New Report Analyzes Energy Impacts on Colorado, West Slope Counties

Study Reviews Energy’s Role in Economic Development, Success of State’s Fiscal Policy, and Provides Potential Options for State and Local Government

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 Colorado decision-makers. A new report released today by Headwaters Economics analyzes how Colorado and the West Slope can benefit from current and future energy development while maintaining the state and region’s diverse economy.

This report, Impacts of Energy Development in Colorado, With a Case Study of Mesa and Garfield Counties, finds that fossil fuel energy development plays only a small role in Colorado’s statewide economy, but that the recent natural gas surge on the West Slope is making it harder, not easier, for other important sectors of the regional economy to thrive. The study also analyzes the effectiveness of Colorado’s fiscal policy toward fossil fuels and provides several policy options for state and local governments to consider.

“Fossil fuel extraction in Colorado is a small part of the state economy, but it has added new jobs, income and taxes in the recent surge,” noted Ben Alexander, one of the report authors. “As we move deeper into the current recession, it is good news for the state that this industry, because of its volatility, is not a large part of the overall economy.”

The Headwaters study found that the West Slope’s more diverse industry mix helped bring the region out of its last energy bust, and that the challenge and opportunity now facing the Mesa and Garfield Counties is to manage 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.

“Revenue from natural gas at the state level is only a tiny proportion of all revenue the state generates,” said Mark Haggerty, another of the report’s authors. “But when we focus in on the West Slope, new revenue from natural gas is big, making up about two-thirds of all Garfield County’s revenue. Even so, we see signs that Mesa and Garfield Counties are falling behind new infrastructure demands, putting a fine point on the need to manage the industry carefully and diversify the tax base.”

[Note: The full report can be found at www.headwaterseconomics.org/energy. A four-page Digest summary also is posted there and is attached to this email.]
The report found that:

- Colorado’s economy is very different than it was several decades ago. The state successfully has recovered from the last energy boom and bust by trading 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.

- Because of this strong diversification, energy development is no longer the major player. By 2005, Colorado’s economy employed more than three million people and generated almost $175 billion in personal income, but only 27,000 of these workers (0.9% of state total) and $4 billion of the personal income (2.3% of state total) was in the energy sector.

- The statewide fiscal picture is similar: energy contributed more than $500 million in tax and royalty revenue to state and local governments in 2005, accounting for 1.6 percent of all government revenues.

- The West Slope’s recovery from the economic bust of the early 1980s parallels broader economic trends in Colorado where high amenity areas offer a mix of recreational opportunities, attractive scenery, in some cases affordability, and easy access to larger cities successfully developed a thriving modern service and knowledge-based economy while also capturing retirement and investment dollars.

- Recent energy development in Mesa and Garfield Counties brought benefits—new economic opportunities, reduced unemployment, rapid in-migration, and higher wages for many workers—but also exacerbated inflation, housing prices and shortages, and commuting pressures; making life more difficult for people and businesses outside the energy industry because growing wages in the energy industry and stagnating wages in other industries (what we call a wage gap) means new costs are growing faster than most people’s income, and businesses have trouble hiring at existing wages.

- From a fiscal perspective, Colorado’s poorly performing tax structure is exposing affected jurisdictions to considerable financial risk. Energy development generates considerable new revenue, but these additional proceeds are not sufficient to cover associated impacts on roads and other capital facilities.

- The Headwaters study does not see net fiscal benefits from a massive extraction of non-renewable resources from the West Slope. Mesa and Garfield Counties today report 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.

Headwaters Economics is an independent, nonprofit research group focused on improving community development and land management decisions in the West. The Colorado report is the fifth in a series of eight reports that offer a detailed look at the impact of the energy extraction on the economies and communities of the Intermountain region. The reports are designed to assist the public and elected officials in making informed choices about energy development in the years to come. The full reports are available at www.headwaterseconomics.org/energy.