Oil and gas revenue allocation to local governments

Daniel Raimi and Richard G. Newell, Duke University May 2016

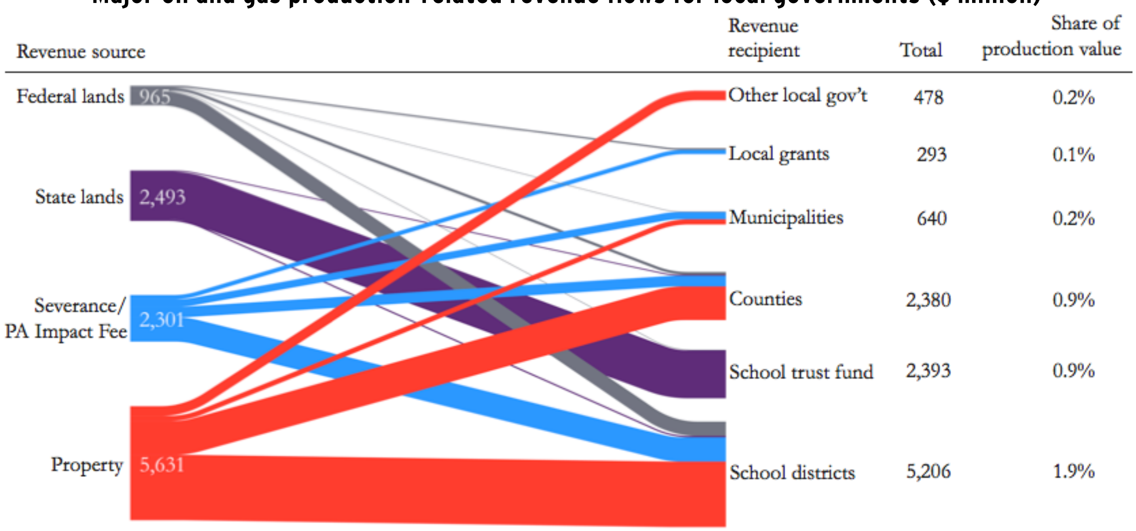
Overview

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 16 leading oil and gas producing states: AK, AR, CA, CO, KS, LA, MT, ND, NM, OH, OK, PA, TX, UT, WV, and WY. It quantifies how those four revenue sources flow to different levels of local government in each state. For more details and to read accompanying reports examining the net fiscal impacts of oil and gas development for local governments, visit http://energy.duke.edu/shalepublicfinance.

Research Methods and Findings

We track how oil and gas production generates revenue for local governments through four key mechanisms: (i) state severance taxes on oil and gas production (or similar mechanisms such as PA's Impact Fee) that flow through to local governments; (ii) local property taxes on oil and gas property; (iii) revenue from oil and gas leases on state-owned land that flows through to local governments; and (iv) lease revenue from federally-owned land that flows through to local governments. Due to limited data and methodological issues, we do not include revenue from sales or income taxes, or from local government land leases. The figure below shows the total revenue flowing to each level of local government from these four sources from all 16 states in fiscal year (FY) 2013.

Major oil and gas production-related revenue flows for local governments ($ million)



As the figure shows, the largest direct oil and gas revenue source for local governments is property taxes, which flow predominately to school districts, county governments, and other local governments such as hospital districts. Municipalities, which encompass smaller areas of land, have less access to oil- and gas-driven property taxes.

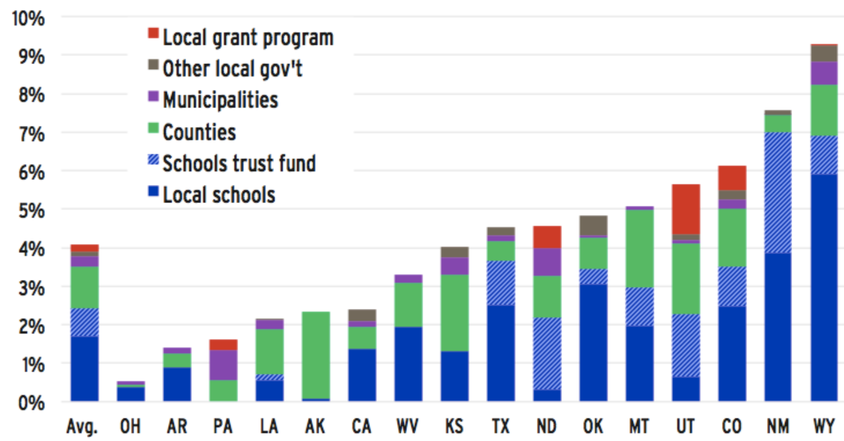
Oil and gas leases on state lands, led by western states, provide revenue primarily for school trust funds, which endow future school operations. Land grants to states from the federal government during the 19th and 20th century stipulated that revenue from these lands be used for public purposes, and often required that those funds support education in perpetuity. Revenues from federal leases primarily flow to school districts, where they support current operations.

State severance taxes and PA's Impact Fee flow to a range of sources led by school districts, counties, and municipalities. These revenues typically flow according to formulas based on oil and gas activity, though several states allocate the revenue according to population levels. Several states allocate severance tax funds through a competitive grant process, directing revenue to localities that demonstrate the greatest impacts from oil and gas activity.

Key Findings

To compare across states, we calculate the percentage of total revenue generated by oil and gas production in each state that flowed to various levels of local government in FY 2013. For example, if the value of oil and gas produced in a state was $100 and a total of $5 flowed to various levels of local government, the bar below would have a height of 5 percent.

Oil and gas revenue allocations to local governments in FY 2013



- School districts tend to see the largest share of local revenue from oil and gas production, with local property taxes primarily providing operating funds for schools and state lease revenues supporting school trust funds in western states.
- Counties tend to receive the second largest share of revenue, largely through property taxes. However, local governments in three states—MT, ND, and PA—cannot apply their property taxes to oil and gas property. To replace these foregone revenues, state governments in these states allocate a substantial share of severance taxes or impact fees to the local level.
- Municipalities tend to see a smaller share, with most revenue flowing from state government severance taxes or, in PA, impact fees. Municipalities, unlike most counties and school districts, often rely on sales taxes as a primary funding mechanism, a revenue source not captured by our methodology.
- A small percentage figure does not necessarily mean local governments require additional revenue to manage oil and gas related impacts. For example, local governments in AR, OH, and PA receive a relatively small share of revenue but have generally experienced net fiscal benefits from increased oil and gas activity, as we document in other reports. These localities raise revenue from sources not quantified here such as sales taxes and in-kind contributions.

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About the Shale Public Finance Project

This report is one in a series on shale public finance to be produced by the authors, 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. For the complete version of this report and to read additional 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.