New Report Analyzes Energy Impacts on Montana, Powder River Basin Counties

Study Reviews Energy's Role in Economic Development, How Montana Can Better Utilize Its Oil and Natural Gas Resources

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BOZEMAN, MT—A new report shows that Montana can create jobs and generate higher tax revenue by reforming the incentives it provides the oil and natural gas industry in the state. The analysis, released today by Bozeman-based Headwaters Economics, compares Montana's performance to neighboring states to discover what Montana does well, and where the state can improve in fitting oil and natural gas into its economic development and fiscal health.

The report, *Impacts of Energy Development in Montana, With a Case Study of the Powder River Basin*, finds that Montana's fiscal policy can be improved in three key areas: oil and natural gas tax policy, support for energy-producing communities, and managing volatility.

"Montana currently is not positioned to take full advantage of the employment and revenue benefits of new drilling," noted Mark Haggerty, the report's lead author. "During this time of economic uncertainty, Montana should position itself to ensure that energy development, done responsibility, maximizes benefits to industry and to Montana."

Compared to Montana, other states which maintain higher tax rates and target incentives to exploration rather than production, have performed better than Montana. Montana's production incentives introduced in 1999 have cost the state half a billion dollars just between 2003 and 2007 without stimulating increased production, jobs, or revenue when compared to the state's neighbors.

The report also shows that how incentives are offered to industry matters as well. Montana is the only state that offers a first-year exemption from production taxes not linked to energy prices – meaning the incentive is always in effect, during good times and bad. This type of incentive introduces a time lag between exploration and drilling activities and when revenue is collected that makes it difficult for local governments to meet the demands of any new energy development.

Finally, Montana does not do a good job of managing the volatility of oil and natural gas tax revenue, placing government services at financial risk. Montana is the only western state not investing oil and natural gas revenue into a permanent fund. Spending taxes linked to oil and gas extraction on an annual basis exposes essential government services to the volatility of oil and natural gas prices, and ensures that when the resources are gone Montana will have little to show for the depletion of its valuable natural resources.

[Note: The full *Montana* report can be found at www.headwaterseconomics.org/energy. A four-page Digest summary also is online and is attached to this email.]

The report also found that:

- In the 1990s and 2000s, Montana's economy grew and diversified significantly, thanks to growth in industries associated with the West's services and professional economy, and in non-labor income (e.g., retirement and investment income). High-wage service-providing jobs in Montana make up about seven percent to total employment.

- Oil and natural gas extraction is a relatively small portion of Montana's job base, roughly two percent. Wages in the mining industry are among the highest in the state.

- Oil and natural gas contributed $288 million in revenue to state and local governments in 2006, making up 4.3 percent of all government revenue in Montana.

- Montana is the only state in the West that does not manage revenue volatility by investing a portion of oil and natural gas production taxes into a permanent fund. Instead, the state uses production taxes to fund annual governmental operations directly on a pay-as-you-go basis. This exposes basic government services to volatility, experienced as funding shortfalls in years when energy prices are low.

- Montana's production tax incentives have failed to generate new employment or drilling in Montana while other states that have targeted incentives to exploration (Alaska) and maintained higher production taxes (Wyoming) have generated more exploration, drilling, and production while earning higher tax revenue. Montana's Department of Revenue estimates the state has lost $500 million in tax revenue between 2003 and 2007.

- The first-year exemption for new well completions in Montana introduces a revenue time lag, 12 to 18 months, which makes it very difficult for local governments to meet the demands of any new energy development.

- The employment and personal income benefits of potential coal bed methane (CBM) extraction in Montana's Powder River Basin will be minor. The Bureau of Land Management projects that most of the new jobs will locate in Sheridan and Gillette, Wyoming where drilling and related service companies and their employees already are established.

Headwaters Economics is a Montana-based, independent, nonprofit research group focused on improving community development and land management decisions in the West.

The *Montana* report will assist the public and elected officials in making informed choices about energy development to benefit the region over the long-term. The *Montana* report is the sixth in Headwaters Economics' *Energy and the West series* which can be found at www.headwaterseconomics.org/energy.