OFFICE OF STATE PLANNING AND BUDGETING

Fact Sheet

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The Oil & Gas Industry in Colorado — *November 2007*

Background

Among the fifty states, Colorado is the eleventh largest producer of petroleum and the sixth largest producer of natural gas. Other significant natural resources extracted in Colorado include coal, molybdenum, carbon dioxide, uranium and helium. In addition, Colorado sits on significant oil shale deposits which may become viable with technological advances and a beneficial price environment.

Oil and Gas Production in Colorado					
Calendar Year	**2002**	**2003**	**2004**	**2005**	**2006**
Natural Gas (mcf)	951,444,351	1,035,024,030	1,095,203,957	1,151,829,176	1,233,055,567
Oil (bbl)	20,527,625	21,551,376	22,533,049	23,134,674	23,647,268

Employment and Wages

Employment in the Natural Resources and Mining sector has grown quickly in Colorado in recent years, from 14,400 jobs in 2004 to 20,700 in 2006, a 43.9 percent increase. In 2006, there were 5,600 jobs in oil and gas extraction compared to 4,300 in 2004, a 29.2 percent increase.

Average weekly wages in 2006 were $921 in oil and gas extraction, somewhat higher than the statewide average of $829 for all occupations. Since 1997, average wages in the sector have grown at an annualized rate of 2.2 percent. Wages were largely stagnant between 1998 and 2004, but high prices for oil and natural gas have led to a revival in the industry in Colorado, with strong demand for workers and corresponding wage growth of 18.3 percent between 2004 and 2006. This strong performance is expected to continue through 2007. According to the Bureau of Labor Statistics, the preliminary September 2007 average weekly wage is $1,056, fully 9.9 percent higher than the September 2006 figure of $961.

Permitting

Between 1979 and 1999, the number of permits for drilling new oil and gas wells was relatively stable, at about 1,500 per year. However, permit activity has risen steadily in Colorado since 2000. Compared to 1,986 new permits approved in FY 2002-03, there were approximately 6,400 new permits in FY 2006-2007. The Department of Natural Resources projects that there will be 7,600 permit applications in FY 2007-08 and 8,400 in FY 2008-09. Of the 5,904 permits issued in FY 2006-07, more than half were in Garfield and Weld counties. This growth in permits is a leading indicator of future production in Colorado, as sustained high energy prices, improving extractive technology and increased pipeline capacity point to a prolonged energy boom in Colorado.

Fiscal Impact

Energy producers in Colorado pay property taxes to local counties and school districts on the value of their production and their equipment. They also pay severance taxes to the state on the value of the resources that are irretrievably taken from the state during extraction, and pay royalties to the federal government on production occurring on federally-owned lands, a portion of which is returned to state coffers. Producers also operate on state-owned lands and pay royalties that are deposited in the Public School Fund, a perpetual public trust for the support of state public schools.

Tax and Royalty Revenue from Oil and Gas Production in Colorado ($ millions)

Fiscal Year	Local Property Taxes	Severance Taxes	Federal Mineral Lease Revenue
2001-02	$105.3	$57.5	$45.1
2002-03	$129.9	$32.6	$49.5
2003-04	$105.5	$125.1	$79.4
2004-05	$180.3	$152.0	$101.0
2005-06	$224.5	$234.3	$143.4
2006-07	$328.8	$145.1	$123.0

The severance tax rate on oil and gas is nominally 5.0 percent for most producers, per Section 39-29-105, C.R.S. (2007). Comparatively, the nominal severance tax rate is 6.0 percent in Wyoming, 3.75 percent in New Mexico, 5.0 percent in Utah, 8.0 percent in Kansas, 3.0 percent in Nebraska and 7.0 percent in Oklahoma. However, various deductions and credits reduce the net severance tax liabilities of most producers in Colorado. Oil from wells producing less than fifteen barrels per day is exempt from the tax, as is natural gas from wells producing less than ninety thousand cubic feet per day. In addition, the tax is assessed on the wellhead price, requiring a deduction of transportation, manufacturing and processing costs. Furthermore, producers may take a credit of up to 87.5 percent of their prior year's local property tax liability from their severance tax liability. These exemptions reduce the effective tax rate to between one and two percent of total production value.

Projected Severance Taxes and Federal Mineral Lease Revenues through FY 2011-12 ($ millions)

Fiscal Year	Severance Taxes	Federal Mineral Lease Revenue
2007-08	$129.1	$128.9
2008-09	$213.9	$153.9
2009-10	$181.8	$179.7
2010-11	$216.7	$205.2
2011-12	$214.4	$226.8

Severance tax revenues are split equally to a local impact fund administered within the Department of Local Affairs and a trust fund administered by the State Treasurer. Within the local impact fund, 70% of revenues are distributed through a grant process to local governments socially or economically impacted by energy development. The remaining thirty percent is distributed directly to municipalities and counties based on the number of employees in extractive industries residing within the municipalities or unincorporated areas of the counties. Within the trust fund, half of the revenue is credited to an operational account used to fund programs in the Colorado Oil and Gas Conservation Commission, the Colorado Geological Survey, the Colorado Division of Reclamation, Mining and Safety, and the Colorado Water Conservation Board. The other half of the revenues flow to a perpetual base account, from which loans are made to projects to improve and conserve the state's water supply.

Federal mineral lease revenues are distributed according to Section 34-63-102, C.R.S. (2007). 25 percent of revenues are distributed to the Public School Fund, 10 percent goes to the perpetual base account for the Colorado Water Conservation Board, and 15 percent goes to the Local Government Mineral Impact Fund and is distributed in the same manner as the direct local distribution of severance tax revenue. The remaining 50 percent is distributed to school districts, municipalities, counties, the Public School Fund, and the Local Government Impact Fund according to a complex formula within the statute.

Links to Additional Websites/Data:

- The US Bureau of Labor Statistics (US Dept. of Labor) (http://www.bls.gov)
- The US Energy Information Administration (US Dept. of Energy) (http://www.eia.doe.gov/)
- The US Mineral Management Service (US Dept. of the Interior) (http://www.mms.gov/)
- The Colorado Oil and Gas Conservation Commission (http://oil-gas.state.co.us)
- The Colorado Department of Labor and Employment (http://www.coworkforce.com/)
- The Colorado State Land Board (http://trustlands.state.co.us/)
- The Colorado Energy Research Institute (http://ceri-mines.org/)
- The Colorado Petroleum Association (http://www.coloradopetroleumassociation.org/)
- The Colorado Oil & Gas Association (http://www.coga.org/)