

Oil & Gas Development Impacts on Local Governments & Communities: Considerations from the State Level

Seminar by Resources for the Future & Duke University

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The logo for the National Governors Association, featuring a stylized yellow and orange graphic of a star or compass rose on the left, and the text "NATIONAL GOVERNORS ASSOCIATION" in blue serif font to its right.

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Outline

- About NGA & Shale Work
- Role of Oil & Gas at State Level
- Price of Gasoline & Political Will
- Feedback for Researchers (4 slides)

About NGA Center

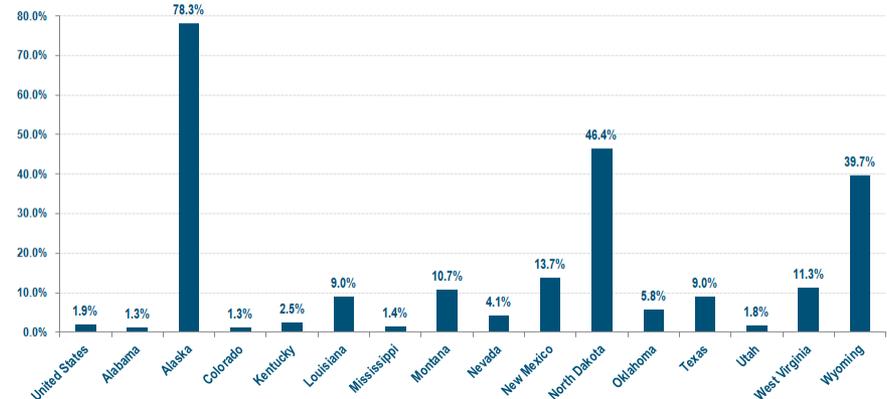
- Center for Best Practices – think tank helps inform governors’ advisors on state policy design.
- State Learning Network on Responsible Shale Development
 - Launched 2013 at request of OK Gov. Fallin & CO Gov. Hickenlooper
 - Governors’ energy advisors, policy directors, chiefs of staff
 - State Commissioners of Oil & Gas, Environment, & Energy
 - [Annual forums](#), webinars, experts roundtables, issue briefs
 - [State Practices to Protect Drinking Water While Developing Shale Energy](#)
 - Wide set of topics: water, air, seismicity, economic, workforce, impacts on other fuel sources, etc.
- Economic & local government impacts
 - Webinar “[State Responses to Fluctuating Shale Revenues in an Age of Low Gas Prices](#)” - Dr. Newell, North Dakota, GE, Headwater Economics
 - Forum conversations on tax design & local-state relations

Role of Oil & Gas at State Level

- High variance in role of severance tax by state
- Top ten oil-producing states seeing revenue decline of 45-75% from oil taxes.
 - Sales & income tax also down.
- Most states - declining oil prices likely to have net positive economic effect – via disposable spending (NASBO)
- Not so for handful of states heavily reliant on severance tax for large portion of state revenue. (AK & ND)
- Net economic impact not same for different stakeholders within the state or locality.
 - Low prices means more disposable income spent locally

WWW.NASBO.ORG

State Severance Tax Revenue as a Percentage of Total State Tax Collections, FY 2012

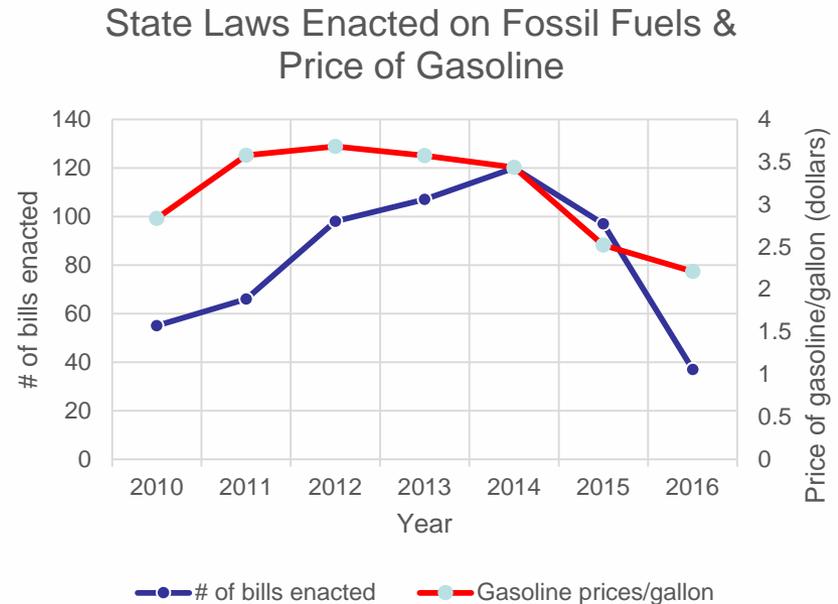


NASBO from U.S. Census Bureau, 2013 Annual Survey of State Government Tax Collections

- Proposals to address state shortfalls include:
 - Tapping rainy day funds
 - New taxes – e.g. taxing LLCs
 - Spending cuts – e.g. reforming criminal justice

Political Appetite for New O&G Laws Declines as Price of Resource Declines

- O&G development is priority
- Interest in learning more @ state-local relationship management & local infrastructure impacts
- Less interest in learning @ tax design
- High unemployment - rising interest in workforce retraining, just a few years after job shortage



Feedback for Researchers

- **Need to assess balance of additional demands on states from this industry.**
 - Implication in research frame that the locals should get more funds from state budgets. May or may not be true.
 - Local costs are also state costs – roads, water, wastewater, well plugging
 - Nearly all regulatory oversight of o&g industry costs born by the state budget
- **Should include local revenue from sales tax & income tax**
 - Key local revenue source not included because of methodological issues, but given its dominant role in local government revenue, needs to be included.
 - Consider case studies to give a sense of relative scale.
- **Some states ideologically opposed to expanding government – so unlikely to expand government (taxation) during boom times, let alone bust times.**
 - E.G. ND - During low oil prices, reduced severance tax to minimize volatility of state budget
- **Can economic research show how investments in infrastructure & local relationship management can increase production levels & overall state economic benefit?**
 - If so, likely find greater interest at the state level.

Feedback for Researchers (cont.)

- **Proposals to reallocate existing revenue are likely to be of greater interest than proposals for new taxes.**
 - Interest in new taxation is low, likely due to the low price of the commodity, industry layoffs, as well as political philosophy.
 - Interest in supporting local infrastructure & local-state relations remains higher/moderate level.
 - Still politically difficult, as someone is going to get less revenue.
- **Good time for researchers to engage on oil & gas topics**
 - Several states that have not yet begun production are interested in taking this time to develop their regulations to be prepared for when prices rise & production can begin.
- **Target research on addressing separation of mineral rights from land rights– via optimal tax design or other ways of sharing economic benefits.**
 - State-local tensions are high in places where mineral rights are separated from property rights, & are low where they are combined.
 - Consider learning from EU wind policies that share wealth with local government

Feedback for Researchers (cont.)

- **Very helpful to have research looking at state & local level.**
 - Too often research overlooks sub-national level, despite its frequency.
 - Insert plug to contact NGA Center with your research on state policy
- **Helpful to have insights on managing costs from this volatile industry that is integral to US economy for the long-term.**
 - Addressing 2013-2015 includes big change from boom to bust in 2014 – so unclear when research is more/less relevant
 - Clarify if the “recent” development means bust times?
 - At some points the research seems to imply that better for local government when industry declines. Is that true?
- **Helpful to have info on the specific costs that locals are incurring**
 - Helpful to add consideration of similar cost burden on states, as they pay large portions of same costs – roads, water, well plugging – plus additional costs of industry oversight.

Feedback for Researchers (cont.)

- **Solutions-oriented research papers are policy-relevant.**
 - “Careful design of these revenue mechanisms can play an important role...” This is the point that can be most useful to policymakers if fleshed out with specific insights.
- **Distinguish problem & policy recommendations by type of problem it addresses**
 - What is the biggest problem for local governments? Lag time, volatile budgets, funding for water infrastructure, revenue diversification, economic diversification?
- **Consider broader look at o&g property tax prohibition impacts**
 - Paper raised issue that some states prohibit locals from levying tax on o&g property – & your data shows very different levels of % allocation to locals in those states, so unclear if pattern of end-results to locals in those states, & could be helpful to dissect if the other revenue sources have compensated at equivalent levels.
- **Helpful to see finding that in-kind contributions & collaborations between local governments & industry have been successful** - Would help to have insights on what types of collaborations & donations have been most successful.
- **Thank you for engaging policy associations in research roll-out – and hopefully in research design too – to be most useful to policymakers.**
 - Conference of Mayors, League of Cities, NASEO, IOGCC, NASBO, NGA