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Municipal Finance Law Since 1971

The Challenges of State Reliance on Revenue from Fossil Fuel Production.

Taxes on oil, natural gas, and coal can be attractive to state governments in part because mineral assets are immobile and because states may be able to pass along some of the tax burden to energy consumers outside their states. But despite these taxes' efficiency and distributional advantages, relying too much on them poses real downside risks for states.

First, experience demonstrates mineral-related revenues are subject to wide swings resulting from fluctuations in energy markets. Currently, a number of states are facing significant budget shortfalls as a result of their fiscal dependence on fossil fuel production when just a few years ago they experienced a boom in revenue.

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The Brooking Institute

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Tuesday, August 9, 2016

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