

**GRAND JUNCTION CITY COUNCIL
Special Meeting**

February 9, 2006

The City Council of the City of Grand Junction convened into Special Session on the 9th day of February 2006, at 7:47 a.m. in the City Auditorium. Those present were Councilmembers Bonnie Beckstein, Teresa Coons, Jim Doody, Gregg Palmer, Jim Spehar, Doug Thomason and President of the Council Bruce Hill. Also present were City Manager Kelly Arnold, City Attorney John Shaver and City Clerk Stephanie Tuin.

Council President Hill called the meeting to order.

Discuss BLM Oil and Gas Lease Auction and Authorize the City Manager on Behalf of the City of Grand Junction to Participate in Auction

Council President Hill introduced the discussion and noted there is a possibility of going into executive session. City Attorney Shaver advised that the executive session would be legal due to the nature of the discussion in order to give specific direction for the negotiations as long as the policy discussion takes place in open meeting. If City Council finds that the need for the session is for the benefit of the public welfare, then it is in compliance with the Open Meetings Law.

City Manager Kelly Arnold reviewed this Item. He advised that the lease auction will commence at 9:00 a.m. and several hundred thousand acres will be auctioned off. A City staff person is on standby in Denver awaiting direction on the City's participation in the auction. The parcels on top of Grand Mesa and a Forest Service parcel were displayed. The recommendation is for Council to bid on four parcels – they are within City ownership (surface ownership), the City's watershed, Palisade's watershed or have elements that may affect the City's watershed. Councilmember Spehar clarified that there is a parcel that is both City of Grand Junction and Town of Palisade's watershed, but the rules are such that one must bid on the whole parcel.

Council President Hill noted that the parcels in question are actually above the City's watershed. Councilmember Spehar clarified that there are the City-owned properties, those properties in the City's watershed and then those areas that impact the City's watershed and that all three tiers should be considered.

Council President Hill asked why those properties above are not considered part of the City's watershed. City Attorney Shaver advised that it is a hard definition but any parcels that drain into the watershed could affect the City's water.

Councilmember Spehar moved that the City Manager is authorized to participate in the BLM auction for the purpose of acquiring oil and gas leases. Councilmember Coons seconded.

A discussion ensued.

Council President Hill asked the number of acres being considered.

Council President Pro Tem Palmer said he recalls BLM acknowledging the protection of the properties above the watershed so it does make sense to try to acquire the leases for those properties. Furthermore, if the City were to acquire those leases, it might move forward with drilling on those properties as well thus generate revenue.

Councilmember Coons said she agrees regarding participating in the auction. She favored the City having every option available, even if it means leasing them for oil and gas drilling later; at least the City would be in control.

Councilmember Spehar said this is the logical progression in protecting the watershed. As per the MOU, the City filed a protest but that was denied and so this is the next step. He felt it a worthwhile step.

City Attorney Shaver, responding the earlier acreage questions, answered that Parcel 405 amounts to approximately 1121 acres and that is the highest priority. The next highest priority is Parcel 409 and that is 400 acres; it is on the Forest Service property however there may be a legal description problem and that parcel may not be up for auction. Parcel 407 is the next highest priority and encompasses 1760 acres and the adjacent Parcel 408 is 2228 acres would be the third priority as it lies within the Palisade watershed and would be protected by their watershed ordinance.

Council President Hill asked if there is an estimated cost for the purchase of these leases. City Manager Arnold recommended that the lease cost should be discussed in executive session but the annual fixed costs would be \$1.50 per acre. City Attorney Shaver said the minimum bid is \$2 per acre.

Councilmember Spehar said the lease purchase at the low end would be \$11,000 and the annual cost would be \$8,000.

Council President Pro tem Palmer asked if there is historical information on what leases in that area have gone for. City Attorney Shaver responded the most recent information is \$32 per acre.

Councilmember Coons noted that there is no guarantee the City would be the successful bidder so what would it cost in impacts if unsuccessful.

City Manager Arnold advised there are adequate funds in the Water Fund but this expense is not in the business plan. The future impact these leases would have on the Water Fund would depend on whether the leases generate revenue.

Council President Hill voiced concern that using resources from the Water Fund, roughly \$100,000 cost, plus annual amounts, will affect water rates at some point.

Councilmember Spehar agreed that it is a cost to the fund but countered that it is not fair to say it will automatically increase rates. He has not had any of his constituents say don't go forward. He said the principal use of the Water Fund is to ensure clean and pure water.

Council President Pro Tem Palmer added that mitigation of problems created from drilling could also impact water rates. He inquired if there was a priority assigned to the parcels based on the possibility of finding oil and gas. City Attorney Shaver said there is no such data but in all likelihood oil and gas is more likely found on lower valley properties.

Council President Hill clarified that he did not say this will automatically cause a rate increase. He also said one should not make the assumption that drilling causes contamination. The BLM is doing a good job, if the City leases the parcels and subsequently allows drilling, it would be subject to the same stipulations as a private company. He noted the motion is to authorize the City Manager to participate in the auction, not to go forward with drilling. He felt the watershed is already protected but those in favor would be willing to pay the additional costs to protect it. The City's protest has not been considered yet. All the concern on these parcels may drive the price down; a private party may not want them. The City has been at the table all along and has had many opportunities to protect the watershed. The purchase of the leases equates to an insurance policy.

Councilmember Coons said she has had experience where some drilling caused problems; there is good drilling and bad drilling but with the City leasing the parcels, it gives the City more ability to regulate that. She agrees it is an insurance policy.

Councilmember Spehar agreed.

Council President Pro Tem Palmer moved to call the question. The motion passed with Council President Hill and Councilmember Beckstein voting NO.

The motion to participate in the auction passed with Council President Hill and Councilmember Beckstein voting NO.

Councilmember Spehar moved to go into executive session to determine the City's position, and to instruct the City's negotiators regarding BLM gas leases pursuant to section 402 4 e of Colorado's Open Meetings Act and will not be returning to open session. Councilmember Coons seconded the motion. Motion carried by roll call vote.

The City Council adjourned into executive session at 8:26 a.m.

Stephanie Tuin, MMC
City Clerk