

Bond Case Briefs

Municipal Finance Law Since 1971

Fox Rothschild: Lower Oil Prices Lead To Significant Public Finance Issues.

For months, I have been telling people that while we all love paying less at the pump for our gasoline, lower oil prices will have significant consequences in the broader economy. North Dakota's budget process this week provides a prime example.

On Monday, North Dakota Governor Jack Dalrymple ordered most state agencies to cut their budgets by a little more than 4% in an effort to cover a \$1 billion revenue shortfall that the Williston Herald characterizes as "unprecedented." The consensus opinion is that the decreased revenues from the production and sale of oil in the state, stemming from lower oil prices, is responsible for the bulk of the revenue deficit.

North Dakota's state agencies will have to make their budget cuts by February 17, and those cuts are said to be the largest in raw dollars in the state's history. Furthermore, the state is planning to draw \$497.6 million from the state's Budget Stabilization Fund, leaving only around \$75 million "in the rainy day fund for what [the Governor] called the 'unlikely event' that the July revenue forecast would be even worse."

In addition, some North Dakota officials have speculated aloud that the budget shortfall will put pressure on the legislature to tap into the state's \$3.5 billion trust fund for oil taxes.

There can be no doubt that the budget cuts for state agencies are going to have material impacts on some of the state's services and we fear that those affected often are the one most dependent on those services. There also is no doubt that North Dakota is not the first state or local government struggling with decreased revenues as a result of lower oil and natural gas prices; nor will it be the last.

Lower prices for consumers are nice but we all should be aware of the unpleasant consequences associated with lower commodity prices. Lower prices don't just mean lower profits for oil and gas companies, but also raise material concerns for real people. We think the industry should do a better job of making people aware of those issues.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Article by Jack R. Luellen

Fox Rothschild LLP

Last Updated: February 7, 2016