Western North Dakota Energy Project

Briefing 6

Benefiting from Unconventional Oil

Headwaters Consulting of Bozeman, MT

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Presenters	Mark Haggerty Headwaters Consulting, Bozeman, MT
Key Insights	**Unconventional Oil Different.** The scale, intensity, and dynamic nature of unconventional oil and gas plays make them somewhat different than Western booms and busts of the past. Since oil prices diverged from natural gas in 2008, shale development in the West has exploded. Because shale well oil production declines so quickly, more wells will be drilled simply to replace lost production declines. This means the production phase of development will last much longer, perhaps 20 years in ND. The good news is that high employment lasts longer; the bad news may be impacts to quality of life. Crowding out is real and can affect manufacturing, health care, and professional services. Unconventional drilling is expensive and oil price drops may hit economic tipping points that slow or stop development for a time, adding to volatility. This webinar focused on tax policy, best practices, and where North Dakota fits in. **Energy Policy Goals.** 1) Tax revenue should collect enough revenue at the right time to pay the cost of mitigating impacts, 2) revenues support economic diversification and resilience, and 3) fossil fuel extraction leaves a lasting legacy in the form of a permanent fund. Wealth should be saved or invested into other forms of public wealth such as infrastructure and human capital. **Challenges to Fiscal Planning.** The timing of revenues and how they match the need for more services, the distribution of revenues to the local governments that need them, the volatility or predictability of revenues, and the amount of revenues are major challenges. Distributing revenue to the right jurisdictions is difficult in areas where service centers are not in the same county as drilling. **Tax Collections.** It is important to analyze both state and local tax structures, including credits and deductions when comparing tax rates between states. North Dakota's current energy effective of 9.9% is about average, but it does well in minimizing the lag between infrastructure costs and tax revenues. It delivers only 11% of revenues to local governments, except for one-time state distributions that locals cannot plan for. The Legacy Fund is a good start towards saving for future investments. **Areas for Improvement.** North Dakota needs to return more revenue to local jurisdictions to mitigate the costs of tremendous growth in a predictable manner. It should not support on-going state government with the one-time revenues of extracting fossil fuels. Impact fees set through careful study are collected at the time growth begins and could be a way to improve timing. The Legacy Fund can be strengthened and a portion dedicated to the affected areas in perpetuity to help Western North Dakota after the boom passes. State politics that favor more urban and populated areas must be overcome for the greater good to the entire state.
Supporting Research	The Project Electronic Library has several reports prepared by Headwaters Economics. The Best Practices paper is in draft form, but will be posted when it becomes available.
Additional Comments	
