue, but these additional proceeds are not sufficient to cover associated impacts on roads and other capital facilities because current state and local tax policies are not providing sufficient revenue to meet growing demands. An additional concern is that a poorly performing tax structure is exposing affected jurisdictions to financial risk.

At the state level, energy tax revenue has comprised less than two percent of total state and local revenue for each of the past ten years. (See Figure 2.)

**Figure 2: Oil and Natural Gas Revenue as a Portion of Total State and Local Government Revenue in Colorado, 1997–2006.**



Sources: US Census Bureau, Census of Governments, US Department of Interior, Colorado Department of Revenue.

Colorado also has the lowest effective tax rates on oil and natural gas (6.2%) when compared to Wyoming (15.9%), New Mexico (15.0%), Montana (10.4%), and Utah (9.9%). In addition, Colorado's tax structure unnecessarily exaggerates the volatility of revenue from energy development.

At the local level, Mesa and Garfield counties today report strong fiscal health but face imminent problems. County governments rely heavily on property taxes to fund services (more than half of Garfield County's total revenue), but the lag between the activities that create new demands and when property tax revenues are actually received makes it difficult to keep pace with surging service demands.

In the longer term, the West Slope counties face significant unfunded capital facilities needs and are exposed to uncertain and volatile revenue streams from energy production. The ability of these counties to meet basic needs will therefore depend on creative local solutions, some of which are in place, while others are currently being explored. Ultimately, the ability to meet growing demands, while necessary, is insufficient to maintain long-term fiscal health. Neither Mesa nor Garfield county has excess revenue to apply toward long-term savings or investments to support the rest of economy.

## OPTIONS FOR STATE AND LOCAL GOVERNMENT

The question of whether Colorado and the West Slope will benefit from high paced energy development and maintain the vibrancy of the state and region's economy remains open. Government is not a passive player and should consider steps to ensure the public benefits from energy extraction.

### **State government can:**

1. communicate forcefully with the federal government, and the BLM in particular, to reach agreement on reasonable pace, scale, and location of future fossil fuel energy development to avoid unduly impacting natural resources and the ability of other economic sectors to thrive;
2. use the authority of the Colorado Oil and Gas Conservation Commission to implement standards that protect communities and the landscape while offering a fair shake to energy companies; and
3. change the mineral tax structure to capture more value and smooth revenue volatility, allowing the state to more effectively mitigate impacts and set aside revenue to invest in infrastructure and education.

### **Local government can:**

1. develop master plan guidelines aimed to minimize surface conflicts and aid in planning for needed infrastructure;
2. remove fiscal restrictions like TABOR and assess impact fees to capture greater revenue for immediate and long-term needs;
3. argue for larger and more predictable intergovernmental transfers of energy revenue to aid planning and investment; and
4. highlight the regional dimensions of the natural resources impacts to the landscape, housing imbalances and transportation deficiencies; and pursue planning and revenue sharing agreements to meet these regional challenges.