



Summary of Local Economic Impacts of Natural Gas Development in Valle Vidal, New Mexico

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The Valle Vidal Unit of the Carson National Forest (Valle Vidal) is a park-like area of forests, meadows, streams and lakes on the east side of New Mexico's Sangre de Cristo Mountains. The Valle Vidal currently contributes to the local economy by providing recreational opportunities, wildlife habitat, and watershed values. Proposed development of the area to exploit its underlying natural gas resource is likely to damage those values.

This brief summarizes the likely local economic impacts in Colfax County, New Mexico, and Las Animas County, Colorado if Valle Vidal were to be developed for its coalbed methane (CBM) gas resources.

Insignificant local employment & personal income. CBM development is land and capital intensive. It provides limited employment and pay opportunities relative to the economic value it creates. At currently projected levels of natural gas development, the related employment and payroll will be less than one percent of current employment and personal income in the local economy. In 2001 only seven-tenths of one percent of New Mexico personal income came from labor earnings from oil and gas production and only six-tenths of one percent of jobs. If the experience so far in Colfax and Las Animas Counties is used to project employment associated with the development of Valle Vidal, 94 jobs would be created with a payroll of about \$4.5 million. The 94 jobs associated with potential gas development in Valle Vidal represent a little over one half of one percent of jobs in the county.

Specialized jobs not available to local residents. CBM development requires specialized skilled workers who by necessity must move to wherever new gas fields are constructed. Many of the development jobs will not be available to local residents. Some of the specialized jobs may go to the highly mobile gas field workers who will be leaving the adjacent Vermejo Park gas fields as the development phase there winds down. In addition, many local, non-specialist jobs are likely to be filled by workers from the Vermejo Park gas projects. Thus, the 94 jobs projected for Valle Vidal gas development could be an overestimate, with the actual number of new jobs being significantly lower.

No continuing benefit to local economy. The spillover or "multiplier" impacts on the local economy associated with natural gas development are very limited. CBM development can be relatively short-term in duration. CBM development does not provide long-term, continuing support for the expansion of local businesses. The employment multiplier for Colfax and Las Animas Counties suggests that the average of 94 direct jobs associated with gas development in

Valle Vidal would create another 28 jobs. This larger total would still represent only seven-tenths of one percent of the 17,000 jobs in Colfax and Las Animas Counties in 2002.

Limited tax revenues for local government. The impact of the projected level of gas development in Valle Vidal will not make a substantial contribution to the funding of Colfax County government services. For example, the projected *ad valorem* natural gas tax revenues would represent only one to two percent of the 2003 Colfax County Government budget revenues. The 2003 fiscal year Colfax County budget projected revenues of \$7.2 million. About 47 percent of this was to come from a variety of tax sources and the other 53 percent from local fees, grants, and transfers from state and federal governments. Property taxes by themselves were to contribute about 35 percent of total revenues and the gas *ad valorem* taxes on existing gas fields about 3.3 percent of total revenues. This applies only to the extent that gas production does not require any additional county services such as road repair and maintenance, police patrols and other law enforcement activities, fire and other emergency responders, social assistance to families in crisis, waste disposal, environmental regulation, and other services. The experiences of other areas in the western United States that have been through recent CBM gas booms are good indicators of what Colfax and Las Animas Counties will face. As the CBM gas boom expands, gas development will impose substantial additional costs on county government that at least partially offset the additional tax revenues.

Minimal tax benefits for municipalities. Because gas development rarely takes place within municipalities, it does not affect municipal tax revenues. Although the calculated total value of oil and gas production had a negative impact on tax rates, the impact was quite small: The projected \$18 million annual increase in gas production would lower the tax rate by less than a tenth of a mil. A 27mill levy would be reduced to 26.9. The taxes on a \$100,000 home would be reduced about \$10. Such insignificant tax savings are unlikely to have any impact on municipal economic activity.

Boom and bust uncertainties. Across the nation, local economies that rely heavily on mineral development face instability and downward cycles of boom and bust. Colfax County has had to wrestle with boom and bust uncertainties over the last twenty-five years. “More of the same” in the form of continued reliance on mineral development is unlikely to be any more successful in supporting sustained economic development. In Colfax County by 1990, half of the mineral sector jobs that existed in 1979 had been lost. By 2002 the expansion of natural gas development and production had reduced that job loss to 27 percent. That job loss did not cause a similar decline in employment in other sectors of the Colfax County economy, however.

Current non-mineral economy is expanding. There are signs of substantial economic vitality in Colfax County. The sources of that vitality are found in the services sectors, retirement and investment income, and the visitor and recreation sectors. After 1979, despite declines in employment in mineral development industries, almost 2,000 new jobs were created outside of the mineral sectors, a 34 percent expansion. While real earnings in the mineral, manufacturing, and agricultural sectors declined 61 percent, real earnings in the services-producing sectors expanded 39 percent. Real retirement and investment income almost doubled since 1979, adding \$67 million to the personal income of Colfax County residents. The Social Security, Medicare, and veteran’s pension payments alone in Colfax County added \$46 million to the local economy.

Expanding economy relies on nearby recreational lands. Most of the expanding sectors of the local economy rely on the attractiveness of the region as a place to live or visit. High quality natural landscapes contribute significantly to regional attractiveness and, through it, competitiveness. Valle Vidal is an important part of Colfax County's economic base as it is, in its natural state. Pursuing the small and temporary local economic gains that would accompany CBM development is a significant economic risk. Pursuing these gains threatens to convert that which is unique, valuable, and of long term significance into something that is cheap and common -- another industrialized landscape.

A strong residential and commercial tax base near recreation areas. The impact of the high quality natural landscapes along the Sange de Cristo Mountains, of which Valle Vidal is an important part, is already apparent in the Colfax County property tax base. Western Colfax County, with only a tiny percentage of total county population is responsible for 63 percent of the residential and commercial tax base. Two small towns with only 9 percent of the county population are responsible for 42 percent of the county residential and commercial tax base. These assessed values, which have been rising steeply, overwhelm the potential taxable values associated with gas development in Valle Vidal. Between 2001 and 2003 the residential and non-residential taxable values in Colfax County grew by \$170 million. Natural gas taxable value grew by \$12.8 million.

A sustainable economy contrasted with a brief CBM economy. In general, one economic choice or decision limits or excludes others. It would be convenient if extensive natural gas development could be pursued in Valle Vidal at the same time that diversification and development of the regional economy was also pursued. In real world economics such "free lunches" are rarely available. When it comes to Valle Vidal, this choice is especially stark. Coal bed methane development there is almost certain to fundamentally degrade a unique natural landscape, its wildlife habitat, and its recreational potential. This can only weaken the region's potential for ongoing, sustained development of its economy.

All materials in this summary are excerpted from or based on the January 2005 report by Thomas Michael Power, Professor and Chair, Economics Department, University of Montana:

Power, Thomas Michael, 2005, The Local Economic Impacts of Natural Gas Development in Valle Vidal, New Mexico -- A Report Prepared as Comments to the Carson National Forest, 28p.

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