

# Oil and gas revenue allocation to local governments

In Arkansas, Colorado, Louisiana, Montana, North Dakota, Pennsylvania, Texas, and Wyoming

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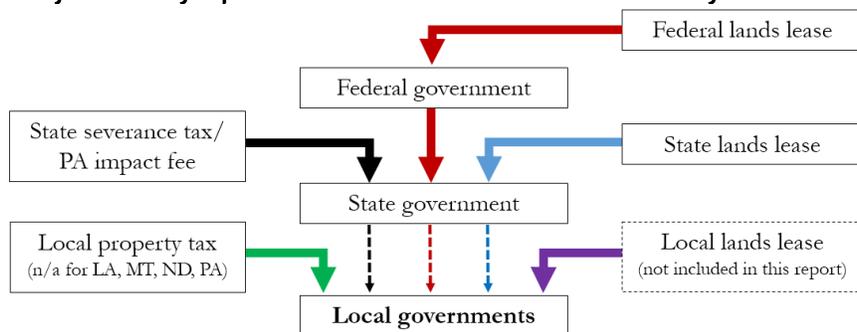
## Overview

Oil and gas development has increased substantially in the United States over the past decade, largely associated with shale resources. This increase has generated new revenues for local governments from a variety of sources. This issue brief examines four major oil and gas revenue sources for local governments in eight states: AR, CO, LA, MT, ND, PA, TX, and WY. It also assesses whether these revenues have been sufficient for counties and municipalities to manage increased service demands associated with the industry. For more details, visit <http://energy.duke.edu/shalepublicfinance>.

## Research Methods

We describe how oil and gas production generates revenue for local governments through four key mechanisms: (i) state taxes or fees on oil and gas production that flow through to local governments; (ii) local property taxes on oil and gas property; (iii) local government revenue from leasing of state-owned land; and (iv) local government revenue from leasing of federally-owned land. Due to limited data and methodological issues, we do not include revenue from local government oil and gas leases or from local sales taxes.

### Major oil and gas production-related revenue flows for local governments



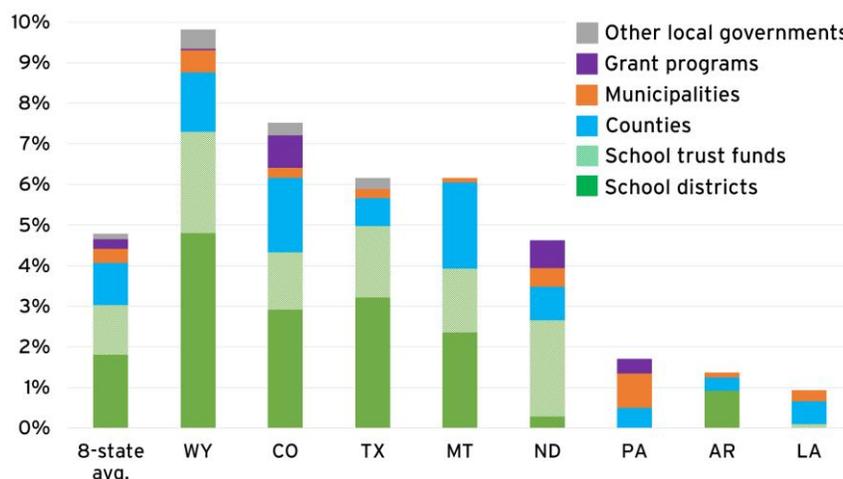
To compare across states, we calculate the percentage of total revenue generated by oil and gas production that flows to local governments from these revenue sources in Fiscal Year 2012. We then assess whether these revenues have been sufficient for county and municipal governments to manage new service demands associated with the oil and gas industry, by connecting the examination with related research that included interviews with over 100 local government officials and experts, detailed analysis of state and local fiscal policies, and analysis of state and local financial data.

## Key Findings

- School districts tend to see the largest share of revenue from oil and gas production, with local property taxes providing operating funds for schools in AR, CO, TX, and WY, and various revenue streams providing revenue for school trust funds—endowments that help ensure long-term revenue for schools—in CO, MT, ND, TX, and WY.
- Counties tend to receive the second largest share of revenue, particularly in states where counties are allowed to tax oil and gas property with ad-valorem property taxes (AR, CO, TX, and WY). Counties in other states tend to see most oil and gas revenue allocated from state government severance taxes or, in PA, impact fees.
- Municipalities tend to see a smaller share of direct revenue from oil and gas production, with most revenue flowing from state government severance taxes or, in PA, impact fees. Municipalities, unlike most counties and school districts, tend to rely on sales taxes as a primary funding mechanism, a revenue source not captured by our methodology.

- In most cases, existing policies appear to provide adequate revenue for counties and municipalities to manage increased service demands associated with oil and gas development. However, additional revenue may be warranted for some local governments in highly rural regions experiencing rapid, large-scale oil and gas development, notably the Bakken region of ND and MT, select counties in TX, and select municipalities in CO and WY.

### Local government revenue share of oil and gas production value in Fiscal Year 2012



## Conclusions

Revenue allocation to local governments does not alone determine the net fiscal impact to local governments associated with oil and gas production. For example, the local governments we examined in Pennsylvania, Arkansas, and Louisiana have generally experienced net fiscal benefits associated with the industry despite receiving less revenue than other states.

Local governments in geographically isolated regions tend to face the greatest challenges in the face of a large increase in oil and gas activity. Consequently, state policymakers may want to consider directing additional funds to these local governments to help manage service demands during rapid growth in oil and gas development.

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## About the Shale Public Finance Project

This report is the second in a series on shale public finance to be produced by the Duke University Energy Initiative, supported by the Alfred P. Sloan Foundation. The Shale Public Finance project is examining the financial implications for local governments associated with increased domestic oil and gas production, largely from shale resources. A previous report focused on local government revenues and costs associated with oil and gas development. Further research will expand our geographic coverage to include all major U.S. oil- and gas-producing regions. To read reports, view interactive maps showing some of our key findings, visit our travel blog, or sign up to be notified when new publications are released, visit <http://energy.duke.edu/shalepublicfinance>.