



Colorado Legislative Council Staff Fiscal Note
**STATE and LOCAL
 FISCAL IMPACT**

Drafting Number: LLS 10-0451
Prime Sponsor(s): Sen. Schwartz

Date: March 5, 2010
Bill Status: Senate Local Government and Energy
Fiscal Analyst: Lauren Ris (303-866-3264)

TITLE: CONCERNING THE REGULATION OF THE DEVELOPMENT OF GEOTHERMAL RESOURCES.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
Cash Funds		
Ground Water Management Cash Fund	(\$6,720)	(\$6,720)
State Expenditures		
General Fund		
Cash Funds		
Geothermal Resource Leasing Fund	See State Expenditures Section.	
FTE Position Change		
Effective Date: August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
Appropriation Summary for FY 2010-2011: None required.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

SB10-174 makes 5 key changes to the regulation of geothermal resource development.

Geothermal Resource Leasing Fund. The bill authorizes federal mineral lease revenues derived from geothermal resource development on federal lands to be used to provide grants to state agencies, school districts, and political subdivisions affected by geothermal development and production. Grants are to be awarded by the Department of Local Affairs primarily for planning and services necessitated by geothermal development and production, and secondarily to promote geothermal energy resource development.

Groundwater ownership. The bill specifies that the property rights to geothermal resources are part of surface ownership unless these rights are "severed" or separated from the land and sold or leased. In cases where geothermal resources are severed, the bill provides the geothermal resource owner the right to reasonably access these resources.

Permits. The bill clarifies that drilling and well permits must be obtained from the State Engineer in the Division of Water Resources prior to exploring or producing a geothermal resource and clarifies requirements that must be met to receive a permit. The bill also specifies that a well permit from the State Engineer is not required for the direct use of a horizontal, closed-loop geexchange system that does not use a geothermal fluid.

Property taxation. The bill specifies that geothermal energy facilities must be valued property taxes in the same manner in which wind and solar energy facilities are valued. These facilities are valued using the income approach, where the value is based on the projected gross revenue of these facilities.

Local government planning. The bill allows municipalities and counties to designate geothermal development as an activity of state interest under House Bill 74-1041.

State Revenue

The Division of Water Resources, Department of Natural Resources. By no longer requiring a permit for the direct use of a horizontal, closed-loop geexchange system that does not use a geothermal fluid, it is estimated that the division will receive 14 fewer permit applications per year (at \$480 per application), resulting in a revenue reduction of \$6,720 in FY 2010-11 and FY 2011-12. The application fees are credited to the Ground Water Management Cash Fund. This impact will not substantially affect the division's budget.

The Department of Local Affairs. The bill earmarks future federal geothermal lease revenue for appropriation to the Department of Local Affairs. There are currently no geothermal leases in Colorado, but the federal Bureau of Land Management (BLM) has nominated 3 parcels of land for geothermal lease sales. However, the sales have been postponed and the parcels are undergoing environmental assessments. While there will likely be revenue generated from federal geothermal leases in the near future, the amount of revenue generated will depend on the following:

- the total acreage available for lease (which will not be determined until environmental assessments are complete),
- the final number of parcels nominated, and
- the price paid through a competitive bidding process per acre (the average price the BLM has received per acre from the last three years is \$143).

State Expenditures

There will likely be expenditures to the Department of Local Affairs in the future associated with establishing the Geothermal Resource Leasing Fund and grant management, however because there are currently no geothermal leases in Colorado, there is no revenue stream for the fund. This fiscal note assumes that there will not be sufficient revenue generated to establish the lease fund and grant program in FY 2010-11 or FY 2011-12.

To the extent that severing geothermal resources from surface rights results in an increase in property tax, it will reduce the need for General Funds for school finance. Similarly, modifying the method for valuing geothermal facilities could affect property taxes, which would change the need for state aid.

Local Government Impact

Over time, the ability to sever geothermal resource property rights from the surface may result in a future increase in the number of severed property rights, which county assessors will value for tax purposes. The fiscal impact of this additional workload and resulting tax revenue is expected to be minimal in the near term. Any future property tax generated as a result of severed geothermal resource ownership will benefit local governments. Additionally, grants awarded through the Geothermal Resource Leasing Fund would also benefit school districts and political subdivisions that receive funding.

Departments Contacted

Natural Resources
Property Taxation

Local Affairs
Governor's Energy Office