# Bond Case Briefs

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## Alaska, North Dakota, Wyoming Munis at Risk from Falling Oil.

Falling energy prices are benefiting some municipal bond sectors, like toll-road bonds and airport bonds. But states that lean heavily on the oil industry face growing financial risks as the price of oil keeps heading lower. Bank of America Merrill Lynch reports today that while 10 states account for nearly 78% of U.S. oil production, “the relative impact of declining prices differs widely” among these states. More from BofA strategists Philip Fischer, Yingchen Li, and Celena Chan:

“Alaska, North Dakota and Wyoming will feel the pinch much more acutely than states like Texas, California or Oklahoma, because tax revenues from oil production in the former states makes up disparately large proportions of total revenue collections. Texas has been through the ups and downs of crude prices and has, accordingly, developed a vibrant and diversified economy away from oil. Alaska is the most heavily reliant on oil revenues, where 78% of the states total revenues are attributed to oil. Each of these states, though, is a strongly rated credit.”

BofA says the pain will extend to many local governments too:

“In some states, like North Dakota, large portions of the severance taxes that the state collects on oil are passed down to the local governments. Thus, local governments, which themselves budgeted for large remittances from the state, might face budget shortfalls. In states that do not pass down those revenues, local governments rely heavily on sales and use taxes. As oil production grew, so too did the labor force, which then participated in the local economy…. However, as production becomes less and less economical at lower and lower prices, producers may scale back production or altogether cease production….”

“As production is cut and new wells are left undrilled, jobs and individuals’ discretionary income will likely fall in tandem. Local governments may be forced to find alternative sources of funds to pay for government services that were otherwise funded with revenues associated with that oil production. This will likely be felt in cities and counties where oil production is the dominant, if not only, industry. As these revenue streams begin to decline, issuers’ often-competing responsibility between essential government services and debt service becomes that much more strained.”

On the other hand, Puerto Rico – which is in desperate need of some good economic news – may see benefits to its public utility. BofA again:

“One beneficiary is Puerto Rico’s Electric Power Authority (PREPA), which relies heavily on oil for its power generation. Seven out of 10 plants rely solely on oil, while an eighth plant uses a mix of oil and natural gas. Oil-produced energy accounts for 70% of PREPA’s costs.”

Barron’s

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