Some oil-producing states hit hard by the collapse of oil prices

David M. Kall | Friday, February 5, 2016

Last week, we wrote about the budgetary pain that Alaska is in due to the drop in oil prices. It has gotten so bad that Governor Bill Walker proposed an income tax, which, if implemented, would be the first that the Last Frontier has seen in 35 years.

Alaska is not suffering alone. In a recent Standard & Poor's (S & P) article titled Collapsing Oil Prices Seep Into State Credit Profiles, the agency identified several states, in addition to Alaska, that are under considerable fiscal pressure due to low and declining oil prices, including:

- Louisiana
- Montana
- New Mexico
- North Dakota
- Oklahoma
- Texas
- Wyoming.

Though there are other oil producing states, those listed here are more precariously situated because of oil price assumptions cooked into the states' budgets, heavy reliance on oil related tax revenues for operations, and decisions not to accumulate reserves when oil prices were high.

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What is more troubling, S & P predicted that even a sharp rebound in oil prices would be unlikely to help, in part because states' forecast computations still utilize relatively high oil prices. S & P's models use a price of just $45 per barrel, but few states have gone that low. Beyond this, overall job growth in these states is lower than expected, triggering unemployment and a greater need for social services.

The article offers interesting data comparisons between states on key data points for fiscal years 2016 and 2017, as follows:

	FISCAL YEAR 2016				FISCAL YEAR 2017		
	PRICE ASSUMPTION AT BUDGET ENACTMENT ($/BARREL PRICE)	ASSUMPTION (REVISED) ($/BARREL)	OIL-RELATED REVS AS % OF OPERATING REVS	RESERVES AS % OF EXPENDITURES	PRICE ASSUMPTION ($/BARREL)	OIL-RELATED REVS AS % OF OPERATING REVS	RESERVES AS % OF EXPENDITURES
Alaska	$67.49	$49.58	79.0%	312.0%	$56.24	67.0%	245.0%
Louisiana	$61.77	$48.02	8.0%	5.0%	$54.09	8.0%	n/a
Montana	$59.00	$41.00	2.6%	15.0%	$51.00	2.9%	15.2%
New Mexico	$66.00	$44.00	13.0%	8.1%	$49.00	12.0%	8.0%
North Dakota	$42.00 – $53.00	*	5.0%	91.0%	$42.00 – $53.00	5.0%	91.0%
Oklahoma	$57.55	$42.83	0.0%	5.4%	$53.57	0.1%	5.4%
Texas	$64.35	$49.48	6.4%	25.0%	$56.52	6.0%	28.0%
Wyoming	$55.00	$39.00	37.5%	91.2%	$50.00	40.0%	64.1%

Several explanatory notes accompany these figures:

- Data for New Mexico, Louisiana, and Montana include gas.
- Oklahoma's original fiscal 2016 budget anticipated oil-related revenues would equal 4 percent of operating revenue.
- Alaska lawmakers are considering proposals to adjust what are considered operating revenues to include a greater share of the state's investment earnings.
- Montana, North Dakota, Texas, and Wyoming budget on a biennial basis. Reserve percentages are presented on an annualized basis for comparability. For North Dakota, Texas, and Wyoming, the annualized reserve percentages are presented as adjusted by S & P. New Mexico 2017 reserve estimate based on governor's executive budget proposal. Wyoming's original price assumption of $55 was for calendar year 2016; the updated 2016 price assumption of $39 is for the June 30 fiscal year (the updated calendar year 2016 assumption is 42).
- Wyoming forecast for 2016 is for the June 30, 2016, fiscal year; its calendar year 2016 forecast is $42; the 2017 forecast is for the calendar year.
- Wyoming percentage of revenue is for severance taxes (including oil, natural gas, coal, and trona) and federal mineral royalties as a percent of biennium forecasted combined general fund and budget

reserve account revenue only.

In reporting on this problem, BloombergBusiness revealed that Louisiana expects a $1.9 billion deficit for the upcoming fiscal year that starts in July, due to the lower oil prices and increasing healthcare costs. In response, the state's newly elected Governor John Bel Edwards proposes raising the sales tax by 1 percentage point, to 5 percent; tapping reserves; cutting spending by about 10 percent; and drawing on the compensation that Louisiana received for the BP oil spill.

Oklahoma's Governor Mary Fallin, expecting tax collections to fall short by 7.7 percent in the current budget year and by 13 percent in the next, implemented across-the-board spending cuts. North Dakota is expected to follow suit.

Texas, the largest oil producing state, has a nicely diversified economy to protect against oil price fluctuations, as reflected in the modest reduction in revenue estimates for fiscal years 2016 and 2017, from $113 billion to $110.4 billion. In addition, although estimates for contributions to the highway and rainy day funds have been cut in half for fiscal year 2017, the estimated amount in reserves, at about $10.5 billion in 2017, has not changed.

In fact, a spokesman for the Texas Comptroller crowed to BloombergBusiness that "[w]e're still way ahead of where we would have to be for energy prices to have an impact on the state budget."

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