August 7, 2017

Board of Delta County Commissioners  
Delta County Courthouse  
501 Palmer St.  
Delta Co 81416  
VIA EMAIL

Dear Commissioners,

Thank you once again for granting CHC the time to present findings from our recent study, "Economic Impact of Natural Gas Development in Delta County” on Monday July 17, 2017.

Following our presentation, a number of comments were made by County staff, a representative of the West Slope Colorado Oil and Gas Association (WSCOGA), and a representative of SG Interests. We appreciate the constructive and relevant comments made to improve this cost-benefit analysis. What follows is our response to the comments made at the meeting, comments made by WSCOOGA in a letter dated July 14, 2017, comments made by WSCOOGA and a County Commissioner in a July 18, 2017 Grand Junction Sentinel article.

1. Scope of the study.

As mentioned in our report and in our presentation, the purpose of the study was a first step towards developing a transparent analysis and public discussion around the costs and benefits associated with a specific proposed oil and gas project. Due to resource constraints, the limited availability of third-party studies on the impact of oil and gas development on property values and tourism, and our project-specific cost-benefit analysis objective, the study is limited to specific revenue streams germane to these constraints. In addition, while the study addressed road, infrastructure and emergency response costs, it did not address environmental damage and remediation, or public health concerns associated with oil and gas development.
2. Bruce Bertram, County Local Government Designee, comments
   a. Comment: Existing Oil and Gas Activity in the North Fork Valley (NFV) Not Considered
      CHC Response: Current level of activity, with 93% of wells in Delta County abandoned or
      plugged, is not analogous to the level of concentrated industrial activity proposed in the
      NFMMDP.

      i. The County has an obligation to question past and future assumptions, especially as
         they relate to the impact of public perception on the real estate market. While there
         have been more than 60 wells drilled in the area, it is important to note that there are
         only 4 wells currently producing in any capacity in Delta County. The remainder of
         the wells are plugged and abandoned.

      ii. It is only recently that the public has become aware of issues related to such wells, as
          well as associated flowlines and other infrastructure. Recent tragic events such as the
          home explosion in Firestone, CO this past April, which killed two people and was
          caused by the failure to cap an abandoned flowline, have brought these issues closer to
          the forefront of public concern. To date, oil and gas development in Delta County has
          been primarily exploratory and scattered throughout the County. This current level of
          activity is not analogous to the industrial-scale development proposed by a Master
          Development Plan such as the NFMMDP, and is therefore deemed to be irrelevant for
          the purposes of this project-specific assessment.

      iii. CHC is an impacted citizens group and our members live and work in the North Fork
           Valley. We hear daily comments from our members on a broad range of concerns
           related to increasing oil and gas development. We also hear local realtors express
           trepidation about the health of the NFV’s real estate market due to looming
           development proposals. The first questions many realtors used to get from prospective
           buyers were about schools, broadband Internet, and hospitals. Now, as people flee the
           Front Range and other areas industrialized by oil and gas development, and
           understand the risks of fracking to their health, environment, and property values, the
           first question is often, “is there fracking in the area?” When prospective buyers learn
           about the level of proposed oil and gas development, many leave and don’t come
           back.

      iv. Oil and gas development in the North Fork of the Gunnison’s watershed is a very real
          threat to the continuing prosperity of the NFV. As the public becomes more aware of
          the health and environmental consequences of fracking, and tragedies like the
          Firestone home explosion continue to be front-page news, the future of the NFV real
          estate market will continue to be in jeopardy.

   b. Comment: A Local North Fork Valley Study On Tourism Was Not Used
      CHC Response: Best available research was used to estimate local impact of oil and gas
      development on tourism

      i. The Local Government Designee criticized CHC for not utilizing a local North Fork
         Valley tourism study, which focuses on the unique attributes and geology of the
         area, and instead utilizing a National Parks study to estimate potential negative
impact of oil and gas development on local tourism. We cannot find any such local study, but we would welcome the opportunity to include such information in our analysis if it exists. We used the best available research to model potential impact on County revenues.

ii. It is the responsibility of the County to have a thorough understanding of the local economy, and how development proposals might impact it. If the County believes that it would be beneficial to this cost-benefit analysis to conduct a study on the impact of local recreation, we would support its decision to do so.

c. Comment: Misleading use of Center for Western Priorities Study on Decline of National Park Visitations and 2016 National Park Statistics

CHC Response: The Center For Western Priorities Study (CWP) is the only study we found that focuses specifically on the impact of increasing oil and gas development on tourism.

i. The National Park Visitation study conducted by the Center for Western Priorities focused on National Park visitation figures in the years that oil and gas development was increasing nearby. The study shows that in the years that oil and gas development increased, visitation to the parks decreased dramatically, across the board, by an average of 26%.

ii. The Local Government Designee stated that the 16% increase in visitation to the studied parks from 2015 to 2016 negates our assumptions. This ignores the basic premise of the CWP study, which was to look at the period of time when oil and gas development was increasing near the parks, not to simply assess annual visitation figures. This comparison of oil and gas development activity over an extended period of time is what makes this particular study so relevant to CHC’s goal of conducting a cost-benefit analysis.

iii. 2016 was a banner year for National Park visitation, as the National Park System celebrated its centennial with increased free admission days, increased advertising, and other programs.1 Additionally, the only park (Theodore Roosevelt National Park) in the study that saw its visitation increase in 2016 to over pre-development numbers was the subject of an impressive promotional campaign, including being ranked the New York Times #5 best place to go in 2016.2 Despite the 2016 record increases in visitation, the studied parks, on average, still experienced a substantial (14.6%) decline from pre-development visitation figures.3


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3. Debbie Griffith, County Assessor, comments
   a. Comment: Report only looked at production volume and did not consider property
taxes on oil- and gas-related equipment and facilities, estimating that the NFMMDP
could result in $6 million in revenues to the County annually.
   CHC Response: The County-wide ratio of production volume-based property tax to equipment
and facilities-based property tax is not applicable to our calculation of project-specific revenue
that is directly attributable to the NFMMDP. CHC is working with the County Assessor to
develop a model for projecting project-specific contributions to County revenues.

i. Our report is a project-specific document. While we recognize that currently, at the
county level, production represents a small portion of the total revenue generated by
oil and gas operations, it is not apparent that the same county-level ratio will apply
to a project-specific analysis. The county-level ratio of production-related tax versus
equipment, facilities, and infrastructure-related tax includes existing facilities and
equipment, which are outside of the NFMMDP project area.

ii. Based on the county-wide ratio and the $307,000 low-end estimate of annual tax
revenue from the NFMMDP in our report, the Assessor stated that the NFMMDP’s
three wells within Delta County could potentially generate an annual total of $6
million in property taxes to the County. The $307,000 figure for potential annual
NFMMDP revenue to the County used by the Assessor includes the local
government’s share of severance tax in addition to property tax based on production
volume, which makes this rough calculation an over-estimation.

iii. We understand that in 2016 Delta County received approximately $112,000 from oil-
and gas-related activities (production, equipment and facilities, and pipeline
throughput) within the County, the primary production share of which is likely
associated with the reported 1,431,016 mcf of natural gas production for 2015 (the
County collects taxes on the prior year’s production). On average, 65% of Delta
county revenues from oil and gas activity comes from pipelines for the years 2012-
2016.7 The NFMMDP could produce an average of 2,000,000 mcf of natural gas per
year within Delta County (a 148% increase from the 2015 level). CHC understands
that the NFMMDP will contribute to increased throughput in pipelines such as the
Bull Mountain Pipeline, a portion of which crosses through Delta County. CHC is
working with the Assessor to develop a model for projecting project-specific revenue
that takes into consideration the complexities of assessing property tax on oil and

4 2016 Selected Authority Abstract, Delta County General Fund, Delta County Assessor
5 COGIS County Production Report, Delta County, 2015, Colorado Oil and Gas Conservation Commission
County-2015-COGCC-Prod-Report.png)
6 How Colorado Returns “Unconventional” Oil Revenue to Local Governments, Headwaters Economics,
January 2014 (available at: https://headwaterseconomics.org/wp-content/uploads/state-energy-
policies-co.pdf)
7 2012-2016 Selected Authority Abstract, Delta County General Fund, Delta County Assessor
8 Proposed Action NFMMDP for Oil and Gas Exploration and Development Gunnison and Delta Counties,
gas equipment and facilities, including pipeline throughput, depreciation, and basic equipment characteristics. However, CHC requests that the Assessor’s office conduct a project specific analysis in order to more accurately determine the total revenue that could be generated by the NFMMDP.

4. **WSCOGA presentation and letter, comments**
   a. WSCOOGA did not question the basic findings of CHC’s report. Instead, WSCOOGA focused on inflating the oil and gas severance tax and royalty revenue benefits to Delta County by including projects and revenues that result from the redistribution of the entire pool of severance and royalty tax revenues (which includes mining, oil and gas, and metals). By including revenues beyond what are directly distributed to the County based on location of production, WSCOOGA is creating a misleading distraction from the goal of conducting a project specific cost-benefit analysis.

   b. **Comment: Benefits from Federal Mineral Leasing royalties not considered**
      **CHC Response: Federal mineral royalties result in minimal direct economic contribution to the County of origin.**

      i. CHC did not address federal mineral leasing royalties in the report because of resource constraints and because initial research indicated that the redistribution matrix of these royalty payments is extremely complex and would only result in minimal direct return to the County of origin. CHC should have stated this explicitly in the report, and will make the appropriate correction.

      ii. WSCOOGA’s letter claims that CHC omitted a significant revenue stream from its analysis, but it did not make any constructive attempt to quantify how federal mineral royalties would be collected on the NFMMDP and directly returned to Delta County. To advance the purpose of a project-specific cost-benefit analysis, CHC has conducted a brief analysis of the distribution process in response to WSCOOGA’s critique. Delta County will receive a small share of the federal mineral royalties generated by the NFMMDP. According to WSCOOGA, one-third of the NFMMDP project area is federal lands. However, BLM’s GIS data shows that the portion of the NFMMDP located in Delta County is 80% private. Therefore, the federal government will only collect royalties on 20% of the natural gas extracted from Delta County’s share of the NFMMDP project area. The federal mineral royalty rate is 12.5%. The NFMMDP might generate as much as $158,000 annually in federal mineral royalties, which will be redistributed at the state and federal level.

      iii. As WSCOOGA notes, only 49% of federal mineral royalties are returned to the states.\(^9\) 40% of the state’s share of federal mineral royalties goes to the Local Government Mineral Impact Fund.\(^10\) That fund is then split evenly between direct distribution based on a series of factors including local employee residence rates, mining and

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\(^10\) Id.
well permits, and production, as well as population and road miles,\textsuperscript{11} and competitive grants, which have no location-based award requirements. The remaining portion of the royalty dollars generated by a project are distributed to a state public school fund (40\% of the state's share), the Colorado Water Conservation Board (10\% of the state's share), and School District Direct Distributions (1.7\% of the state's share).\textsuperscript{12}

iv. Based on that distribution matrix and NFMMDP data, Delta County could receive $15,493.80 annually in direct distributions, and the Delta County School District could receive another $1,316.97 in direct funds annually.\textsuperscript{13}

v. The rest of the state's share of the royalty dollars generated by the NFMMDP are distributed through various grant and loan programs, with no requirement that they be returned to the county of origin. Those remaining royalty dollars could be as much as $60,658.23 annually.\textsuperscript{14} For the purposes of a cost-benefit analysis it is not likely that these remaining dollars would directly impact Delta County revenues. At best, federal mineral leasing royalties on the NFMMDP could generate $16,811 in direct revenue to the County. See the attached flowchart for a more detailed breakdown of the distribution of federal mineral lease royalties.\textsuperscript{15}

c. Comment: Benefits from state severance tax redistribution not considered

CHC Response: Redistributed state severance taxes make minimal direct contribution to county of origin

i. Contrary to WSCOGA's claim that our report ignored the contributions of State Severance Tax dollars, our report actually overestimated the portion of severance tax dollars generated by the NFMMDP that must be directly returned to Delta County. Our report estimates that the NFMMDP could generate as much as $118,000 annually in severance tax revenue. In our report, we attributed half of the total amount of severance tax to the County's revenue ($59,129), based on the formula that severance tax is split evenly between the Local Government Severance Tax Trust Fund and the State Severance Tax Trust Fund.\textsuperscript{16} In reality, of the Local Government Fund's share, only 30\% (less than $18,000 for the NFMMDP) of the local government's share of severance tax is directly distributed to the county of origin. The remaining 70\% is distributed through a competitive grant system with no requirement that it go back to the county of origin.\textsuperscript{17}

\textsuperscript{11} Direct Distribution 101 Presentation, Colorado Department of Local Affairs, available at https://drive.google.com/file/d/0B-vz6H4k4SE5aG5YQ2jCNnNRRDg/view

\textsuperscript{12} DOLA FML Flowchart

\textsuperscript{13} See Exhibit A, Attached, Royalty Flowchart.

\textsuperscript{14} Id

\textsuperscript{15} Id

\textsuperscript{16} Severance Tax Handbook, Colorado Legislative Council Staff, https://leg.colorado.gov/agencies/legislative-council-staff/severance-tax

\textsuperscript{17} 2017 Direct Distribution, Colorado Department of Local Affairs, 5/24/2017 [hereinafter Direct Distribution] (available at: https://drive.google.com/file/d/0B-vz6H4k4SE5djTZWjWREdBY0k/view)
ii. The State’s 50% share is then broken into the Perpetual Fund (50%) and the Operational Fund (50%). The entire Perpetual Fund goes to the Colorado Water Conservation Board (CWCB). The Operational Fund’s dollars are distributed to a variety of programs: COGCC (35%), Colorado Geological Survey (15%), Avalanche Information Center (5%), Division of Reclamation, Mining, and Safety (25%), Colorado Water Conservation Board (5%), Colorado Division of Parks and Wildlife (5%), and State Parks (10%). None of the State’s share of severance tax dollars is required to be distributed to the county of origin. The largest recipient of state severance tax dollars is the CWCB, which could receive a total of 26.25% ($31,042.94) of the total severance tax dollars generated by the NFMMDP.

iii. WSCOGA lists a wide array of programs in Delta County that are partially funded by the CWCB (whose funds come from severance tax on mining, oil and gas and metals), but makes no attempt to determine how the NFMMDP could contribute to them. The CWCB funds projects through low interest loans, and can only fund projects that can repay those loans. There is no requirement that CWCB funds be redistributed based on county of origin. WSCOGA appears to be arguing that Delta County would no longer receive any financial contributions from the CWCB if it did not approve or support the NFMMDP. That is a false assertion, and deliberately distracts from a project-specific cost benefit analysis. As stated above, the NFMMDP could generate roughly $118,000 in annual severance tax dollars. Less than $18,000 of that total would be directly redistributed to the County. Mandatory distribution to the county of origin is the only relevant consideration in a project-specific, county-based cost/benefit analysis.

d. Comment: The National Park Study Is Not Relevant

CHC Response: The Center for Western Priorities Study is the only study found that specifically focused on the impact of increasing oil and gas development on tourism.

i. The explanation provided in our response to the Local Government Designee’s comments above on the same topic also address WSCOGA’s concerns.

e. Comment: “When assessing economic and socio-economic contributions from energy production, the (activists) simply cherry-picked data to serve as a straw man for ideological aims. We believe a better approach is to take a more holistic and comprehensive look at the myriad social benefits from natural gas production on federal lands.” July 18, 2017 Grand Junction Sentinel article “Industry: Study disregards many drilling benefits”

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18 Severance Tax Handbook.
21 See Exhibit B, Attached, Severance Tax Flowchart
23 Exhibit B, Attached, Severance Tax Flowchart

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CHC Response: The role of a cost-benefit analysis is to focus on project-specific impacts, not to look at the distribution revenues and potential benefits that are not directly traceable to the project.

i. The purpose of a cost-benefit analysis is to analyze the specific costs and benefits that the County could incur and receive from a specific project. A relevant and valuable cost-benefit analysis does not include generalized benefits that are not directly traceable and returned to the County of origin. WSCOGA makes no attempt to engage in a constructive dialogue or to contribute to a cost-benefit analysis of the specific project referenced in our report.

f. Lack of Civil Discord

i. CHC is disappointed by WSCOGA’s unnecessarily disparaging and denigrating response to a legitimate attempt at quantifying the costs and benefits of a proposed oil and gas development project. This does not inspire confidence in WSCOGA representing Gunnison Energy as a good neighbor concerned about doing right by the community. While WSCOGA has every right to submit a letter to the County regarding our report, we believe the County erred in giving WSCOGA the floor during the Constituent Time portion of the BoCC meeting. Their representative was not on the agenda that was posted with proper notice to the public on the afternoon of Friday, July 14, and he is not a constituent. The County was provided a copy of the letter on Friday evening by WSCOGA, after close of County business hours, and had knowledge of its contents and its tone. It is unfortunate that the County chose to permit such uncivil discord in a public meeting. The Sunshine Laws, C.R.S. 24-6-402 (2)(c) require 24 hours notice.

ii. WSCOGA dismisses CHC as an “Activist” group, implying that CHC is an outsider organization that has parachuted in to advocate for ideological positions. CHC is a 500+ member impacted citizens group founded in the North Fork Valley and made up of North Fork Valley residents - fulltime or part-time - who care about and fight for clean air, water, soil and food. If an activist is someone who cares passionately about and fights for clean air, water, and food, we will wear the label proudly, but to claim that CHC is a group without connection to this place is false. Each and every one of CHC’s board members and staff has made the North Fork Valley their home. It is deeply hypocritical for an organization like WSCOGA, which is based in Grand Junction and funded by oil and gas companies from all over the country, to claim that CHC lacks personal connection to the North Fork Valley. It is written right into WSCOGA’s letter, when they claim that our report omits benefits to your community, not ours.

5. SG Interests comments

a. Comment: Paonia’s growth has coincided with existing oil and gas activity
CHC Response: Changes in public opinion and public perception can change the real estate market and development to date has been minimal.
i. SG Interests argued that Paonia’s growth during the studied time frame coincides with existing oil and gas development in the area. This is the same argument made by Local Government Designee, and our response to his concerns above applies here.

b. Comment: Infrastructure costs overstated

CHC Comment: Identification of infrastructure costs was addressed in the report, but not quantified.

i. SG Interests also claimed that the impact to existing County infrastructure was overstated in our report. Setting aside the fact that CHC made no attempt to quantify those impacts, and mentioned them only as an indication that other potential impacts to the County budget should be considered, there is no indication that the bonds that SG Interests pays on Forest Service and County roads will adequately reimburse the County for the impact that traffic related to oil and gas development will certainly have. It is the County’s responsibility to ensure that the bonds SG Interests described are adequate to protect County resources.

6. Commissioner Mark Roeber, Grand Junction Sentinel, July 19 article comments

a. Comment: “It’s kind of hard to say we’re going to spend money on a study that may not get us any results.”

CHC Response: County officials have a responsibility to engage in transparent decision-making with the public, and that includes documented analysis in support of their actions.

i. In comments regarding commissioning a cost-benefit analysis and the County’s budgetary challenges, Commissioner Roeber implies that the County has not budgeted for due diligence on proposed industrial projects that will have long-term economic, social, and environmental consequences on the County and the communities on the front lines of development that will most likely be directly impacted. County officials have a responsibility to engage in transparent decision-making with the public, and that includes documented analysis in support of their actions.

In conclusion, this study was intended to be a first attempt at a project-specific cost benefit analysis for Delta County, which has thus far been unaccounted for in the oil and gas decision making process. As CHC mentioned in our presentation, we hope that this report will be a first step, not a final one. CHC is a small, non-profit organization with limited resources. It was not our intention that this initial evaluation would replace a complete and comprehensive cost-benefit analysis. Instead, we hoped it would open a dialog and lead our community down a path to making well-informed decisions about the future of our County. Based on our high-level analysis stated above, and recognizing that modeling of equipment and facilities related property still needs to be done, the revenues stated in our report from the NFMMMDP could be adjusted as follows:

- Additional revenue attributed to the County and School District from direct distribution of federal mineral leasing royalties: +$16,811

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• Changing the severance tax attribution to reflect that only 30% of the previously entirely attributed local government share is directly distributed to the County: -$41,390.58
• Non-production-based property taxes on oil and gas equipment and facilities for the NFMMDP: TBD
• TOTAL: an additional $-24,579.58 attributed to the County from the NFMMDP.

CHC is asking that you, the County Commissioners, undertake a transparent and diligent cost-benefit analysis before supporting projects like the North Fork Mancos Master Development Plan. Projects that could have wide-ranging and long-lasting impacts on our health, our environment, our food supply, our water, our air, our County’s attractiveness to prospective home-buyers and small business owners, and our ability to continue living the lives we have built in the North Fork Valley.

We look forward to working with you and others, in a constructive fashion, to build upon this cost-benefit analysis we started, and to the County undertaking an analysis on the local impact of outdoor recreation and commercial and vacant property tax revenues not quantified or addressed by CHC.

Sincerely,

Andrew Forkes-Gudmundson
Associate Program Director

CC: Robbie LeValley
     Elyse Casselberry
     Bruce Bertram
     Debbie Griffith
     Ken Nordstrom
     Delta County Planning Commission
     Natasha Léger