Shale Public Finance

Local government fiscal effects of oil and gas development in Colorado and other states

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Shale Public Finance project

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  – The Duke University Energy Initiative

• Carried out by the Duke University Energy Initiative
  – Richard Newell, director and principal investigator
  – Daniel Raimi, key researcher and analyst
Key questions

• What are the fiscal impacts to local governments from new or increased oil and gas development, and how have these impacts varied from region to region?

• Have varying state and local policies provided sufficient funding to manage these impacts?

• How does local government experience in Colorado compare with some other states?
Presentation agenda

• Overview of project
• Key oil- and gas-related revenues and costs for local governments
• Findings from two regions of Colorado
• Comparison with other regions
• Conclusion and discussion
Research methods

• Structured interviews with local officials in eight states
• Interviews with experts from state government, industry, independent researchers
• Analysis of state and local financial documents
• Analysis of state oil- and gas-related tax policies
• Regions were selected based on several factors
  – Recent growth in production
  – Variety of policies, governance structures, and demographics
  – Different phases of development
Our travels: heat map of recent drilling permits

Key oil- and gas-related revenue sources and costs for local governments
New revenue sources for local governments
New service demands for local governments

McKenzie County, ND; Bakken region
October, 2013

DeWitt County, TX; Eagle Ford region, December 2013
Net fiscal impacts for local governments examined

- Uniformly net positive
- Mostly net positive
- Mostly net negative

State-by-state findings

Colorado
Wyoming
Texas
North Dakota
Pennsylvania
Colorado

• Key revenues
  – Severance tax, distributed by formula and through grants (counties and munis)
  – Property taxes (counties)
  – Sales taxes (some munis and counties)
  – In-kind agreements (some counties)

• Key costs
  – Roads (counties)
  – Sewer and water from population growth (some munis)

• Net financial impact
  – Counties: Mostly net positive due to property taxes
  – Municipalities: Small net positive due to severance tax revenue
  – Possible exception: Rio Blanco County

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Wyoming

• Key revenues
  – Property taxes (counties)
  – Sales taxes (munis)

• Key costs
  – Roads (counties)
  – Sewer and water from population growth (munis)
  – Staff (counties and munis)

• Net financial impact
  – Counties: Large net positive due to property tax revenues
  – Municipalities: Roughly neutral or small net positive due to sales tax revenues
Texas

- **Key revenues**
  - Property taxes (counties, some munis)
  - Sales taxes (munis)
  - In-kind agreements with operators (some counties)

- **Key costs**
  - Roads (counties, some munis)
  - Staff (counties and munis)

- **Net financial impact**
  - Counties: Roughly neutral to large net positive due to property tax revenues
  - Municipalities: Roughly neutral to large net positive due to sales tax revenues
North Dakota

• Key revenues
  – Severance taxes collected by state, distributed by formula (counties and munis)
  – Sales taxes (counties and munis)

• Key costs
  – Roads (counties and munis)
  – Sewer and water from population growth (munis)
  – Staff (counties and munis)

• Net financial impact
  – Counties: Net negative—unable to keep up with road costs
  – Municipalities: Net negative—unable to keep up with service demands
Pennsylvania

• Key revenues
  – “Impact fee” based on number of new wells (counties and townships)
  – In-kind agreements with operators (townships)

• Key costs
  – Staff (counties and townships)

• Net financial impact
  – Townships: small to large net benefit
  – Counties: medium to large net benefit
Comparing Colorado and other states

• Colorado counties receive revenue from a wide range of sources relative to other states
  – Counties in most other states rely either on property taxes or allocations of state severance tax

• Colorado municipalities with substantial oil and gas activity benefit from increased sales tax revenues
  – Some in the Piceance basin faced fiscal challenges during the peak of the natural gas boom
  – Those we examined in the D-J basin were generally modest and positive

• Colorado municipalities without substantial oil and gas activity benefit from allocations of the state severance tax

• Local governments in Colorado tend to see more revenue from oil and gas production than in most other states
Lessons from Colorado and other states

• Most local governments have experienced net positive fiscal impacts to date

• Some municipalities in very rural areas have struggled financially during large boom periods

• Collaboration with industry can help reduce costs
  – Especially for road maintenance/repair, as seen in AR, PA and parts of CO

• Counties that collect property taxes on oil and gas property generally report positive net impacts

• Municipalities tend to experience smaller net fiscal benefits
  – Sales taxes are the major revenue source for most municipalities

• Local officials should be prepared for fiscal volatility
  – Oil and gas prices drive activity, and those prices are hard to predict
For more information

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