BY THE NUMBERS BRIEF

February 2016

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Double, Oil and Trouble

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Oil prices dropped from an average of \$99 per barrel in 2014 to \$52 in 2015, and fell below \$30 this January, the lowest level in the last twelve years. Coal prices have fallen significantly, too. Lower prices are good for consumers, but are bad for the economies and finances of oil- and mineral-rich states.

Oil, natural gas, and mining account for about 10 percent or more of gross domestic product in eight states: Alaska, Louisiana, New Mexico, North Dakota, Oklahoma, Texas, West Virginia, and Wyoming (*Table 1*).¹ As a group, these states rely on severance taxes for 16 percent of their tax revenue, far more than the 0.2 percent for the rest of the country. They accounted for nearly 90 percent of the \$18 billion in severance tax revenue raised nationally in 2014. This revenue fell by 35.5 percent in the twelve months ending in September, with declines that ranged from 15.8 percent in West Virginia to 87.9 percent in Alaska. Wyoming was the only such state to report growth over these twelve months, though the increase was only 0.1 percent, and severance taxes in Wyoming have declined in recent months.

The steep price declines are leading to cuts in production and employment, weakening mineral-state economies and likely leading to slower growth in revenue from other tax sources. At the end of 2015, total employment was lower in six of the eight states than it was in January 2015 (*Table 1*). Revenue from nonseverance taxes, such as income and sales taxes, grew nearly 2 percentage points more slowly in these eight states than in the other forty-two states, primarily reflecting a decline in Alaska. Total tax revenues in the eight states declined by 3.2 percent. The remaining forty-two states reported 6.5 percent growth in total tax revenues.

The oil- and mineral-dependent states are all facing fiscal challenges and budget shortfalls, particularly Alaska, North Dakota, and Wyoming where severance taxes comprise a significant share of total taxes:

- The governor of **Alaska** recently proposed the imposition of a personal income tax as well as spending cuts in order to address a \$3.5 billion shortfall.²
- The newly elected governor of **Louisiana** announced across-the-board cuts to address an over \$750 million budget deficit projected for fiscal 2016.³
- Officials in North Dakota are revising revenue forecasts and expecting a \$400 million gap, which will lead to 2.5 percent cuts for most state agencies.⁴

- Officials in Oklahoma declared a "revenue failure" for fiscal 2016, with a projected \$900 million gap in fiscal 2017.⁵
- According to the comptroller of Texas, state tax revenues from natural gas production and oil production and regulation declined by over 48 percent and total tax collections declined by 6 percent in the first four months of state fiscal year 2016.⁶
- The governor in **West Virginia** implemented across-the-board cuts of 4 percent for most states agencies to address a \$250 million-plus gap.⁷
- Revenue shortfalls in **Wyoming** are estimated at \$150 million. The governor identified unspent appropriations and set them aside for addressing the shortfall in fiscal 2016.8

We will provide more detailed information from the oil- and mineral-dependent states in our forthcoming quarterly *State Revenue Report*.

Table 1: Economy, Employment, and Taxes in Oil- and Mineral-Dependent States

	Mining industries as share of state GDP, 2013			Employment change,	Severance taxes as %	Percent change, four-quarters ending September 2015 vs. year earlier		
State	Oil & gas extraction	All other mining activities	Total mining	December 2015 vs. January 2015	of total taxes (FY 2014)	Severance taxes	Other taxes	Total taxes
Alaska	22.1%	6.4%	28.4%	-0.3%	72.4%	-87.9%	-17.6%	-67.2%
North Dakota	6.4%	8.3%	14.6%	-4.3%	53.8%	-31.9%	6.8%	-15.8%
Louisiana	7.5%	2.6%	10.1%	-0.5%	8.9%	-22.9%	2.5%	-3.2%
New Mexico	6.1%	3.5%	9.6%	0.2%	18.5%	-25.4%	6.8%	-0.3%
Oklahoma	11.4%	2.9%	14.3%	-0.7%	7.5%	-33.7%	5.4%	-0.3%
Texas	11.6%	2.1%	13.8%	1.3%	10.9%	-33.4%	4.9%	-0.1%
West Virginia	2.0%	11.4%	13.4%	-1.8%	12.7%	-15.8%	3.5%	1.4%
Wyoming	14.9%	18.2%	33.1%	-2.4%	39.0%	0.1%	6.7%	3.9%
Oil & coal states	10.9%	3.1%	14.0%	0.5%	16.4%	-35.5%	4.6%	-3.2%
Other states	0.4%	0.5%	0.9%	1.7%	0.2%	-19.8%	6.4%	6.5%
United States	1.8%	0.9%	2.7%	1.6%	2.1%	-33.7%	6.2%	5.4%

¹ Mining industries accounted for 5-6 percent of state GDP in the next-most dependent states, Colorado, Montana, and Nevada. The list does not include California and Pennsylvania even though they produce considerable amounts of minerals, because this production is not a particularly large share of either state's diverse economy.

² See Governor Bill Walker, "Alaska 2016 State of the State," January 21, 2016, http://gov.alaska.gov/Walker/press-room/full-press-release.html?pr=7359.

³ See "Gov. Edwards Announces Solutions to Stabilize Louisiana Budget," Louisiana Office of the Governor News Release, January 19, 2016, http://gov.louisiana.gov/news/gov-edwards-announces-initial-solutions-to-fy16-and-fy17-budget-shortfalls.

⁴ See Associated Press "North Dakota to slash state spending after oil price fall," *CNBC*, January 22, 2016, http://www.cnbc.com/2016/01/22/the-associated-press-north-dakota-to-slash-state-spending-after-oil-price-fall.html.

⁵ See "First FY 2017 revenue estimate approved," Oklahoma Office of Management & Enterprise Services News Release, December 21, 2015, http://content.govdelivery.com/accounts/OKOMES/bulletins/12c4055.

⁶ See "All Funds (excluding Trust): Fiscal 2016," *Texas Transparency*, Updated January 2016, http://www.texastransparency.org/State Finance/Revenue/Revenue Watch/all-funds/.

⁷ See "Governor Tomblin Announces Reduction in Fiscal 2016 Budget," West Virginia Office of the Governor News Release, October 15, 2015, http://www.governor.wv.gov/media/pressreleases/2015/Pages/Governor-Tomblin-Announces-Reduction-in-Fiscal-2016-Budget.aspx.

⁸ See "Governor Mead Releases Proposed Budget," Wyoming Office of Governor Matt Mead, December 2, 2015, http://governor.wyo.gov/media/news-releases/news-releases-governor/governormeadreleasesproposedbudget.