

**Preliminary Report  
of the Working Group  
to the  
Interim Committee  
on the Allocation of Severance Tax and  
Federal Mineral Lease Revenue  
September 13, 2007**

**At the direction of the Interim Committee the Working Group has considered three topics:**

- The scale of local government fiscal impacts from mineral and energy development in Colorado**
- The ways to measure these impacts for use in the distribution of funds**
- The current program uses of these funds**

## **What are the first principles for state assistance to local governments?**

**Why should the state provide assistance to local governments impacted by mineral and energy development?**

**Local Governments are subdivisions of the state.**

**While each local government jurisdiction is responsible for its affairs, by state constitution, statute, court case, political necessity and just common sense, the state is politically and legally the ultimate guarantor of local governments' ability to perform.**

**By implication then,**

**the state legislature has a responsibility**

**to assist local governments with issues and difficulties**

**that are larger or faster than which they are prepared to cope.**

**One of these is the large and powerful cycles of mineral and energy development which have moved across the state over its history.**

## **How many are there?**

**There are more than 2,700 local government jurisdictions in Colorado, and over 175 school districts.**

## How big is the local government budget system?

**The base county, municipal and special district budgets in Colorado total around \$21B in 2004.**

**To give a sense of scale, this \$21B in local government expenditure is much larger than the \$13B in total state government operating and capital expenditure in 2004.**

## **How Much is Mineral Related?**

**Using the percentage of total county assessed value that is in the mineral production sectors as a proportion for each county,**

**\$2B of the \$21B local government budgets in Colorado are entangled in the disruptions caused by mineral production cycles.**

**Not included in this figure would be those local governments involved a with host of proposed mines, power plants, railroads & pipelines listed above, nor those dealing with abandoned mines such as in Rio Grande or Boulder County.**

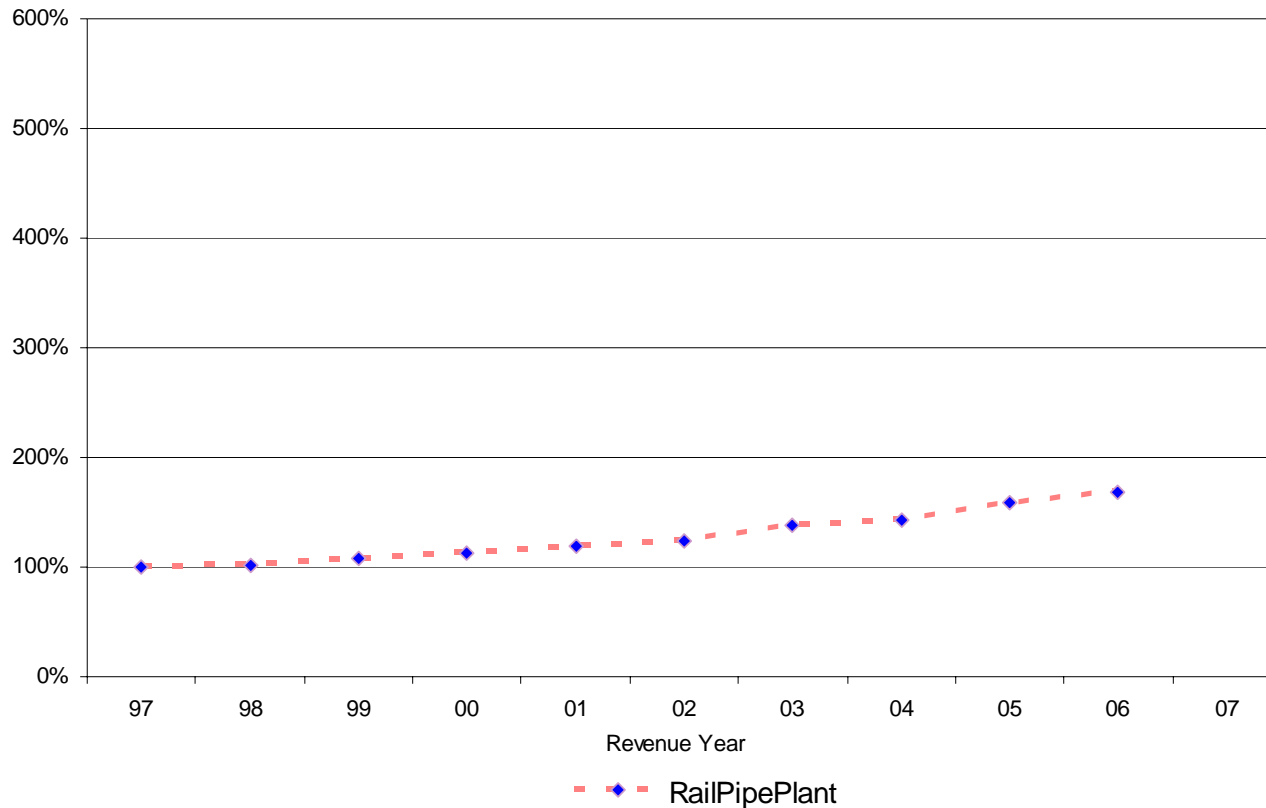
**Another way to measure impact is by the  
relative rates of change**



# Rail, Pipeline and Powerplant developments have increased 75% in the last decade.

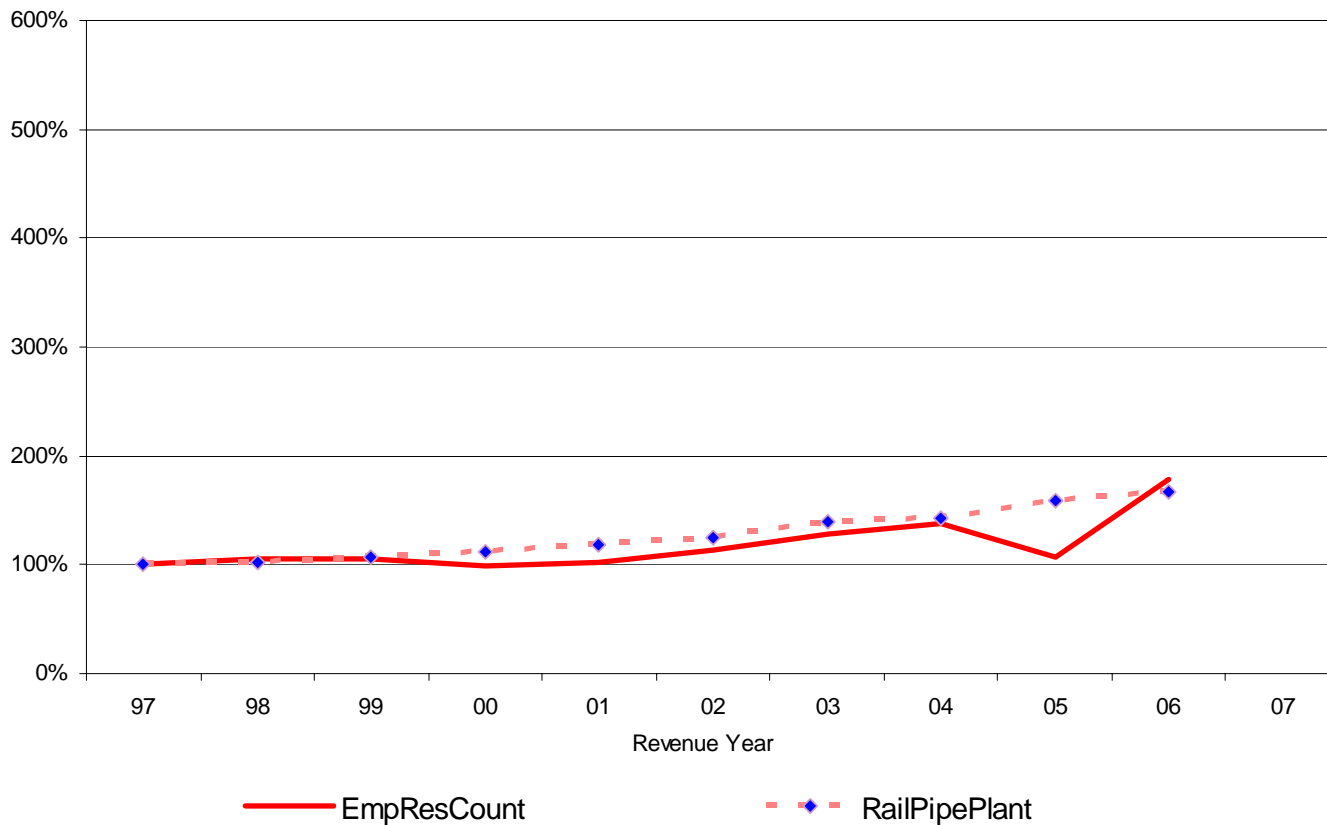
## Local Government impacts rose in concert.

### Mineral Costs Rev Indices 1997=100



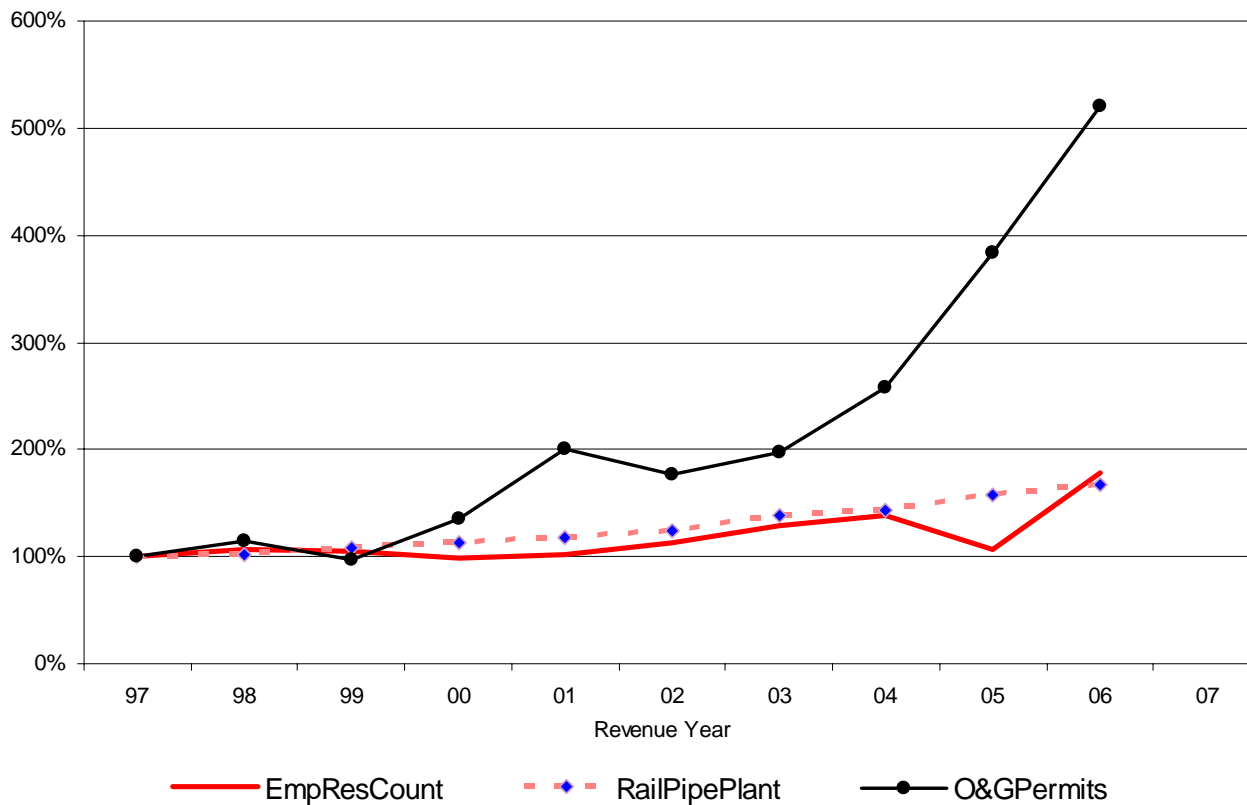
# Mineral producer employee residence counts increased at about the same rate.

## Mineral Costs Rev Indices 1997=100



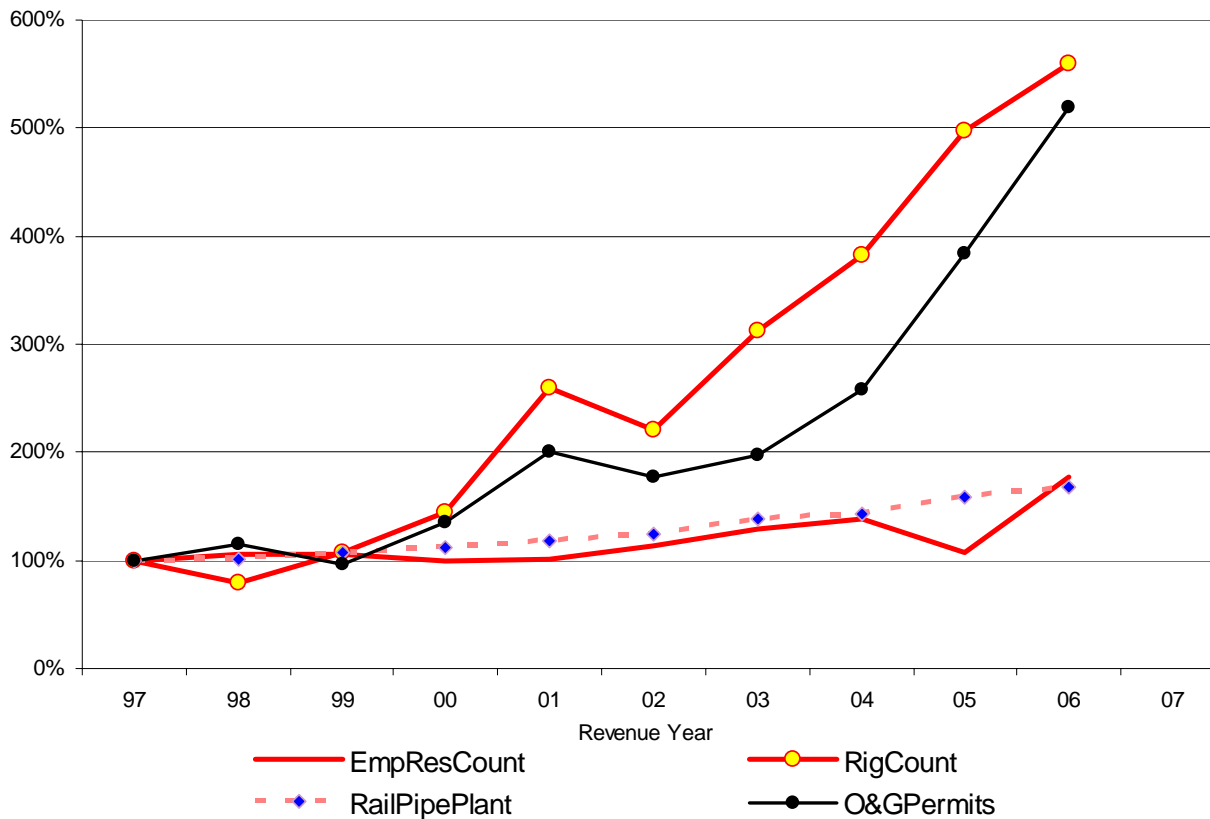
# Oil and gas well permitting has risen over 500% in the decade, with associated impacts on local governments.

## Mineral Costs Rev Indices 1997=100



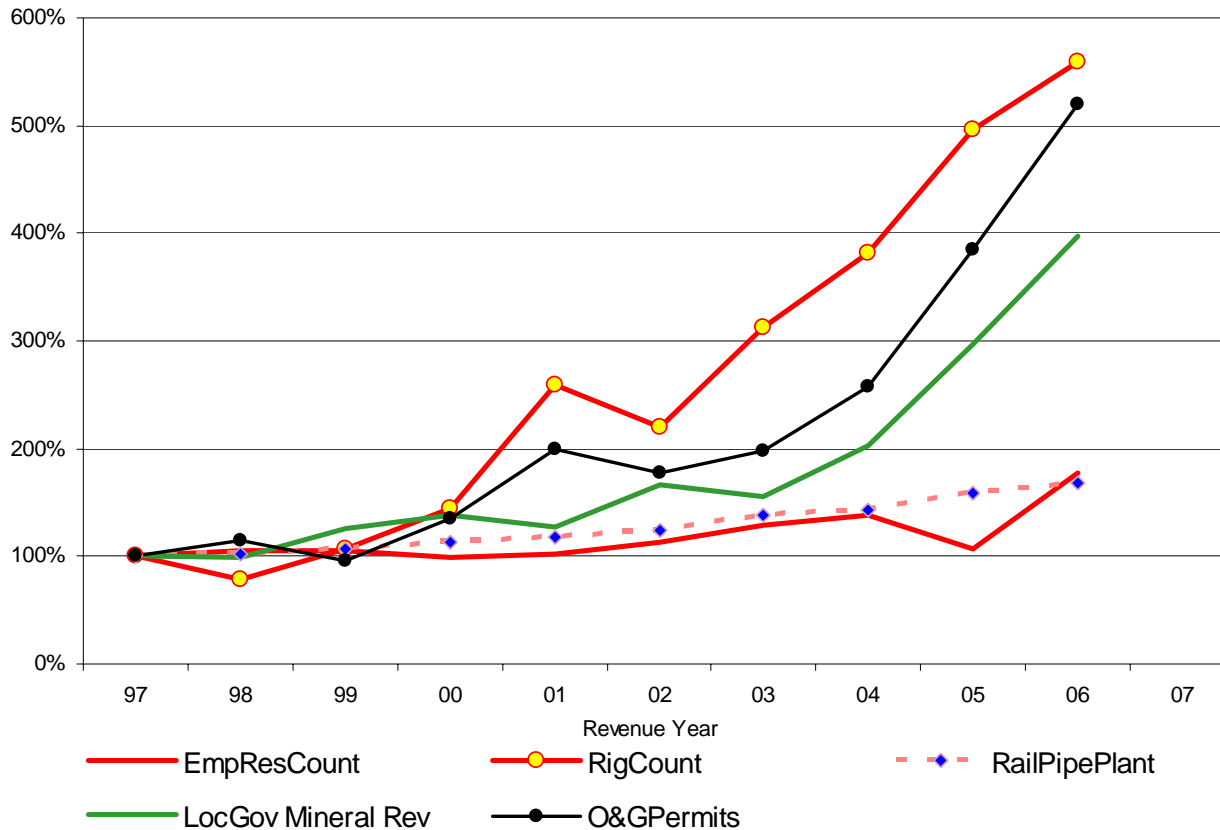
# Drilling rig counts have risen even more, rumbling across county roads.

## Mineral Costs Rev Indices 1997=100



**Revenues to Local Governments from mineral production  
have not kept up with some of these cost indices.  
These revenues are spread unevenly across jurisdictions  
with regard to impacts.**

**Mineral Costs Rev Indices 1997=100**



# What is Mineral Development Impact?

## The “Life Cycle” of Local Government Impacts:

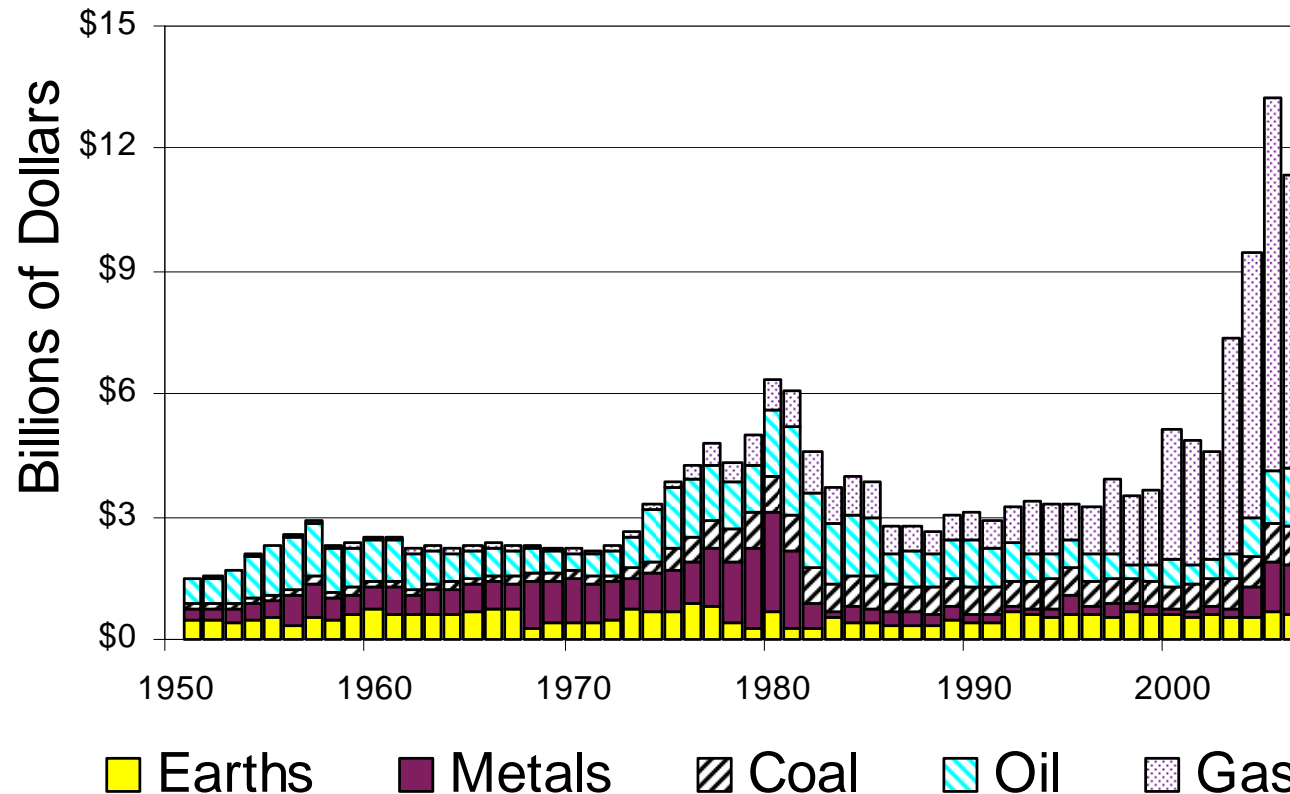
- **Catch-up Improvements** to prepare the community for impacts
- **Net Cost Coverage** of the local government costs not met by revenues from mineral activities.
- **Contingency Funding** for the inevitable gaps and glitches that occur with the rapid changes in the mineral industry
- **Post-Cycle Transition** support for the development of alternative economic base to replace the expired mineral projects.

**Mineral and energy impact response is not like building a house. It is more like preparing for hurricanes and responding after they hit.**

**Through all the phases of impact, the overwhelming condition in the impact areas is risk and uncertainty.**

**Remember the 1982 mineral cycle? Look where we are now.**

## **Colorado Mineral Production in Real 2006 Dollars**



**Therefore, to assist local communities,  
the state needs contingency funds.**

- that can respond to the unexpected.**
- that can move quickly to the opportunities provided by other programs.**
- that can provide both financial and technical assistance to the whole range of local governments which provide service in the impact areas.**
- that pools the risks to local governments across the state.**



## **Preliminary recommendation regarding the Local government impact assistance programs:**

To make all parties more confident in the use of these funds the distributions must become more:

- Responsive/Adaptable
- Accountable
- Transparent

**The Working Group spent considerable time reviewing ways to measure impacts that could be used to better structure and scale the distribution of funds.**

**While these were called**

**“Direct Distribution Metrics”**

**they served a much broader purpose in helping us all understand the complexity of the issue.**

**Any new metric on which to distribute these funds must consider five criteria:**

- Revenue is provided **when** the local government need financial impact assistance.
- Revenue is provided **where** local government fiscal impacts occur.
- **Reliable** over the long term.
- **Ease** of administration
- **Understandable** to stakeholders

# The existing Employee Residence Report direct distribution concentrates the distributions.



# The use of additional measures of impact shows that they range wider across the state.



**Our current discussions for a metric to use in the DoLA distributions of the severance 30% pot and federal mineral lease are on a “Three Pot” metric that would combine the measures of:**

- the industry employee residence reports**
- mineral development permitting reports**
- mineral production reports**

# Comparing this approach to the existing Employee Residence Report shows that impact monies are more widely dispersed.

## Combined Payment from Three POTS \$ 000

	Taxpayer Employee Reports	Combined Mineral Permits Index	Combined Mineral Production Index	Total Payments	Current ERR Distribution		Taxpayer Employee Reports	Combined Mineral Permits Index	Combined Mineral Production Index	Total Payments	Current ERR Distribution
	<b>\$5,565</b>	<b>\$5,565</b>	<b>\$5,565</b>	<b>16,696</b>	<b>\$16,696</b>						
Adams	\$90	\$17	\$20	\$128	\$270	Kit Carson	\$6	\$2	\$1	\$9	\$17
Alamosa	\$0	\$0	\$0	\$0	\$0	Lake	\$2	\$134	\$0	\$136	\$5
Arapahoe	\$33	\$5	\$2	\$39	\$98	La Plata	\$192	\$144	<b>\$999</b>	<b>\$1,335</b>	\$575
Archuleta	\$5	\$7	\$8	\$20	\$14	Larimer	\$58	\$0	\$2	\$60	\$173
Baca	\$3	\$1	\$6	\$10	\$10	Las Animas	<b>\$288</b>	\$236	\$224	\$748	<b>\$864</b>
Bent	\$2	\$4	\$1	\$7	\$7	Lincoln	\$5	\$0	\$1	\$6	\$14
Boulder	\$20	\$228	\$7	\$255	\$60	Logan	\$64	\$8	\$3	\$76	\$193
Broomfield	\$5	\$0	\$2	\$7	\$15	Mesa	<b>\$1,859</b>	\$326	\$33	<b>\$2,219</b>	<b>\$5,578</b>
Chaffee	\$3	\$50	\$0	\$53	\$8	Mineral	\$0	\$0	\$0	\$0	\$0
Cheyenne	\$32	\$10	\$39	\$81	\$96	Moffat	\$134	\$90	<b>\$459</b>	\$683	\$401
Clear Creek	\$6	\$50	\$232	\$288	\$17	Montezuma	\$34	\$2	\$376	\$413	\$102
Conejos	\$1	\$67	\$0	\$68	\$3	Montrose	\$27	<b>\$352</b>	\$20	\$400	\$82
Costilla	\$0	\$0	\$0	\$0	\$0	Morgan	\$64	\$1	\$2	\$68	\$193
Crowley	\$1	\$0	\$0	\$1	\$4	Otero	\$1	\$0	\$0	\$1	\$3
Custer	\$0	\$17	\$0	\$17	\$0	Ouray	\$1	\$101	\$0	\$102	\$4
Delta	\$173	\$4	\$342	\$518	\$518	Park	\$2	\$84	\$0	\$86	\$5
Denver	\$36	\$9	\$1	\$46	\$108	Phillips	\$0	\$6	\$1	\$7	\$0
Dolores	\$15	\$3	\$30	\$47	\$45	Pitkin	\$1	\$50	\$0	\$52	\$4
Douglas	\$16	\$0	\$0	\$16	\$49	Prowers	\$8	\$3	\$2	\$13	\$24
Eagle	\$7	\$50	\$0	\$57	\$21	Pueblo	\$8	\$0	\$0	\$8	\$24
Elbert	\$5	\$2	\$1	\$8	\$14	Rio Blanco	<b>\$322</b>	<b>\$404</b>	\$258	<b>\$985</b>	<b>\$967</b>
El Paso	\$22	\$0	\$0	\$22	\$65	Rio Grande	\$4	\$0	\$0	\$4	\$11
Fremont	\$26	\$169	\$1	\$195	\$78	Routt	\$32	\$4	\$423	\$460	\$97
Garfield	<b>\$1,254</b>	<b>\$870</b>	<b>\$782</b>	<b>\$2,906</b>	<b>\$3,763</b>	Saguache	\$3	\$84	\$0	\$87	\$10
Gilpin	\$0	\$34	\$0	\$34	\$0	San Juan	\$0	\$117	\$0	\$117	\$0
Grand	\$2	\$17	\$59	\$78	\$7	San Miguel	\$0	\$234	\$49	\$284	\$0
Gunnison	\$3	\$143	<b>\$424</b>	\$570	\$9	Sedgwick	\$0	\$3	\$0	\$3	\$0
Hinsdale	\$1	\$34	\$1	\$35	\$2	Summit	\$5	\$34	\$0	\$39	\$15
Huerfano	\$22	\$0	\$31	\$53	\$65	Teller	\$17	\$201	\$55	\$273	\$51
Jackson	\$6	\$37	\$3	\$46	\$18	Washington	\$8	\$33	\$14	\$55	\$25
Jefferson	\$48	\$0	\$0	\$49	\$145	Weld	<b>\$464</b>	<b>\$702</b>	<b>\$565</b>	<b>\$1,732</b>	<b>\$1,393</b>
Kiowa	\$6	\$5	\$4	\$15	\$17	Yuma	\$114	<b>\$376</b>	\$82	\$572	\$341

**In addition to the changes  
in the direct distribution metric,  
the Working Group supports the proposals  
from the Department of Local Affairs  
for statutory and administrative reforms  
in the Local Government Impact Assistance  
Funds grants and loan programs**



**1) Modify the Local Government Impact Assistance Advisory Committee:**

- Add two additional representatives to ensure a quorum and add depth to policy discussions.
- Add representative from Department of Health, remove representative from Department of Education.
- Senate confirmation of gubernatorial appointments.

## **2) Administrative changes:**

- Use the Advisory Committee as a policy body.
- Convene immediately to advise on changes and develop a timeline for programmatic changes to be phased in so as not to disrupt the substantial community of local government staff who “know how the program works”.
- Develop criteria for small, large scale and standard grant programs.
- Review standard and large scale projects.

### **3) Use the new impact metrics in the grants program:**

- to provide yearly qualification of communities based on impact metrics
- to develop an objective scoring system using quantified criteria
- to be validate by advisory committee.

### **3) Reporting:**

- Present results of the grant program yearly to the General Assembly in a hearing (summarize annual report).
- Submit annual report to the State Auditor's Office (likely a statutory change).
- Standardized forms, provide monitoring instruments.

**The Working Group heard from the other state programs receiving severance tax and federal mineral lease dollars:**

**-Department of Natural Resources programs**

**-Department of Natural Resources special programs**

**The Working Group supports the request from the Department of Natural Resources that a portion of the existing Severance Operational Account be appropriated for the Division of Wildlife and the Division of Parks to assist them in handling impacts from mineral and energy development.**

**We expect to hear from the State School Fund**

**Materials that these agencies presented are available on the legislative web site for your review.**

**The Working Group is still researching and discussing:**

- Modification to the administration and structure of the state severance tax**
- The receipt and distribution of federal mineral lease revenues**

**The Working Group has developed specific state statutory changes for your consideration:**

- Clean up**
- Improvements to the Employee Residence Reporting Process**
- Modifications to the DoLA Impact Assistance Advisory Committee**

**These are provided in a separate “homework” handout**

# **Attachments:**