Most local government budgets gain from oil, gas development

May 18 2016

The recent surge in oil and natural gas development has been beneficial for most local governments in the United States, according to new findings by two Duke University researchers.

However, the research team also found that some local governments, particularly those in very rural regions, have struggled to keep pace with rapid industry growth.

"The shale revolution has created a variety of opportunities and challenges for local governments across the United States over the past 10 years," said Richard Newell, Gendell Professor of Energy and Environmental Economics at Duke's Nicholas School of the Environment and former director of the Duke University Energy Initiative. "We wanted to see how these issues varied from region to region, and what lessons could be learned."

Newell produced the report with Daniel Raimi, an associate in research with the Energy Initiative, as part of a three-year research project funded by the Alfred P. Sloan Foundation. The reports were released in conjunction with a May 18 workshop on the local impacts of oil and gas development in the United States featuring experts from Duke, Resources for the Future and the National Governors Association.

Between 2013 and 2015, the Duke research team traveled to 21 oil- and gas-producing regions in 16 states to conduct interviews with more than 200 local government officials and gather data on local government finances. They also examined state tax policies in detail to understand how revenues flowed to the local level from oil and gas activity.

Local governments receive revenue from oil and gas activity from a variety of sources, including local property taxes, state severance taxes, and oil and gas leases on government land. They also tend to see increased sales tax revenues during periods of industry growth.

At the same time, industry truck traffic can cause substantial damage to local roads, and population growth can strain government services such as police, fire and emergency services. In regions experiencing the most rapid growth (such as parts of North Dakota, Texas and Colorado), city governments have spent hundreds of millions of dollars upgrading water and wastewater infrastructure to serve their growing populations.

With the downturn in gas and then oil prices in recent years, some regions face new challenges. In particular, a slowdown in drilling activity can create substantial financial challenges for regions where the oil and gas industry is a central part of the economy. In Alaska and North Dakota, for example, a prolonged slump in oil prices could lead to longer-term fiscal challenges for state and local governments.

"Looking forward, local governments that have become heavily dependent on the oil and gas industry may look to diversify their economies," Raimi said. "Dependence on oil and gas as a primary revenue source can create a number of opportunities during the good times, but it also comes with hardships during periods of low prices."

More information: To see a live webcast of the May 18 workshop (12:30 - 2 p.m. EST), visit www.rff.org/live . Questions may be submitted via Twitter, using the hash tag #AskRFF.

Provided by Duke University