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How Oil States Are Dealing With Sinking Prices and Revenue.

Oil prices are now at their lowest level in 12 years — below $30 a barrel. That's great news for consumers, but not for the states that depend on oil tax revenues.

The falling price of oil, which has declined more than 60 percent since June 2014, has some states scrambling. With no end in sight, states that are more dependent on the industry simply can't replace the revenue by withdrawing from their substantial rainy day funds.

Oil, natural gas and mining account for about 10 percent or more of gross domestic product in eight states: Alaska, Louisiana, New Mexico, North Dakota, Oklahoma, Texas, West Virginia and Wyoming. Last year, total tax revenues in the eight states declined by 3.2 percent, according to a new analysis by the Nelson A. Rockefeller Institute of Government. In contrast, the remaining 42 states reported a 6.5 percent increase in total tax revenues.

Although most of these states tend to budget conservatively, the good years for oil had an impact on their finances.

"As oil went up in price, so did budgets and spending," said Roy Eappen of Wells Fargo Securities. "I think now they're realizing — if they didn't before — that they can't assume oil is going to bounce back."

As these states consider changes to address the revenue shortage, their potential solutions vary widely — from a complete financial overhaul to minor budget tweaks.

The Poster Child: Alaska

Alaska's situation is the most precarious because it's the only state that directly funnels much of its oil revenue into its operating budget. Until recently, high oil revenues paid for up to 90 percent of the state's operating costs and allowed Alaska to beef up its rainy day reserves to about $17 billion — enough to cover more than two full years of state expenses.

But in 2015, the state withdrew $2.8 billion from its rainy day savings to close a budget gap. This year's budget relies on a $3.4 billion withdrawal despite cutting about $1 billion in spending. In the past year, the state's total tax revenue has dropped by two-thirds. Last month, Standard & Poor's downgraded the state's credit rating from a top-rated AAA to AA+ and warned it could be downgraded again.

In response, Gov. Bill Walker has proposed completely revamping Alaska's revenue system. His fiscal 2017 budget, which starts July 1, includes the state's first income tax in more than three decades. While small — about 1.5 percent for most Alaskans — the tax likely won't be popular with residents.

Walker's budget proposal would also restructure the state's $47 billion Permanent Fund, a low-risk investment fund that's fed by about one-quarter of the state's oil revenue and pays an annual dividend to residents. The state would seize the fund, increase the amount of oil revenue going toward it by half and put the fund's investment earnings toward future operating budgets. The other half of oil revenue would be used for residents' dividends. This year's payments were about $2,000; under Walker's proposal, payments would likely be cut to $1,000.

Looking Long in Louisiana

In Louisiana, the drop in oil prices has merely exacerbated the state's longstanding structural budget issues. Many say the state's budget imbalance started during its building boom and revenue surge following Hurricane Katrina in 2005. Instead of socking the money away in a rainy day fund, the state cut income taxes. Between that and the economic downturn, the state has struggled to meet revenue expectations ever since.

The previous administration tended to rely on one-time fixes to balance the budget. But that approach won't work for Gov. John Bel Edwards, who just inherited an estimated $750 million shortfall in the current fiscal year, which ends June 30. Next year's shortfall is projected to be up to $1.9 billion.

Edwards recently announced across-the-board cuts to address the current budget gap and has asked lawmakers to consider long-term solutions for next year's budget, including raising the tobacco tax and reducing business tax credits and personal income tax deductions.

Cuts, Cuts, Cuts

Like Alaska and Louisiana, Oklahoma and West Virginia are considering spending cuts to address the oil shortfalls. But unlike them, they aren't considering longer term solutions. The governor in West Virginia made across-the-board cuts of 4 percent for most state agencies to address a $250 million-plus gap. While officials in Oklahoma already made across-the-board spending cuts for the current fiscal year and are eyeing more cuts to close a projected $900 million gap in fiscal 2017.

A Local Problem, Too

In North Dakota and Texas, some of the biggest pressure is localized.

Williston, N.D., the epicenter of the state's boom since the discovery of the Bakken Shale deposit in 2009, is seeing signs of an economic slowdown. Still, slowing down from warp speed is relative. For example, Williston only recently lost its top ranking in the state for the amount of sales tax it collected. For the first time in four years, Fargo — which has more than five times the population of Williston — collected more sales taxes than the boomtown.

West Texas began feeling the slowdown in oil production last year. So far, lower oil prices and weaker production have caused property tax values to drop 6 percent compared with a year ago. "Layoffs have caused weaker consumer spending, which is impacting sales tax revenues," according to a Moody's Investors Service analysis.

Still, the state governments are also feeling the slowdown and making adjustments.

North Dakota Gov. Jack Dalrymple on Monday ordered state agencies to cut their budgets 4 percent to offset the projected shortfall of more than $1 billion. North Dakota is the second most dependent state on oil revenue, after Alaska, but it has taken steps to buffer itself from that volatility. For example, North Dakota caps the flow of severance tax revenue — the tax imposed on the production of oil and minerals — into the general fund to about 4.4 percent. Excess funds get diverted to local governments and special funds.

In Texas, total tax collections declined 6 percent in just the first four months of fiscal 2016. Texas diverts much of the oil revenue into its rainy day fund. Still, Texas Comptroller Glenn Hegar cut the state's revenue expectation in October by 2.3 percent to $110.4 billion over its current two-year budget cycle. But Wells Fargo's Eappen notes that Heger also set the budget well below what the real revenues have been. This "created an additional cushion against oil price revenue shocks, even beyond the downward revenue adjustment in October," said Eappen.

Then There's New Mexico and Wyoming

New Mexico is considering withdrawing from its rainy day fund to fill a $145 million hole in this year's budget. Lawmakers are also reconsidering a $230 million spending increase in Gov. Susana Martinez's fiscal 2017 budget. Wyoming's governor, on the other hand, is setting aside unspent appropriations from this year to plug in next year's estimated shortfall of $150 million.

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