

Texas prepares for drop in oil-and-gas tax revenue

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In this photo made Monday, Dec. 22, 2014, a well pump works at sunset on a farm near Sweetwater, Texas. At the heart of the Cline, a shale formation once thought to hold more oil than Saudi Arabia, Sweetwater is bracing for layoffs and budget cuts, anxious as oil prices fall and its largest investors pull back. (AP Photo/LM Otero)

Although Texas, the nation's largest oil producer, may see higher total tax revenue in the years ahead, the state's comptroller expects a decline in the energy sector's contribution.

In the [Biennial Revenue Estimate](#) released Monday, Texas Comptroller Glenn Hegar detailed the state's projected funding through 2017, and the belief is that taxes from oil and gas will fall as production levels off and prices remain moderate. For the 2014-15 revenue cycle, oil production and regulation taxes are seen totaling \$6.64 billion, but for 2016-17, that may drop more than 14% to \$5.69 billion. Natural gas production taxes, estimated at \$3.51 billion in 2014-15 combined, are forecast at \$3.23 billion for 2016-17, an 8% decrease.

As for several other components of state revenue, higher taxes are forecast. For instance, sales tax in 2016-17, the largest contributor to tax collections, is seen increasing by \$5 billion. Texas, the nation's second-largest state economy behind California, doesn't have a state income tax for its residents.

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Overall, tax collections for 2012-13 were \$91.9 billion in the state, with oil-and gas-related taxes accounting for 8.8% of that amount. Total tax is estimated at \$102.8 billion in 2014-15 and at almost \$109 billion for 2016-17. Oil and gas taxes would be 9.8% of the 2014-15 collections. (In 2014 on its own, oil production and regulation tax revenue was a record \$3.87 billion.) If today's projections hold, the energy segment's taxes would be 8.2% of the 2016-17 taxes booked by the Lone Star State.

While the report noted that the recent drop in prices for oil, "if sustained over time, will result in slower growth in revenue collections than we have seen in recent years," the projections do remain higher than some of those being issued on Wall Street. Of course, none of this is firm -- it's based on best guesses, and clearly, prices are subject to potentially major surges and slumps. The comptroller's report expects the average taxable oil price on West Texas Intermediate in fiscal 2015 will be \$64.35 a barrel. Goldman Sachs, in contrast, is now looking for WTI [prices in the \\$40s](#) this year. The Texas report further estimates \$64.52 a barrel in 2016 and \$69.27 in 2017.

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"The significant drop in oil prices in recent months will likely lead to a marked slowdown in oil exploration and production. This slowdown will dampen overall economic growth in Texas," Hegar said in a press release. "However, in addition to the economic boost felt by Texas motorists as a result of lower gasoline prices, there are industries in Texas' diverse economy such as transportation and some manufacturing that will benefit from lower energy prices. This, coupled with continued strength in construction, professional services and other sectors of the broader economy, should somewhat counterbalance a slowdown in the energy sector."

U.S. oil traded north of \$100 a barrel this summer, but it's lost half its value as traders figure there's not enough demand in the global economy to match the available global supply.

Peak production in Texas was 1.26 billion barrels in 1972, the comptroller notes. That fell over time, all the way down to one-quarter of those levels by 2007. However, as of last year output had risen back to 895 million barrels, with the Eagle Ford Shale largely responsible. The report estimates a slight increase in 2015 production, then flattening output next year and in 2017. ExxonMobil ([XOM](#)) is among the many energy companies based in Texas.

Meanwhile, the report is predicting job losses for oil workers this year amid the lower crude prices, though it expects employment growth will resume in 2016. [WTI futures](#) were down 4.1% in recent New York trading to \$46.37 a barrel.

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