STRUCTURING PROGRAMS FOR STATE AID
TO COMMUNITIES EXPERIENCING ENERGY DEVELOPMENT

by

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MAY, 1977

Signature of Author

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Chairperson, Departmental Committee on Undergraduate Students

Accepted by

Chairperson, Departmental Committee on Masters Students

MAY, 1977
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ROBERT BONVOULOIR FOSTER
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ABSTRACT
In many Western states the fiscal impacts of energy development on local
governments have become cause for concern at the state level. States may wish
to intervene to improve the efficiency of capital markets, to provide compensa-
tion to those who suffer from adverse impacts, or to ensure the orderly
development of the natural resources of the state. Drawing on the experience
of Wyoming as well as other states, the thesis develops a set of alternative
strategies for raising and distributing state aid to impacted communities.
Each alternative is evaluated in terms of the distribution of the advantages
and disadvantages likely to be experienced by groups which are supportive or
opposed to the use of the option. Wyoming's experience in implementing
certain of these strategies is discussed. Finally, a preferential ordering
of the alternative strategies as means for achieving the goals of capital
market efficiency, fair compensation and orderly development is presented.

Name and Title of Thesis Supervisor: Lawrence Susskind, Associate Professor
ACKNOWLEDGEMENTS

Many state, local and energy company officials in Wyoming were extremely helpful in providing information and opinions, for which I am very grateful. I appreciate the friendship and criticism of Debbie Stinson and Cathy Lu who have contributed substantially to my thinking on the subject and my ability to see the thesis to completion. Michael O'Hare has never failed to provide food for thought—whether in his work or in his comments on mine. I am indebted to Larry Susskind for the interest he has taken in my intellectual development in his role as employer, academic advisor, teacher, thesis supervisor and friend. My association with him has been most fruitful.
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</table>
INTRODUCTION

As our nation develops its energy resources, government at all levels will come under increasing pressure to balance the often conflicting demands for cheap energy, environmental quality, economic development, and minimum disruption of lifestyles. The two years of deadlock between Congress and President Ford is an indication of the difficulty of generating national energy policy, as is the prognosis for deliberate Congressional treatment of President Carter's recent proposals.

State governments also face troublesome decisions regarding the future of energy development within their boundaries. Particularly in the Western states, where coal development is progressing or imminent, legislators and administrators alike have been tried by the dilemmas they face. The North Dakota legislature's April 1977 compromise on the nature and level of the state's coal severance tax was the most bitterly debated issue of their 1977 session and was achieved only after weeks of haggling capped by an all-night series of roll call votes. The legislature had similar problems when enacting the severance tax in 1975, and can look forward to 1979 when the same issue will resurface since a part of the compromise was to place an expiration date on the tax.

Local governments face some of the greatest difficulties in dealing with energy development. When municipalities have jurisdiction over proposed energy projects they must weigh the potential benefits to the community (jobs, business activity, tax revenue, etc.) against the expected disadvantages (social disruption, overloaded public services, inflation, etc.). When a local government chooses to accept a project which would affect it, or when it has no jurisdiction over a project, it must plan to deal effectively with the adverse impacts. Communities often have no control over energy projects since they are outside the city boundaries or on federal property, as are most of the mineral rights in the West and all rights to Outer Continental Shelf resources.

Many local leaders are particularly concerned about the fiscal impacts of energy development on their cities. When energy facilities come to small isolated western towns, they typically bring with them a substantial construction work force and a somewhat smaller permanent operating force.
Each of these new populations makes demands on the local economy and government services. Each worker needs a home and the ancillary public facilities to service it (streets, water, sewers, and public utilities). The substantial population increase causes even greater increases in the need for police and fire services and, should the workers bring children with them, the schools may be hard pressed to find places for the new students. Many of the needs of the new workers are traditionally provided by local governments and the inability of these governments to provide the services in a timely fashion is the root of the fiscal problems facing many local governments in the years of the energy boom.

The siting of energy facilities in rural communities creates many other impacts on the locality. Land uses are disrupted, social cohesiveness breaks down, inflation sets in and visual amenities are sacrificed for ease of construction. The resulting community is genuinely distasteful for those who live in it. As a result the "boomtown problem" has drawn increasing attention.

The United States Energy Research and Development Administration has funded numerous research efforts to document the nature of boomtown problems and identify strategies for coping with them. One such project, the Energy Impacts Project at M.I.T., focused on defining appropriate roles for state governments to take when energy development impacts become a problem. The author has been a research assistant with the Energy Impacts Project for one year and was responsible for preparation of a case study of the state response to adverse impacts of energy development in Wyoming. This thesis draws heavily on research carried on in this role.

The research effort began with several months of reading prior works on boomtowns as well as more general works on state land use, facility siting and development strategies. After developing a tentative case study outline, the author spent one month in Wyoming interviewing local, state and energy company officials. As the case study was prepared portions were sent in draft to those who had been interviewed for their comments. Subsequently, a complete draft was sent to those interviewed and others who had been contacted in the interim. Their comments were incorporated into the case where appropriate.

The thesis is an extension of the analysis of state aid strategies contained in the case study. It focuses on a set of alternative means of
addressing local fiscal problems through state aid and assesses their relative ability to meet the goals of capital market efficiency, fairness and state economic development.

The first chapter describes local fiscal problems in some detail. Chapter II explores justifications for state fiscal assistance to local governments and develops the three goals mentioned in the previous paragraph. The third chapter is a catalogue of alternative strategies for raising and distributing state aid to impacted communities. The fourth chapter concludes by presenting a preferential ordering of the alternatives as means of achieving the goals.
CHAPTER I

THE NATURE OF LOCAL FISCAL PROBLEMS CREATED BY ENERGY DEVELOPMENT

While there are many parts to the boomtown problem, much attention has been on the fiscal difficulties facing cities, counties and school districts in the area of energy facilities. The population which accompanies these projects often places severe demands on both operating and capital budgets. Local tax revenues are seldom sufficient to cover the new demands since local tax bases do not respond well to rapid growth. This chapter will describe the nature, size and duration of local budgetary problems associated with energy development.

The aspect of the fiscal problem which has received the greatest publicity is a capital shortage. Many local services are capital intensive and have long lead times from planning to readiness. Since local governments may not have accurate information about whether or not an energy project will go ahead, and about the level of public services which will be needed to serve the increases in population, there is no way for them to effectively plan for and construct the needed facilities. Even if they have information well ahead of the expected boom, local governments may have difficulty marketing bonds since their meager pre-boom tax bases would not support debt retirement and the security of the loan depends on the success of the energy project. Lenders are averse to risk, and lending in boomtowns is considered risky.

Local governments also have difficulty meeting current operating budgets during the height of the boom. The resources of police, fire and school departments may be put to the test. Where services such as building inspection exist, local departments may fall behind at a time when the community can least afford it. Furthermore, most state constitutions prohibit deficit spending by local governments.

Local fiscal problems are often aggravated by the problem of temporal mismatch between revenue and expenditure needs. Energy facilities promise substantial tax revenues once they are finished and operating, yet the greatest need for money comes prior to and during the construction of the facility. If the community is unable to overcome this lag with borrowing, the public facility shortfalls may be substantial.

Many local governments face the more serious problem of a jurisdictional mismatch between the location of a facility and the location of the impacts.
If, for example, a strip mine is located in one school district and the families of the workers choose to live in another, the school district which must bear the burden of educating additional students cannot even look forward to future revenues from taxation of the strip mine. Similar problems occur when facilities are located in unincorporated areas, thus paying no municipal taxes, and the workers live in cities and demand city services.

It is difficult to quantify the seriousness of these difficulties, either to the nation or to the towns most directly involved. A report by the Mountain Plains Federal Regional Council identifies 179 communities as being impacted by energy development in the six state region. *(Montana, Utah, Wyoming, Colorado and the Dakotas.) ² There are undoubtedly many more impacted communities in other Western states, in coastal areas which expect offshore oil and LNG development, and throughout the nation where nuclear facilities may be developed.

The amount of money needed by boomtowns to effectively deal with the problem varies with local conditions such as the taste for public services, the ability to tax energy development as it proceeds, the existence of excess capacity in public facilities, and the layout of new residential developments. There have been some attempts to quantify the expected impacts of development, and reference to a few will give the reader a better sense of the nature and degree of the problems that local governments face.

Moore reports that while conditions vary from town to town, on the average, a community needs about $5,000 in capital facilities for each new resident and $1,000 each year for operating expenses.³ It is unclear where these numbers come from, or whether Moore is referring to additional permanent or temporary residents. However, numbers in this range are often given as "ball park" estimates of local needs.

A more cautious estimate can be derived from the discussion of capital costs by Intermountain Planners.⁴ Basing their estimates on detailed analysis of the public facility needs of small Wyoming communities, these researchers derived capital costs for several services for each increment of 1,000 in population. (Per capita figures are shown to facilitate comparison with the work of others.) (See Table 1.)

* The definition of an impacted community for the purposes of this study is unclear. It appears that each state was asked to list the communities that it considered to be impacted. There is no explicit criteria such as percentage growth or number of new energy related jobs.
TABLE 1

ILLUSTRATIVE CAPITAL FACILITY COSTS*
WYOMING BOOMTOWNS

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost per new resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>$ 580</td>
</tr>
<tr>
<td>Sewer</td>
<td>924</td>
</tr>
<tr>
<td>Police</td>
<td>10</td>
</tr>
<tr>
<td>Schools</td>
<td>893</td>
</tr>
<tr>
<td>Total, these services**</td>
<td>$2407</td>
</tr>
</tbody>
</table>

* These estimates are in 1973 costs. No expenses for land assembly are included.

** Not included in the total are roads, bridges, recreation, fire or libraries. The first three are capital intensive, but cost estimation without specific local information was judged impossible. In addition, the level of government responsible for these services varies.

The same study used these figures as well as information on present capacity of public facilities and population projections to estimate the cost of needed public facilities in Gillette and Douglas, Wyoming. Unfortunately, the study assumed facilities must be built to serve the peak population, rather than that some less costly or less permanent accommodations could be made for those who would only be in the cities for a short while. In Douglas, capital facilities except roads and bridges would cost $7,675,000; in Gillette the tab would be $35,235,000. (See Tables 2 and 3.) If there were to be no increases in tax rates, user charges or hook-up fees, each city would face substantial deficits.* (See Tables 4 and 5.) The capital cost of over $35 million for Gillette is large for a community of less than 9,000. Yet, if the population increases to 28,000 as expected, the cost per new resident would less than $1850. This is not nearly as large as suggested by Moore. However, when school expenditures are deducted from the Gillette estimates (since they are the responsibility of the countywide school district), the bill of almost $25 million is still five times the 1973 assessed valuation of the city. State law limits city bonding to four percent of assessed value. Even if there were no restrictions, private lenders could not be expected to supply funds when, to meet projected debt service costs alone, the City would have to tax its present base at fifty percent of assessed value. The lender would be gambling that energy development went ahead as planned and that enough ancillary development occured within the city to support the bond payments. It must also be noted that Gillette and Douglas face permanent problems; their tax bases are not expected to be adequate to cover capital and operating expenses within this century.

The same study presents similar information for Converse and Campbell Counties, which include Douglas and Gillette, respectively. On the expenditure side the picture is very much the same. The counties would need to spend substantially more than they had ever spent before. However, tax

* Many stable rural communities finance expansion of water and sewer systems out of the general property tax and have minimal or non-existent hook-up fees. When there is little growth the inequities are minor, but under rapid growth conditions, most communities institute substantial hook-up fees in order to charge newcomers for the expense of extension. Thus, the shortfalls would not be as great as shown here. Fees for water and sewer hook-ups often range between $1000 and $2000 in Wyoming boomtowns.
## TABLE 2
**PROJECTED CAPITAL COSTS:**
DOUGLAS, WYOMING
1975-1990

<table>
<thead>
<tr>
<th>Service</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water treatment*</td>
<td>$493,000</td>
</tr>
<tr>
<td>Water distribution</td>
<td>1,755,000</td>
</tr>
<tr>
<td>Sewage treatment</td>
<td>658,000</td>
</tr>
<tr>
<td>Sewage collection</td>
<td>2,964,000</td>
</tr>
<tr>
<td>Police</td>
<td>40,000</td>
</tr>
<tr>
<td>Fire*</td>
<td>51,000</td>
</tr>
<tr>
<td>Schools (within city)</td>
<td>1,464,000</td>
</tr>
<tr>
<td>Library**</td>
<td>---</td>
</tr>
<tr>
<td>Recreation</td>
<td>250,000</td>
</tr>
<tr>
<td>Hospital**</td>
<td>---</td>
</tr>
<tr>
<td>Total</td>
<td>$7,675,000</td>
</tr>
</tbody>
</table>

* Some or all of the needed expenses are to correct existing inadequacies rather than to serve new residents.

** Douglas will still have excess library and hospital space.

Source: Same as Table 1.
TABLE 3
PROJECTED CAPITAL COSTS:
GILLETTE, WYOMING
1975-1990

<table>
<thead>
<tr>
<th>Service</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water treatment*</td>
<td>$2,620,000</td>
</tr>
<tr>
<td>Water distribution*</td>
<td>$8,400,000</td>
</tr>
<tr>
<td>Sewage treatment</td>
<td>$2,716,000</td>
</tr>
<tr>
<td>Sewage collection</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>Police</td>
<td>$112,000</td>
</tr>
<tr>
<td>Fire*</td>
<td>$452,000</td>
</tr>
<tr>
<td>Schools (within city)</td>
<td>$10,447,000</td>
</tr>
<tr>
<td>Library*</td>
<td>$1,127,000</td>
</tr>
<tr>
<td>Recreation</td>
<td>$360,000</td>
</tr>
<tr>
<td>Hospital**</td>
<td>---</td>
</tr>
<tr>
<td>Total</td>
<td>$35,234,000</td>
</tr>
</tbody>
</table>

* Substantial expenditures are necessary to remedy existing inadequacies rather than to serve new residents.
** The hospital will still have excess capacity.
Source: Same as Table 1.
TABLE 4
NET FISCAL IMPACT:
DOUGLAS, WYOMING
1975-1990*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures on Current Account</td>
<td>483,000</td>
<td>741,000</td>
<td>878,000</td>
<td>923,000</td>
</tr>
<tr>
<td>Debt Service**</td>
<td>562,000</td>
<td>567,000</td>
<td>586,000</td>
<td>586,000</td>
</tr>
<tr>
<td>Total Budget</td>
<td>1,045,000</td>
<td>1,308,000</td>
<td>1,464,000</td>
<td>1,509,000</td>
</tr>
<tr>
<td>Revenues***</td>
<td>452,000</td>
<td>654,000</td>
<td>743,000</td>
<td>753,000</td>
</tr>
<tr>
<td>Deficit</td>
<td>594,000</td>
<td>654,000</td>
<td>722,000</td>
<td>757,000</td>
</tr>
</tbody>
</table>

* Totals may not add due to rounding.
** Based on projected timing of facility construction and 7% bonds for twenty years.
*** Estimated by applying present rates to expected bases. Assumes no increases in taxes, user charges or hook-up fees.

Source: Same as Table 1.
TABLE 5
NET FISCAL IMPACT:
GILLETTE, WYOMING
1975-1990*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures on Current Account</td>
<td>$2,318,000</td>
<td>$4,260,000</td>
<td>$5,347,000</td>
<td>$5,243,000</td>
</tr>
<tr>
<td>Debt Service**</td>
<td>2,698,000</td>
<td>2,709,000</td>
<td>2,709,000</td>
<td>2,709,000</td>
</tr>
<tr>
<td>Total Budget</td>
<td>5,016,000</td>
<td>6,968,000</td>
<td>8,055,000</td>
<td>7,952,000</td>
</tr>
<tr>
<td>Revenues***</td>
<td>2,280,000</td>
<td>4,284,000</td>
<td>5,402,000</td>
<td>5,295,000</td>
</tr>
<tr>
<td>Deficit</td>
<td>2,939,000</td>
<td>2,685,000</td>
<td>2,653,000</td>
<td>2,657,000</td>
</tr>
</tbody>
</table>

Notes: Same as Table 4.
Source: Same as Table 1.
bases were expected to respond fairly well to growth since mineral production is assessed at 100% of market value for property tax purposes. Thus, while there would be periods of deficits, these counties could look forward to surpluses in the longer run.

THK Associates, in a study of public expenditure needs related to oil shale development on Colorado's West Slope, found capital facility needs to be slightly over $3,000 per new resident. The basis for this estimate was all services included in the Intermountain Planners study plus capital needs for general government. The estimates also included land acquisition costs and payments for the development of a water source, rather than just treatment and distribution. Streets are not included since it is assumed that most developers will construct subdivision streets themselves.

THK Associates placed operating expenses for each new resident at between $400 and $500 for all local (county, city, school district, and other special districts) governments. The estimate is open to question since it is based solely on the current per capita expenditure levels in the area, rather than on an assessment of the needs or desires of the newcomers. In addition, inmigrants may place greater demands on service provision than the long time residents. For example, the number of police emergencies increases more rapidly than population during a boom. This may necessitate additional expenditures on the part of a town.

Lamont, et. al. used the THK general estimates of expenditures and revenues to predict budget shortfalls for the ten years after oil shale development begins for three West Slope counties. The inability to assign new residents to specific cities or school districts forced Lamont to present the data at the county level, aggregating the budget positions of all local governments within the county. This aggregation masks the severity of the problems some local governments may have, and as energy developments are placed on the tax rolls, it shows the aggregate fiscal position improving while those jurisdictions without ratables will still be in dire straits. (See Table 6.)

When studying the economic impacts of the Coal Creek electrical generation complex and mine on McClean County, North Dakota, a team from North Dakota State University placed necessary capital investments for each new resident at $2550. They estimated operating expenditures to be around $450 for each new resident. Unlike the other studies discussed,
# Table 6

Projected Local Government Expenditures and Revenues with Oil Shale Development
Three Colorado Counties
(Millions of Dollars)

<table>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Rio Blanco County</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>2.50</td>
<td>2.59</td>
<td>2.93</td>
<td>3.07</td>
<td>4.22</td>
<td>5.47</td>
<td>9.19</td>
<td>18.09</td>
<td>28.85</td>
<td>39.97</td>
<td>44.55</td>
</tr>
<tr>
<td>Expenditures</td>
<td>8.05</td>
<td>4.19</td>
<td>4.12</td>
<td>4.84</td>
<td>19.90</td>
<td>20.92</td>
<td>17.40</td>
<td>15.46</td>
<td>17.16</td>
<td>15.76</td>
<td>13.65</td>
</tr>
<tr>
<td>Capital</td>
<td>4.76</td>
<td>0.77</td>
<td>0.60</td>
<td>1.13</td>
<td>13.88</td>
<td>12.78</td>
<td>7.94</td>
<td>5.14</td>
<td>5.87</td>
<td>3.83</td>
<td>1.48</td>
</tr>
<tr>
<td><strong>Garfield County</strong></td>
<td></td>
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<tr>
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<td>88.18</td>
<td>93.96</td>
<td>95.90</td>
<td>97.02</td>
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these estimates included the costs of streets. After projecting tax revenues from the plant and increased economic activity, the researchers found a cumulative deficit for local governments in the county of over $2 million at the end of the construction phase. During the operating phase the net shortfall is expected to decline to zero. In contrast, similar estimates for state government showed the state generating surpluses in each year during construction and operation. In all years the state surplus was expected to be larger than the local deficit.

The Legislative Select Committee on Industrial Development Impact, after an extensive evaluation of the fiscal structure in Wyoming, reached three basic conclusions: a) with few exceptions, the State, counties and school districts would experience long run fiscal windfalls due to energy development; b) in the short run, counties and school districts would often experience severe budgetary shortfalls; and c) city governments would be placed in deficit positions in both the short and long run.*

Other states may have fiscal structures which differ from Wyoming's in crucial ways and cause the local governments to have varying experiences under energy development. The differences may be in terms of either the taxes used by each level, or the services typically provided by the various levels. In Wyoming, counties and school districts tax minerals production, as does the state. Thus, energy development provides substantial revenue to these levels of government. By way of contrast, no local government may tax minerals production in North Dakota, so counties and school districts are much more likely to be placed at a disadvantage when energy development occurs. State revenues in Wyoming are boosted by the reception of half of all royalty payments made to the Federal government for extraction of minerals from Federal lands. There is very little Federal land in North Dakota, so the State does not receive much assistance. In 1975, North Dakota received $303 thousand under the Minerals Leasing Act (or $.50 per capita), whereas Wyoming received $33,563 thousand (or $95.90 per capita). 10

* The Select Committee dealt with the fiscal structure as it stood in 1974. Primarily due to the findings of the Committee, the fiscal structure has undergone substantial modification since then.
This chapter discusses the reasons that local and state officials argue for state aid to energy impacted communities. These reasons form the basis for political support of state aid proposals. The first two sections of the chapter deal with local and state positions. The final section draws out of the local and state leaders' comments three general purposes which the author believes to be appropriate for state policy. These goals will prove important when decisions must be made on the actual structure of state aid programs.

Justifications Offered by Local Leaders

Local leaders are faced with problems which many assess to be insurmountable without massive outside assistance. While they do not see financial aid as sufficient to solve the boomtown problem, (technical expertise and local influence over the course of energy development are also needed), it is regarded as an absolute necessity. Many communities can point to the experiences of towns like Rock Springs, Wyoming or Craig, Colorado and the projections of massive immigration, overcrowded schools, overloaded sewers, deteriorating and congested streets, and little, if any, growth in the tax base. Most mayors, city councillors, and county commissioners would be glad to accept grants from any level of government, whether or not they faced serious problems. When they are trying to respond to the pressures of energy development, their position is simply that somebody must help them, since they are not in a position to help themselves. Many local leaders would prefer to have aid come from the state. There is a general dissatisfaction with the Federal government and a particular resentment of grant programs with excessive and extraneous regulations, mounds of paperwork and long delays.

Local leaders point to the substantial economic benefits to the state from energy development. States are in a position to tax minerals extraction and they are the recipients of federal lease revenues when resources are located underneath federal land. Since states can afford to help, local leaders call on them to fund fiscal impact assistance programs.
Justifications Offered by State Officials

Many state officials use the same reasoning as that used by local leaders. State officials are also distrustful of the federal government and dubious of federal capabilities. Since the citizens of the state who are harmed by energy development may cause political trouble and local leaders from impacted areas can become vociferous, support for local fiscal impact assistance may become a political necessity. If states are also in a position to reap substantial benefits from energy development, fiscal aid programs need not imply cutbacks in other programs and the political liabilities such cuts entail.

Non-elected officials often couch the argument for state assistance in different terms. These individuals usually stress the notion that the state should "set things right," or make adjustments to "compensate" for the shocks energy development sends through the system. Different things are meant by statements of this sort. Some officials refer to redressing the fiscal imbalances created by energy development, wherein some governments pocket windfalls and others can expect shortfalls. Other state officials envision a hold-harmless policy whereby the state would ensure that energy development did not force local governments to raise taxes or user charges and thereby exacerbate the harms to local citizens. Still others would like the state to repay boomtown residents for the burdens they must bear, whether the burden is overcrowded schools or the loss of a sense of community.

Some state officials would also like to see the state act to ensure local communities of access to capital resources. They see institutional blocks such as the constitutional limitation on local indebtedness or underwriters' rules of thumb relating debt to tax base as inhibiting communities from undertaking the appropriate amount of borrowing. Along similar lines, some favor having the state take an active role in spreading the riskiness of lending to energy boomtowns. The idea here is that, while lending to a specific city is hazardous because the future of energy development there is uncertain, lending to boomtowns as a group may be less risky since the future of energy development is more certain.

Three State Goals

The previous discussion indicates that the purposes of state fiscal assistance programs are unclear. If the possible state goals can be made
more clear, discussion of alternative strategies for providing fiscal assistance can be more useful since comparisons of the effectiveness of the various strategies in meeting explicit goals can be made. State and local officials raise two possible state goals: correcting capital market flaws and providing compensation. A third goal, while not raised by officials when they discuss financial assistance, is evident in the administration of assistance programs and the intentions behind state siting and land use legislation. This goal is the orderly development of the natural resources of the state.

**Correcting Capital Market Flaws**

Imperfections in capital markets which serve local governments in the West are a legitimate state concern. The problem has three components: a) it is difficult for borrowers to enter the market, b) many lenders see boomtowns as too risky at any price, and c) municipalities must pay excessive (not just high) premiums for high risks. Clearly, the problems are related; a city which can only approach a limited number of investors is unable to press for interest rate advantages.

Small, rural communities in many Western states find it difficult to approach the bond market for several reasons. Many communities have avoided indebtedness until now and thus have no experience with the mechanics of floating bonds. Many of the communities which have issued bonds have been able to use local banks and investors rather than enter regional or national capital markets. Yet their credit needs under energy development necessitate tapping a broader market. While the credit needs of the communities are huge compared to the their past experience, they may still be too small to catch the attention of lenders, underwriters or rating agencies. There are also other barriers to local entry to the bond market, such as state restrictions on indebtedness.

Even when a municipal government has found the requisite expertise to deal with the national bond market, some lenders consider boomtown lending to be too risky to enter, regardless of the interest rate which the town can offer. If a community's bonds are rated below investment grade, certain classes of lenders, such as pension funds, are barred by law from owning the bonds. Still other lenders have policies or rules of thumb which preclude their consideration of investments considered risky.

Those communities which are able to obtain debt financing may have to
pay excessive premiums because their loans are considered risky. Even if bond rating agencies and purchasers were experts at assessing the potential for default, it is not clear that local communities should bear the burden of paying high interest rates, since they are often the victims of the uncertainty which plagues energy development, rather than the source of it. Many uncertainties arise from state and federal regulatory actions or judicial proceedings. These mechanisms presumably exist for the benefit of the citizens of the state or nation. Furthermore, to the extent the institutional setting of local bonding can be changed to limit the risks to the private sector, more funds will be made available for lending in boomtowns, at lower interest rates.

Providing Compensation

A second state goal might be to compensate those who are harmed by energy development. Many individuals lose something which they value when energy development comes to their community. Compensation them for their losses performs three functions. First, if compensation payments originate with the beneficiaries of energy development they have the effect of bringing "social costs" in line with "private costs" and improving market efficiency: those who buy energy development will do so only if the benefits to them outweigh the costs, including the compensation payments. Second, compensation appeals to our sense of fair play. If people are hurt by something which they are forced to experience, it is appropriate to reimburse them for their hardships. It is even more appropriate when assistance is at the expense of those who created the hardship. Finally, providing compensation to those who are hurt by energy development may be of strategic importance if they are in a position to block the project. O'Hare has stressed that, by "paying off" the potential adversaries of an energy project, the state would smooth the course of the project. 11

In order to effectively redistribute between the beneficiaries of a particular energy project and those who are hurt by it, it is first necessary to identify the two groups. Most discussions of this issue are marred because they simplistically assume the winners are "energy consumers" and the losers are "boomtown residents." O'Hare, noting that boomtown residents are a diverse group, some of whom are not hurt by energy development, shows that it is possible to say that newcomers (those who arrive after the boom starts) are better off than they were before the project, since they
Chose to move to the boomtown. The perfect compensatory scheme would redistribute wealth from newcomers to oldtimers. Unfortunately, O'Haire does not differentiate among oldtimers. For many of them, boom development imposes burdens in certain roles (i.e., as members of a cohesive community or as parents) and creates opportunities in others (i.e., as storekeepers of landowners). The determination as to whether they are winners or losers depends on whether they willingly undertake energy development in the town or do so against their wills. Most case studies of boomtowns report substantial groups within town that favor energy development, as well as groups in opposition.

We have already determined that the usual characterization of energy consumers as the sole beneficiaries of energy development is incomplete. Newcomers, or those whose job opportunities are enhanced by energy development, should be considered beneficiaries, as should local business interests who support development. Two other groups are clearly in a position to gain from energy projects. The owners of mineral rights may realize significant increases in the value of their property. Finally, the companies involved in energy development are winners since each project represents an opportunity for them to make profits. Under certain circumstances, the citizens of the state or other taxing jurisdiction can be seen as energy development beneficiaries. When they are able to tax energy development activities they expropriate a share of the financial benefits which would otherwise fall to others, such as the owners or consumers of energy resources.

Orderly Development of Natural Resources

The final state goal discussed here is the orderly development of the natural resources of a state. Most states recognize economic development as a primary policy objective. Policies for the orderly development of natural resources should be integral parts of state economic development strategies. These policies must have two components. First, there must be a means of deciding which energy resources will be developed, at what times, and in what manner, in order to maximize the benefits to the state and avoid projects which are not beneficial. These policies are outside the scope of this paper since they generally do not involve state aid to localities.*

* An exception is the auction concept which is proposed by O'Haire. The auction performs both the function of providing compensation and of choosing between potential sites for energy development.
Second, the state must oversee development where it occurs in order to minimize the adverse conditions and assure the timely provision of public facilities and services which support energy development both directly and indirectly. Fiscal aid can be an appropriate tool to help provide public facilities when local governments appear to be unable to perform the task without assistance.

It must be stressed at this juncture that the three goals advanced in this Chapter are not necessarily compatible. In particular, the latter two goals are inconsistent. Pursuing the goal of compensation would imply rewards of some sort to long time boomtown residents who are harmed by the intrusion of a project. On the other hand, trying to achieve orderly energy development often means providing public services to energy companies or their workers: two groups which already gain from energy development. Some of the conflicts between the three goals discussed in this Chapter will become evident as we explore the various strategies for raising and distributing money for impact assistance.
CHAPTER III
ANALYSIS OF ALTERNATIVES
FOR STATE FISCAL ASSISTANCE TO LOCAL GOVERNMENTS

This chapter will examine alternative means whereby a state can provide fiscal assistance to local governments experiencing difficulties because of energy development. Specific reference will be made to those policy options chosen in Wyoming and to the reasons behind those choices. Fiscal assistance programs involve the identification of revenue sources as well as guiding distribution. It is essential to separate the two functions for analytical purposes.

Raising Sufficient Revenue

States can raise revenue for impact assistance from a variety of sources. For purposes of simplicity, we will restrict attention to six categories of revenue sources:

- general state taxes
- excise taxes on energy development
- bonding
- permanent funds
- federal aid
- federal lease revenues

Most of these sources can take several forms in a particular state and will vary between states depending on their constitutional and political history. Some options, such as borrowing from the permanent funds, may not exist in some states. Each of the options will be reviewed with respect to:

- Opportunities. Why is this means of raising money possible? How much money might it raise? What groups or interests are likely to support using it for impact assistance?

- Constraints. Who would oppose tapping this revenue? How reliable are future revenues from this source? Are there difficulties of administration? How does the choice of a revenue source restrict the means of distributing assistance?

- Experience to Date. Has Wyoming chosen this option? What form has it taken there? How has the form reflected the unique opportunities and constraints in Wyoming?
Consequences. Who provides these revenues--geographically, over time, and among socio-economic groups? How efficiently is money raised? What is the nature of long term state commitments?

Throughout this discussion reference will be made, not only to the revenue sources in the abstract, but to the specific characteristics of the sources used in Wyoming. Examples will be drawn from other states where there is an interesting contrast with Wyoming.

General State Taxes

The broadest of all categories discussed here, general state taxes include sales, income and property taxes. In addition, for purposes of this discussion, all excise taxes not related to energy development, such as cigarette or alcohol taxes, are included in this category since the salient feature of the group of revenue raising mechanisms is that they are neutral with respect to energy development. The legislature can choose to use general tax revenues for fiscal impact assistance in two ways: institution of a specific tax for that purpose, or appropriation of money from the general fund.

Opportunities. A state can most easily use general tax revenues for local fiscal assistance when its revenues are expanding or it is experiencing a budget surplus. The political opposition to spending on what may seem like a very serious problem will be less if other needs are comfortably met. Wyoming has been very fortunate in this respect, having received substantially increased yields from its sales and non-energy excise taxes over recent years. (See Table 7.) This trend is expected to continue. Under such favorable conditions, substantial amounts of money could be made available to energy impacted communities without vociferous political opposition.

Even if the state is unable to finance assistance programs out of present taxes, some groups will prefer increased general taxes to energy excise taxes as the source of aid to impacted communities. Residents of booming communities and energy companies will support general state taxes since that would not require any special obligations on their parts. Energy companies fear taxes on energy development, whereas local people fear either no assistance at all, or assistance in the form of legal authorizations for higher local taxes or bonding levels.
TABLE 7

RECEIPTS FROM MAJOR TAXES
WYOMING, 1972-1976*
(MILLIONS OF CURRENT $)

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<td>Sales and use</td>
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<td>Total, these taxes</td>
<td>51.2</td>
<td>55.1</td>
<td>67.2</td>
<td>87.3</td>
<td>93.6</td>
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* Fiscal years ending June 30.
Source: Wyoming Department of Revenue and Taxation, Annual Reports, 1975-76.
Constraints. Plans to use general state taxes for local fiscal impact assistance will be politically more difficult when the state budgetary situation is tight. Raising state taxes may be politically impossible and legal obstacles such as constitutional limitations or requirements for referenda may exist. While these roadblocks can be overcome, to do so requires a high degree of consensus that taxes should be raised. Financing local assistance by transferring resources from other programs would also be difficult. Agencies which must make cutbacks would oppose the new initiative and seek help from their constituencies and friendly legislators. Moreover, at times of budgetary stress, agency budgets may already be trimmed to the bone. As already mentioned, Wyoming has not faced budgetary difficulties in recent times, although many other states have.

Whether or not new taxes are contemplated, citizens and legislators from areas which are not impacted by energy development can be expected to voice opposition to using general state revenues for assistance to specific communities. This opposition may not be able to cause the abandonment of the assistance program. Rather, pressure may be exerted to spread the aid around. As more communities stand to gain from state aid, more legislators will support it.

The political geography of a state can also determine the chances of using general revenues for special assistance. The contrast between Wyoming and North Dakota in this respect is striking. Impacted communities are located throughout Wyoming, whereas they are located in a few counties in the western, unpopulous area of North Dakota. In Wyoming, more legislators have some constituents who need assistance, and all see energy development as a live issue. This is not the case in North Dakota. The Wyoming economy has traditionally been dominated by energy and the railroads although agriculture and tourism are also important. The energy and railroad companies have substantial legislative strength and can be expected to support funding of impact assistance from general state taxes. On the contrary, the North Dakota economy is devoted to agriculture and the energy companies are not politically powerful. It is not in the interest of the farmers to have their taxes paying for special needs caused by energy development in a fairly distant city.

The flow of tax revenues into the state coffers is fairly secure, thus providing a relatively stable and predictable source of money for impact
assistance. However, from the standpoint of the local governments on the receiving end, the revenues are not secure if they must pass through an annual or biannual budgetary review. Under many circumstances, communities need long-term commitments of revenues (i.e., to pledge toward debt retirement) yet the legislature may choose to spend less on impact assistance at any time, either because the programs are politically unpopular or because the other needs of the state seem more pressing. State governments appreciate flexibility in a budget since it allows rapid responses to new needs and helps to ensure that funds are spent on the most important programs. However, that same flexibility causes uncertainties for local government officials and may place their governments in danger of defaulting on loans. The budgetary process can be bypassed by a system entitling local governments to a percentage of the yield of certain taxes. However, this action has the effect of taking impact assistance away from the pressures of budgetary review. More or less than is actually optimal may be inadvertently allocated to impact assistance.

*Experience to date.* Wyoming has acted to aid impacted communities through disbursement of revenues from the state sales tax. In 1974, the Select Committee on Industrial Development Impact proposed, and the legislature enacted, a revision of the formula for distribution of sales and use tax receipts to local governments. The share of the tax returned to cities and counties was increased from one-sixth to one-third of the three percent tax. The conditions leading to this action were particularly auspicious. State revenues from the sales and use tax were increasing dramatically and the Select Committee had projected substantial future growth. Cities in many parts of the state were in dire need of financial assistance. The formula for the distribution gave money to all cities and counties on the basis of sales, so there was no transfer of resources from one area to another. The Select Committee had made a well-documented and reasoned argument that energy development would cause severe budgetary shortfalls for cities and towns and would create a surplus for the state under then existing tax and expenditure patterns. The increased distribution of the sales and use tax was an appropriate means of addressing that imbalance without constituting a major shock to the system.*

* Wyoming also has several other fiscal assistance measures, such as the
Consequences. The distribution of the sales and use tax in Wyoming has provided local governments with substantial revenues. Table 8 shows the payments to several cities and counties over the period from 1972 through 1976. These revenues form a major portion of the budgets of many Wyoming communities. The sales and use taxes respond more rapidly to booms than does the property tax. Property values increase only slowly during a boom since many newcomers live in mobile homes and there are delays in placing new developments on the tax rolls. However, newcomers make many purchases in the boomtown, often more than the oldtimers since they are highly paid and have relatively low housing costs. In addition, the state returns receipts each month, so administrative delays are minimized. The use tax is particularly responsive to energy development. The tax is levied on machinery and materials purchased out of state for use in state and exists to protect Wyoming merchants. The construction of the energy facility itself typically generates substantial use tax revenues. If the license for collecting the tax is held in the county where construction is occurring, one-third of the revenues is returned to the cities and counties in the area.

The tax is fair to all state residents since it is, in effect, a uniform one percent local sales tax which is administered by the state. There is minimal redistribution between the areas of the state.* If the state were using general tax revenues to help only boomtowns, questions of equity would be raised.

The increased distribution of the sales and use taxes to local governments represents a long term commitment on the part of the state to make do with less so that the cities and counties may have more. This action is consistent with expected revenue trends, with the ideology of

School Foundation Program and distribution of cigarette and gasoline tax revenues. These distributions have not been changed recently, so they will not be discussed in detail. The foundation program is based primarily of average daily enrollment and is thus responsive to increased population. A portion of the cigarette and gasoline tax revenues are returned to the jurisdiction is which they were collected, so this source also responds to growth.

* Some redistribution occurs when residents of one part of the state make purchases in another. This is likely of minor importance, although regional trade centers like Casper undoubtedly benefit.
TABLE 8
DISTRIBUTION OF WYOMING SALES TAX REVENUES*
TO SELECTED CITIES AND COUNTIES
1972-1976**
(THOUSANDS OF CURRENT $)

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<td>510</td>
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<td>(all governments)</td>
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<td>Douglas</td>
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<tr>
<td>Lincoln County</td>
<td></td>
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<tr>
<td>(all governments)</td>
<td>88</td>
<td>86</td>
<td>86</td>
<td>171</td>
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</tr>
<tr>
<td>county government</td>
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<tr>
<td>Kemmerer</td>
<td>23</td>
<td>23</td>
<td>30</td>
<td>45</td>
<td>195</td>
</tr>
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</table>

* Does not include revenues from the 1% option tax.
** Fiscal years ending June 30.
*** On July 1, 1975, the portion of the tax distributed to local governments increased from 1/6 to 1/3.
Source: Wyoming Department of Revenue and Taxation, Annual Reports, 1975-76.
maximum local autonomy, and with the excess taxing capacity held in reserve by the state.

The major limitation on the value of the state tax revenues to local governments is that money does not arrive prior to the population impacts. For this reason, it can not be used to plan for and finance public facilities in advance. It might be possible to pledge expected tax revenues to retire bond issues, but potential investors would have to be convinced that future sales and use tax revenue would be stable at a level higher than the present one. A high degree of uncertainty would be uncharacteristic of energy development situations. The local community is best advised to use new sales tax revenues to cover the exceptional operating expenses caused by energy development.

**Conclusions.** The use of general state tax revenues for impact assistance to local governments is promising since the state is assured of a fairly steady flow of funds. If appropriations must pass through state budgets, the aid is not secure from the standpoint of the communities. When general state taxes are to be used, political exigencies are likely to make a wide distribution of the payments necessary. Many states presently have provisions whereby state taxes are shared with local governments. In cases where many communities are experiencing rapid growth and the budgetary strains such growth entails, increases in local shares may be an appropriate way to improve the fiscal position of local governments, especially if the state tax is more responsive to levels of economic activity than local taxes. When aid is distributed this way, it cannot be effectively used for front-end financing of public facilities.

**Excise Taxes on Energy Development**

Excise taxes on energy development may also take many forms. The most common is the severance tax on the value of a mineral at the minemouth or wellhead. Special taxes might also be levied on conversion activities such as gasification, electrification, or the production of "yellow cake" from uranium ores. Some states have also considered export taxes on electricity, although that would be of questionable constitutionality since states are not allowed to restrict interstate commerce.

**Opportunities.** When the value of energy resources produced in a state is substantial, a relatively low rate of taxation will still provide
significant revenue. The assessed value of 1970 production of oil, gas, coal and uranium in Wyoming (net of federal and state royalties) was almost $478 million. The lion's share was the value of oil, over $408 million.\textsuperscript{18} Table 9 shows the value of energy extracted from Wyoming from 1970 through 1974. The increase in assessments on oil was caused solely by higher prices; production actually declined somewhat. A ten percent tax on the value of energy resources extracted would have raised $48 million in 1971 and almost $100 million in 1975. This compares favorably to the $80 million take of the sales tax in fiscal 1976.

Taxation of mineral extraction is politically attractive because the bulk of the tax is ultimately paid by out of state residents. There are three groups which might bear the burden of an excise tax: consumers, energy company stockholders, and the owners of energy resources still in the ground. The vast majority of the consumers and stockholders do not live in the state where the tax is contemplated. In addition, much of the coal and other resources is owned by the federal government, and many other property owners are corporate entities from out of state.

Political support for mineral taxation will also come from environmental groups and from interests such as agriculture. They see increased costs to energy consumers as desirable since it may lead to more demand, less extraction and thus less disruption of the land and existing economic activities. They also argue that the state should receive some compensation for the loss of a non-renewable resource. Since the strip mining or oil drilling are a "one time harvest" they wish to see some of the value of that harvest retained in the state.*

As it happens, the economic realities of energy development are such that taxes which are high relative to those on other activities, or in other states, can be tolerated. It is not particularly profound to note that coal under Utah cannot be extracted elsewhere. This means that, while an energy company may choose to look elsewhere for sources of new coal in response to a new tax, the owner of the energy resource will still make every attempt to sell, including lowering the price. Moreover, the national demand for energy has proven highly inelastic, at least in the short run.

\* This constitutes, in effect, a claim that the citizens of the state have a right to part part of the resources located under the state's land.
TABLE 9
ASSESSED VALUE OF MINERALS EXTRACTION
WYOMING, 1970-1974*
(MILLIONS OF CURRENT $)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>$408.3</td>
<td>$411.0</td>
<td>$386.4</td>
<td>$484.7</td>
<td>$833.1</td>
</tr>
<tr>
<td>Gas</td>
<td>38.9</td>
<td>42.9</td>
<td>45.8</td>
<td>56.3</td>
<td>56.0</td>
</tr>
<tr>
<td>Coal</td>
<td>12.8</td>
<td>15.2</td>
<td>20.2</td>
<td>36.5</td>
<td>70.7</td>
</tr>
<tr>
<td>Uranium</td>
<td>17.8</td>
<td>18.6</td>
<td>26.7</td>
<td>24.5</td>
<td>19.5</td>
</tr>
<tr>
<td>Non-energy</td>
<td>27.8</td>
<td>24.2</td>
<td>32.9</td>
<td>41.0</td>
<td>56.6</td>
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<tr>
<td>Total</td>
<td>$505.5</td>
<td>$515.7</td>
<td>$512.0</td>
<td>$643.0</td>
<td>$1,044.9</td>
</tr>
</tbody>
</table>

* Federal and state royalties are not included since they are not subject to local taxation. The rest of the extraction from federal and state lands is included.

Even the rapidly rising prices of this decade have done little to curb growing demand.

Constraints. While the consumers of energy are not effectively organized, and in any case do not vote in the state which might place a tax on energy development, the energy companies are a well organized and effective lobby against taxes on energy development. They will be joined by the private owners of energy resources who wish to have them developed, since the tax would expropriate a share of their profits, and by companies that stand to benefit from energy development such as the railroads which would transport coal. Energy companies will be more effective in their lobbying efforts in states where they have long been an economic force. Thus we see greater participation of energy companies in Wyoming that in North Dakota, and also witness the lower severance taxes there.

Energy companies and owners of energy resources may be joined in opposing excise taxes by citizens of a state who expect to benefit if energy development occurs. These people would include landowners in possible boom communities, businesses such as mobile home dealerships, and those residents who have hopes of finding employment at the energy facilities. Citizens can be expected to contemplate working at the facilities more often when they, or their friends or relatives, have had some experience with the mines or plants. Thus the people of Wyoming may support energy development because they can see themselves benefiting from new employment opportunities, whereas the residents of North Dakota find it more difficult to imagine what it would be like to work in the energy industry, and are less prone to expect to gain from a new job.19

These opponents of special taxes on energy development are not likely to be able to completely forestall severance taxes in any state with plentiful energy resources. The opportunity for the state to raise money in a politically painless way is simply too attractive. However, they may be powerful enough to restrict the ways in which the revenues from the tax are spent. Energy companies in particular will attempt to limit expenditures to the cities in which they operate and to programs which directly serve them or their workers, such as highways to plants or extensions of water and sewer systems. In Wyoming, the industry eventually helped write and supported a coal tax for impact assistance which limited expenditures to communities impacted by coal development and to roads and water or sewer
projects that are made necessary by the development of coal.

States do face one difficulty when they choose to tax energy development to pay for impact assistance to local governments: the uncertain level of future yields. Prediction of the yield depends on accurate knowledge of both the amount of production and the prices at which the resources will sell. Especially when current levels of production are low, future production levels are dependent on specific new projects which may or may not proceed as forecasted, depending on the vicissitudes of regulatory proceedings, court cases, and the national markets for energy and credit. Precise knowledge of the future revenues is only essential when it is desired to commit future revenues in the present. Uncertainty makes these commitments more difficult.

Experience to Date. Not all taxes on energy development in Wyoming are intended to provide for impact assistance to local governments, and many were enacted as general revenue devices long before there was any concern for the boomtown problem. However, the total level of state taxation of energy resources is of interest in judging the market effects of the tax. It is thus necessary to describe the entire structure of taxes surrounding minerals development, and the justifications used by the state in enacting those taxes.

Oil and natural gas are subject to the minerals severance tax of four percent of the value at the wellhead as determined by the Department of Revenue and Taxation. One half of the proceeds are placed in the Permanent Wyoming Mineral Trust Fund. The other half is placed in the general fund of the state. The trust fund was established by constitutional amendment in 1974 and the severance tax was enacted in 1975. This action was justified on the grounds that the state deserved reimbursement for the depletion of a non-renewable resource. In addition, the full value of oil and natural gas production is subject to the mill levy of counties and school districts. Since oil and gas assessments accounted for 42% of all property assessments in the state in 1975, a substantial amount falls to the counties and schools lucky enough to have active wells within their jurisdiction.

In Wyoming, coal is subject to the four percent severance tax and the local mill levies. The Coal Tax for Impact Assistance constitutes an additional levy. This tax was established at 0.4% of value for 1974 production and was designated to increase to two percent of value for coal pro-
duced in 1978 and thereafter. In an unusual move, the legislature provided that the tax would expire once it had raised $120 million. They have since raised this limit to $160 million. All revenues from this tax are earmarked for impact amelioration. The coal tax for impact assistance is seen as a temporary levy to help local governments meet the public service demand which will result from the extremely rapid development of coal in the near future.

**Consequences.** Excise taxes on energy development have raised substantial revenues for Wyoming. The minerals severance tax was 22.1% of all state revenues (other than federal grants) in fiscal 1976. The coal tax for impact assistance had raised only $1,280,000 by the end of 1976, but revenues will increase rapidly as the rate of the tax increases and as coal production expands. Steady increases in the yield of the mineral severance tax belie, at least for the time being, the concern that revenue streams from excise taxes are uncertain. The future of development, particularly of coal, is considered so certain that Wyoming feels there is no cause for concern.

Excise taxes on energy development have marked distributional effects. As mentioned earlier, three groups are potentially called on to shoulder the burden of the tax: consumers, energy companies, and energy resource owners. When the owner of a resource has not leased the mineral rights yet, the imposition of a severance tax will cause the market value of his or her property to fall. The property owner will see a decrease in the potential windfall from leasing that is equal to the expected level of the tax. Since owners of mineral rights are primary beneficiaries of their development, this would have the effect of taxing a beneficiary of development for the public costs incurred as a result of development, if the proceeds of the tax are used for impact assistance.

When the minerals have already been leased to energy companies or utilities, the consumers of energy are likely to bear the burden of the tax. (If the tax is explicitly levied on owners, they might not be able to pass the burden forward onto their lessees.) The institutional structure of energy markets varies from mineral to mineral. Coal is generally leased to coal mining companies, who then mine the coal under contract to utilities. These long term contracts usually allow tax increases to be passed on to the utilities. Utility regulation allows a fairly rapid pass on of increased fuel costs to consumers, although the speed with which this is possible
depends on the regulations of the state in which the power is distributed. Even when contracts between coal companies and utilities do not provide for price escalation based on taxes, utility companies may be willing to cover the additional costs since the regulatory process assures them of profits.

Development of oil is generally controlled from wellhead to consumers by vertically integrated companies. The inelasticity of demand for their products usually protects them from rising costs or taxes. Profits of the major oil companies did not suffer from the trebling of oil prices by OPEC and will likely not suffer from the relatively modest state taxes imposed on oil. Once again, when taxes on energy development are passed on to consumers, some of the beneficiaries of energy development are charged for impacts that development causes, if the money is used for that purpose.

Conclusions. Special taxes on energy development are likely to remain popular with state legislatures since they represent lucrative sources of revenue which are often not ultimately paid by the residents of the state in which the tax is levied. Given the rapidly increasing tonnage and price of coal mined in many Western states, it is unlikely that legislators will be overconcerned with the possible volatility of the taxes. Excise taxes on energy development activities charge some of the beneficiaries of development for the problems they cause.

Bonding

The primary feature of bonds is that they must be repaid. It is not possible, then, to fully consider bonds as a means of providing fiscal assistance without considering the means of debt retirement. State bonding efforts can take two distinct forms: direct borrowing, backed by the full faith and credit of the state; and bond banking, in which bonds are backed by the repayment of loans which the bonding entity makes.

Opportunities. The primary justification for borrowing by government in a boom situation is simple. Public capital facilities will be used by the future population of the boomtown, a group of people which differs from those living in the town prior to the boom when the facility must be constructed. Thus it is fair and workable to bond for the public facilities and allow the users of the facility to pay for it. This justification is similar to that used to justify borrowing for any public facility. However, the argument is strengthened by the influx of new residents who would not
have to pay if the facility were to be constructed with current revenues. Under boom situations it is rational to borrow for facilities even when the present value of future payments exceeds the cost of spending the money in the present. Public borrowing allows the actual beneficiaries of public facilities to bear the cost of providing them.

State borrowing in particular is justified by the frequent inability of small, inexperienced, booming communities to borrow at acceptable rates of interest. Most local governments in rural areas have not previously borrowed in national markets and therefore have not established a credit history. Local governments may have no experience at the intricacies of floating bond issues. In addition, the extreme uncertainties associated with energy development may make many lenders wary of boomtowns.

State bonding to assist local governments may also be justified as a means of risk management. The risk that any given community will default is great, because the ability of a town to repay its debts is tied to the future of a specific energy development project. Lenders may not wish to take on that risk. However, by pooling many risky bond issues, the overall risk of default is lessened. The ability to repay loans is tied to the overall future of energy development in the state rather than to a specific project, and that future is easier to predict; it is also more sanguine.

**Constraints.** Most states have constitutional restrictions which either limit state indebtedness or prohibit it altogether. While these restrictions can be eased, the route of the constitutional amendment is often a long one, requiring substantial consensus. In addition, many bonding restrictions are good public policy in that they discourage overreliance on borrowing. Furthermore, there is long standing opposition in most Western states to the use of debt instruments by governments. Though there may be agreement that the specific problems of energy development justify state bonding, it is unlikely that constitutions will be amended to allow borrowing. In Wyoming, the constitutional limit on state indebtedness is 1% of the assessed value of the state, or about $17 million. Since indebtedness is frowned upon, the state has remained bond free. However, even if the state bonds to its limit, the amount of revenue it raises will not be substantial.

Even when a state has decided that it wishes to borrow to finance impact assistance to local governments and has overcome the legal obstacles, it may experience difficulty floating bonds. To an extent, the state is
subject to the same problems which beset its local subdivisions. Inex-
perience with national credit markets leaves the state unrated and unfami-
liar with the channels used to borrow. Unless bonds are backed by the
full faith and credit of the state, the risk to lenders may still be
perceived as great and could drive up interest rates.

Experience to date. The 1975 session of the Wyoming legislature, at
the same time that it enacted the coal tax for impact assistance, created
the Wyoming Community Development Authority (hereafter WCDA) to issue
revenue bonds for the purpose of community development lending in energy
boomtowns. The WCDA is allowed to float up to $100 million in bonds which
are not backed by the full faith and credit of the state. It may then make
loans to local governments in areas experiencing energy development or to
banks in those areas to relend for mortgages. It was hoped that the creation
of an independent authority would bypass the constitutional limitation on
state indebtedness. Since a much better rating for WCDA bonds could be
obtained if there was no question regarding their legality, the act creating
the WCDA has been challenged in court. The case is presently before the
Wyoming Supreme Court. The challenge has prevented the WCDA from issuing
its bonds, so it has been unable to operate. The legislature intended that
the WCDA loans to communities be repaid in part by local effort (such as
user fees and taxation) and in part by the proceeds of grants from coal tax
revenues. In this way, the tricky problem of providing front-end money to
communities could be solved.

Consequences. The consequences of creating the WCDA can be discussed
only in theoretic terms: it has been unable to perform its primary respon-
sibilities because of the court challenge.

The WCDA is a means of bringing capital resources into the state.
Wyoming has no large banks and must go to the national credit market to
finance its instruments. The WCDA staff is confident that the state will
be successful in that market and that its bonds will be given high ratings
because of the fiscal responsibility of the state. Of course, they cannot
test the validity of their belief until the bonds are declared legal.

As noted earlier, WCDA bonds are to be repaid by local governments
using their own sources and proceeds from the coal tax grants. Thus, one
major source for the repayment of the bonds is the excise tax on coal. This
has the effect of transferring the public costs of energy development onto
the present and future beneficiaries of its development. In addition, since local efforts at repayment are required, future residents of boomtowns, the actual users of the public services, are called upon to share in the expense of providing the service.

The use of state bonds to raise front-end revenues also has the effect of maximizing the number of projects which can be immediately built using the coal tax revenues. It is not necessary to wait for the full amount of the needed revenues to be collected before a project can be started.*

**Conclusions.** There is great promise in the use of state bonding powers to raise revenues for local impact assistance, if they are found to be constitutional. Bonds can be used to supply front-end revenue needs and to force the future users of public facilities to pay for them. At least in theory, the state can act to pool the risks involved in providing public facilities for energy development communities and to facilitate the use of capital markets by small rural communities. However, comments about the potential of state bonding for these purposes must be tempered by the fact that no bonds have yet been issued, and no loans made to communities.

**Permanent Funds**

**Opportunities.** A few states have constitutionally established permanent funds which must remain inviolate. Often these funds are the accumulation of the proceeds from rent or sale of public lands and are invested in risk-free securities, such as federal bonds. This is the case in Wyoming, although the state has also recently enacted a separate minerals Trust Fund which is derived from a portion of the minerals severance tax. The trust funds represent a possible source of money for impact assistance, although that would not involve raising revenue in the strict sense of the word. The Wyoming constitution allows the legislature to make regulations governing the lending of the funds subject to the requirement that they in no way may be diminished or placed in jeopardy. Thus it is possible for the state to make loans to local governments from the various funds, if the loans can be guaranteed. The permanent fund of Wyoming contained $135 million in mid-1974 whereas the minerals trust fund had yet to be created. The total

*The issues raised in this section are not the most important ones with respect to state bonding. Those issues involve the disbursement of state aid and are treated in a later section.*
amount potentially available to boomtowns was considerably less since over
$40 million had been loaned for long periods and an additional $37 million
in loans had been authorized.22

Constraints. The most severe constraint on the use of permanent funds
for impact assistance is clearly the constitutional restriction against
risking the funds in any way. Since we have emphasized the riskiness in-
volved in making loans to boomtowns, it is necessary to discover a means of
insuring the state against default by the local communities. The same re-
striction means that funds may not be granted to local governments.

Political opposition to the use of permanent funds for impact assis-
tance loans may come from two sources. First, some may oppose the idea of
using funds that belong to the state as a whole for the purpose of helping
some isolated areas of the state. They will see the loans as being too
risky and the gauranty provisions as being inadequate. Opposition on
these grounds has not been a problem in Wyoming. Second, to the extent
monies from the permanent fund are loaned at rates of interest below those
the state could achieve in federal bonds or other risk-free securities, the
return from the fund will be diminished. Since the interest from the per-
manent funds is usually used for support of public education, local districts
and the state board of education may object. In Wyoming, the proceeds of
the fund are used to finance the School Foundation Program. While there
has been no opposition to loaning the funds to local governments, there is
some irritation within the State Department of Education that only $2
million of the fund is authorized to be loaned for school construction
purposes.

Experience to date. The 1974 legislature established the Joint Powers
Loan Program to lend up to $40 million from the permanent funds to Joint
Powers Boards for the purposes of financing public service improvements.
Joint Powers Boards are entities formed by any two or more local governments
for the purpose of providing a specific public service. Joint powers loans
are not restricted to impacted areas since the permanent funds belong to
the state as a whole. However, the preponderance of the loans have gone
to energy development communities since they are the areas experiencing
growth. Loans are guaranteed by signing over title to the public facility
to the state until the loan is repaid in full.

Consequences. Joint powers loans have made up to $40 million available
to local governments in Wyoming; the bulk of the $35 million committed by March 1977 has gone to boomtowns. In the absence of these loans, the money would have been invested in federal notes or some other risk-free securities. Since funds are loaned to local governments at below market interest rates they represent a small subsidy to local governments.

Since communities all over Wyoming are eligible for joint powers loans, there is not necessarily any redistribution of wealth among them. Repayment of joint powers loans is accomplished out of user fees since most of the projects are revenue generating, like airports, hospitals, and water and sewer systems. Occasionally coal tax grants are used. Once again, the expense of providing public facilities falls on the users of the facilities, and to a lesser extent on the future users of energy, rather than on the present residents of boomtowns.

Conclusions. If a state is lucky enough to have a permanent funds, it is certainly wise to consider lending money from the fund to local governments before resorting to borrowing for that purpose.

Federal Aid

One possible source of revenue for impact assistance is aid from the federal government. Through administrative activity the state can attempt to increase the flow of grants and loans into the state that are derived from existing federal programs, or political action to encourage the creation of new programs which would serve boomtown related needs.

Opportunities. There exists a wide variety of federal programs which can potentially provide assistance to energy development boomtowns. These include both programs which make grants and loans directly available to local governments and other programs which make money available through the state. A recent document published by the Region VIII Office of the Federal Energy Administration purports to show that federal assistance to these two types totaled almost $95 million to Wyoming energy development communities in fiscal 1975. However, the numbers reported there are extremely deceptive. Included were all grants to states and counties for welfare programs, educational assistance (such as student loans and equal education opportunity grants) and other payments which are not for the provision of local public services. Aid in these categories amounted to
approximately half of the reported total. The survey also included payments under the Minerals Leasing Act, which is a grant to the state without any requirement that the money be spent in boomtowns. These are an important source of revenue in Wyoming and will be treated in some detail in the next section.

In any case, some programs to provide assistance to local governments which can be used to solve boom related problems do exist. These include: EPA wastewater treatment grants, EDA economic adjustment or development planning grants, LEAA grants, Bureau of Outdoor Recreation grants, and most importantly, Farmer's Home Administration grants and loans for public facilities in rural communities. Many state technical assistance efforts have focused on increasing the flow of funds from these sources into energy development impacted communities.

Given the urgency of energy development to the nation, the states which possess energy resources are in a position to lobby for special programs to assist energy development communities. States are able to engage in genteel extortion to get the programs they desire since there are many state actions which could be used to delay energy development or to make it very expensive.

Attempts to increase the flow of federal funds into a state are also attractive to political leaders of a state since they are an opportunity to increase the level of public services without increasing taxes. The power and prestige of those who control the allocation of the money is also enhanced. The efforts and money expended are small compared to the potential for increased assistance.

**Constraints.** The ability of states to find meaningful assistance from existing federal programs is constrained both by agency budget limitations and by the narrow objectives of federal programs. State and local governments must compete with others for the limited federal aid available as there is seldom more money than applicants. Most federal aid programs are geared to specific objectives such as eliminating pollution in streams. (One exception is the FHA public service loan program, which is intended to improve the quality of life in rural communities.) If the needs of a boomtown do not happen to mesh with the priorities of federal programs, no assistance may be forthcoming.

When trying to lobby for new federal programs that are more closely
tied to energy development needs, most Western states are handicapped by their small size and their resultant lack of political clout in Washington. As mentioned earlier, this is somewhat offset by the urgency of development. In addition, Western states have been notably effective in working together to form a united front on energy issues in Washington. One example is the intensive lobbying to override President Ford's veto of the Mineral Leasing Act Amendments. Success will bring about $12 million in additional aid to Wyoming in 1977.

**Experience to date.** Wyoming has actively complained both for funds from existing programs and for new boomtown related programs. The former has been primarily the responsibility of the Department of Economic Planning and Development when it is providing technical assistance to impacted communities. Legislative priorities have included the passage of increases in the distribution of the Minerals Leasing Act revenues, payments in lieu of taxes, and the Synfuels bill, which included guarantees for the bonds of local governments. The first two efforts were successful.

The primary reason for these efforts has certainly been the fact that everyone likes a handout. Since the cost of attempting to get more federal assistance is minimal, there is little reason not to try, even if the chances of success are small.

**Consequences.** One consequence of increased efforts to obtain federal funding has been that more funds have come into the state. This is most clear in the case of legislative initiatives. It is highly unlikely that the payments in lieu of taxes bill or the minerals leasing act changes would have passed without the energetic support of Western politicians. It is harder to demonstrate that administrative actions have increased federal aid to Wyoming. Some specific grants may have been received due to DEPAD efforts, but other communities in Wyoming might have otherwise have received the money.

On occasion, when the state attempts to bring in federal money, it is not acting in the best interest of the community. Most federal programs are not geared to the needs of small, rural, or rapidly growing communities. They contain requirements or restrictions which are extraneous or even counterproductive in a boomtown setting. Federal programs may require, for example, best technology sewage facilities, when the community would have been satisfied with a less expensive alternative. Federal money may attract
time, effort, and resources away from the most pressing needs of the community in order to get federal aid for a lower priority project. Delays in obtaining federal funds may be especially troublesome to communities which are growing rapidly and where speed is of the essence.

If federal aid to Wyoming increases, resources have been redistributed from the citizens of the nation to some group of Wyoming citizens. Judging the precise incidence of the shift would require information of the source of the money (cuts in another program, federal taxes, or increased borrowing) and its destination (general state programs or aid to impacted communities). Determining where the money comes from is impossible. Even in the case of mineral leasing act distributions, where we would expect the source to be obvious, an increase in payments to states means a decrease in revenues for the federal general fund. Many of the revenues which end up in Wyoming are also difficult to trace. It is necessary to discuss the appropriateness of two types of transfers: from taxpayers nationwide to impacted communities and from taxpayers nationwide to states where energy development is occurring.

From the standpoint of the state both are valid since they enrich the state. The federal government must take a different view. If we apply the compensation principals from Chapter II to the federal government the issue boils down to three questions: a) to what extent are national taxpayers beneficiaries of energy development, b) to what extent are boomtown residents victims of development, and c) to what extent are state residents, as a group, victims. National taxpayers support policies of rapid energy development and energy independance, so they can be called partial instigators of energy development. However, it is consumer appetite for energy, more than any federal policy, which is causing energy development, so it is more appropriate to finance assistance out of taxes on energy consumption or production than out of general federal revenues. We have already discussed the difficulty of seeing all residents of boomtowns as victims, although a good number are. We have also pointed out that state taxpayers are often in a position to benefit from energy development by taxing it. Federal payments to states are then unjustified, except perhaps as a form of bribery. Payments to communities are of questionable merit since states are in a position to help and have incentives to do so.

Conclusions. It is likely that the federal government will be called on more often to provide special assistance to energy development impacted
communities. As the need for energy persists, states will be in a better position to make demands. Furthermore, since the "needs" that federal assistance is geared toward are insatiable--the state can always find ways to spend money--there is no reason to believe that future demands for assistance will be tempered by current victories. The analysis in this section indicates that federal aid is seldom justified for other than strategic reasons.

**Federal Lease Revenues**

One form of federal aid is directly geared to the level of energy development in the state. This is the distribution of payments to state governments under the Minerals Leasing Act. Since these payments are based on the amount of minerals extracted from public lands, they merit special attention.

Opportunities. The Federal Minerals Leasing Act of 1920 as amended, most recently in 1976, gives to the states in which public lands are located 50% of the federal revenues under minerals leasing. Prior to 1976, the payments were 37 1/2% of federal revenues. It took concerted effort on the part of Western legislators to override President Ford's veto and increase the state share to 50%. In Wyoming, where half the surface area and well over half the mineral rights are federally owned, payments under this act have reached $37 million annually.

States are free to spend the minerals lease payments as they please. The legislative history of the 1976 amendments strongly indicates the intent of Congress that the new 12 1/2% be used for planning and construction of public facilities in energy impacted areas, although the restriction is not written into the law. Payments under the Minerals Leasing Act are made to the state general fund and are treated as the property of the state as a whole, not of the areas in which minerals are being developed on public lands. These federal grants provide a substantial source of revenue which might be used for fiscal assistance to local governments impacted by energy development.

Constraints. The principal constraint on using mineral lease payments for impact assistance is the fact that they have traditionally not been used for that purpose. Wyoming has distributed its lease revenues to the University of Wyoming, the School Foundation Program, the State Highwa...
and a small amount to county road departments in the counties with federal lands. While the state is free to change the formula at any time, doing so is politically difficult: the agencies presently receiving money will fight to keep their share.

It has also been difficult to use the new money for impact assistance, even though that was the intent of Congress and the stated purpose of Wyoming in pushing for the additional revenues. The 1976 session of the legislature deadlocked when trying to derive a formula for the distribution of the additional payments. The House insisted that a substantial portion of the funds be spent for a domed stadium and athletic complex at the University of Wyoming. Even the Senate version of the bill allocated only a portion of the new revenues for impact assistance, the bulk was to be given to the community colleges throughout the state. The author of the Senate bill wished to use the money for that purpose in order to avoid new state taxes. This controversy demonstrates the insatiable state need for impact assistance from the federal government; federal funds can always be used to replace state funds.

Experience to date. The formula for the distribution of the federal lease revenues prior to March, 1977 is shown in Table 10. The distributions were made each year from all revenues received under the minerals leasing program, including both bonus payments and royalties.*

The most recent modification of the distribution formula separates bonus payments and royalties and treats them differently. Bonus payments are set aside for impact assistance. Since bonus payments arrive prior to the actual development of the lands, this mechanism can provide for front-end revenues to impacted communities. It also serves to hold aside bonus payments for use over the life of the leases, rather than for operating expenses of the state in the year the lease was signed. The distribution of the royalty payments is governed by the formula in Table 11.

Consequences. The new formula maintains the share of the total federal royalties to each of the previous recipients. (For example, the School Foundation Program used to receive 50% of the federal royalties.)

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* Bonus payments are large lump sums paid at the time a lease is signed and before any minerals are extracted. Royalties are a percentage of the value of minerals extracted and are paid annually over the life of a lease.
TABLE 10
DISTRIBUTION OF PAYMENTS UNDER THE FEDERAL MINERALS LEASING ACT
WYOMING, BEFORE 1977

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Foundation Program</td>
<td>50%</td>
</tr>
<tr>
<td>Highway Fund (general purposes)</td>
<td>35%</td>
</tr>
<tr>
<td>Highway Fund (roads in counties with public lands)</td>
<td>3%</td>
</tr>
<tr>
<td>County Road Departments</td>
<td>3%</td>
</tr>
<tr>
<td>University of Wyoming</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Legislative Service Office, General Information on Revenues Available to the State, Counties and Selected Cities of Wyoming, Wyoming State Legislature, (Cheyenne: September 1974.)
TABLE 11
DISTRIBUTION OF ROYALTY PAYMENTS UNDER THE FEDERAL MINERALS LEASING ACT
WYOMING, SINCE 1977

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Foundation Program</td>
<td>37 1/2%</td>
</tr>
<tr>
<td>Highway Fund (general purposes)</td>
<td>26 1/4%</td>
</tr>
<tr>
<td>Highway Fund (county roads)</td>
<td>2 1/4%</td>
</tr>
<tr>
<td>County Road Departments</td>
<td>2 1/4%</td>
</tr>
<tr>
<td>University of Wyoming</td>
<td>6 3/4%</td>
</tr>
<tr>
<td>Cities and Towns*</td>
<td>7 1/2%</td>
</tr>
<tr>
<td>Impact Assistance**</td>
<td>7 1/2%</td>
</tr>
<tr>
<td>School capital construction</td>
<td>4 %</td>
</tr>
<tr>
<td>Highway Fund (impacted roads)**</td>
<td>6 %</td>
</tr>
</tbody>
</table>

* This is a distribution to all cities and towns with a $10,000 minimum payment and additional funds based on population and school enrollments.
** For grants to impacted communities. To be administered by the Farm Loan Board.
*** After July 1, 1983 the 6% share for the Highway Fund for impacted roads will be switched to a "legislative government royalty impact assistance account." These revenues may be appropriated by the legislature to alleviate impact problems.
Source: Act #120, March 1977.
government paid to the state. It now receives 37 1/2% of 50%: the same amount.) However, the old recipients will no longer receive a share of bonus payments since they are earmarked for impact assistance. Of the new revenues, slightly under one half is distributed without regard to energy impacts. The share given to cities is distributed throughout the state, as is the portion placed in the school capital construction account. While impacted communities benefit from this aid, so do all Wyoming communities and school districts.

The new formula provides some aid specifically to energy development communities. Seven and one-half percent of the federal royalties received are distributed in the form of project grants by the Farm Loan Board. Six percent is spent in impacted areas by the Highway Department and will later be used for impact needs by the legislature. Most important, bonus payments will be reserved for impact related needs.

The increases of payments from the federal level did not increase aid to impacted communities by a similar amount. However, the intent of Congress was carried out to a degree, since some of the revenues are being used specifically for impact assistance rather than for general state needs.

One reason that Congress voted to increase payments under the Minerals Leasing Act was to encourage the states to allow and support energy development. The extent to which attitudes have changed as a result of this action is not yet clear.

Conclusion. Federal lease revenues are particularly attractive to states as a source of revenue for impact assistance. They require no effort on the part of state residents and come with few regulations and restrictions. For this reason they are desirable for any use. They are particularly attractive for impact assistance since, in those states which have public lands, they rise with increases in energy development. From the standpoint of the federal government, lease payments are not an effective means of providing assistance to communities since they are often not used by the state for that purpose.

Distributing Aid to Communities

Once the state has raised sufficient revenue to provide impact assistance to local governments, it still faces the potentially troublesome task of allocating the aid among communities and among types of services.
We shall focus here on four broad classes of distribution mechanisms:
- project grants
- unrestricted grants
- block grants
- loans

Just as the classification of revenue mechanisms tended to disguise variation within groups, this schema ignores, for the time being, the variety of loan instruments or of block grant programs which could be advanced. Once again, a common structure for the discussion of each mechanism will be used. We will be concerned with four aspects of a distribution scheme:

- Justifications. What are the merits of the proposal? What benefits does it purport to provide, and for whom?
- Counterarguments. Are there reasons to believe the supposed benefits would not materialize? Are there disadvantages? Who bears the brunt of them?
- Experience to date. What has Wyoming done thus far? What arguments were persuasive and which factions were influential? How did the state attempt to avoid potential pitfalls?
- Consequences. Which communities or social groups will receive aid? Which will not? What justifies this distribution of the benefits of impact assistance programs?

Project Grants

Project grants are made to local governments for the performance of a specific project such as building a water system or staffing a mental health clinic. Funding decisions are made by an administrative agency in response to applications from local governments. The legislature may set criteria for these decisions; specifying such things as permissable uses, community eligibility requirements, or grant sizes.

Justifications. The use of project grants to distribute state aid to energy development communities is justified on several grounds. First, since the state raises the money, it should bear the responsibility for seeing that it is spent wisely. While the local government might be a better agent for the management of a project, it is argued that the state should decide what the money will be spent on in order to assure that state goals and priorities are met. Second, by distributing grants on a project
by project basis, the state can assure that the most important projects (from the standpoint of the state) receive money, and that only those projects which actually require state assistance will be helped. It is claimed that project grants can be more selective than less restricted grants and do not have the effect of either helping local governments which need no assistance or furthering low priority projects. Third, project grants are favored when it is intended to restrict assistance to certain types of projects and that type can only be discerned only by inspection of each specific project. For example, political pressures in Wyoming led to the restriction that coal tax grants could be made only for projects which were necessitated by coal development, conversion or transportation. Whether an activity qualifies or not can only be determined by a case by case evaluation.

Counterarguments. Objections to the use of project grants for impact assistance are threefold. First, it is often claimed, particularly by local leaders, that local governments are more familiar with the needs of their constituents than is the state. Therefore, decisions about the uses of revenues should be made at the local level with a minimum of interference by higher levels of government. Second, some observers argue that, far from assuring that state aid goes to the neediest communities, project grants actually keep the small, poor or less experienced governments from participating in the grant program. Since applying for grants takes time, money and expertise, these communities may be ill equipped to make a good case for assistance to the distribution agency. Finally, opponents of project grants think other forms of grants are better able to provide assistance to the most needy, if their distribution formulae are appropriately structured. They fear political pressure on the distributing agency will cause it to choose some grants which are not justified.

Experience to date. In Wyoming, the Farm Loan Board (FLB) is responsible for the distribution of coal impact tax grants to local governments and state departments. Agency discretion was maintained for three reasons:

a) Some grants were to be pledged toward loan repayment. This could only be done on a project by project basis.

b) Another purpose was to provide assistance to communities which were impacted by projects in other jurisdictions. Rather than attempt to write a formula that would consider these cases, the use of judgement
was preferred.

c) Since the money originated with the coal impact tax it was hoped to limit projects to those actually made necessary by coal development activity and this could best be done with project grants.

The legislature did not allow the FLB to make grants for any type of project that it wished. Rather, assistance was limited to roads (60% of grants) and to water and sewer systems (40% of grants). In 1977 this ratio was changed to 50% for each. Since starting the impact tax grant program in 1975 the FLB has actually distributed $242,500 and made firm or contingent commitments to grant an additional $24,600,000 over the next 30 years. (Table 12 shows these grants.)

The 1977 session of the legislature also created two new project grant programs. Seven and one-half percent of all federal royalty payments and fifty percent of all bonuses are placed in an account for the FLB to distribute. In addition, the other fifty percent of the bonus revenues is placed in a legislative impact account which the legislature may appropriate as it wishes for impact amelioration.

**Consequences.** Coal tax grants in Wyoming have been made to a large number of communities. Grants have ranged in size from $10,000 for the study and planning of sewers for Moorcroft, to over $8 million for the construction of a new highway around Rock Springs. In a number of cases, small grants have been given to towns to enable them to plan water or sewer systems and make a full application at a later date. It is hoped that this will prevent the exclusion of these communities from the program.

The use of coal tax grants to secure loans has been an effective means of supplying front-end revenues to communities. By pledging future coal tax revenues to retire either WCDA or joint powers loans, the FLB has been able to leverage more projects in the present with its limited revenues. Thus, while the coal impact tax had yielded only $1,280,000 by the end of 1976, the FLB has made commitments to grant almost $25 million.

Some local officials and energy company managers have complained that the FLB tends to "spread the money around" rather than to make grants to the most severely impacted communities. They consider the pressures for the FLB to do so as inevitable since the FLB members are all statewide elected officials. Their allegiance is to, and their re-election depends on, the entire population of the state. With an opportunity to pass out money
## TABLE 12

**Wyoming Coal Tax Grant Commitments (3/3/77)**

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Purpose</th>
<th>Total Amount</th>
<th>Disbursed</th>
<th>Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Douglas</td>
<td>Water and Sewer, Study and Planning</td>
<td>$40,000</td>
<td>$40,000</td>
<td>---</td>
</tr>
<tr>
<td>Town of Gillette</td>
<td>Water, Sewer and Streets, Study &amp; Plng.</td>
<td>28,500</td>
<td>28,500</td>
<td>---</td>
</tr>
<tr>
<td>Town of Hanna</td>
<td>Water and Sewer, Study and Planning</td>
<td>28,500</td>
<td>28,500</td>
<td>---</td>
</tr>
<tr>
<td>Highway Department</td>
<td>Highway: Clareton-Reno</td>
<td>4,125,000</td>
<td>---</td>
<td>$4,125,000</td>
</tr>
<tr>
<td>Wheatland and Guernsey</td>
<td>Water and Sewer</td>
<td>1,210,910</td>
<td>---</td>
<td>1,210,910</td>
</tr>
<tr>
<td>Town of Gillette</td>
<td>Water</td>
<td>282,000</td>
<td>---</td>
<td>282,000</td>
</tr>
<tr>
<td>Town of Gillette</td>
<td>Sewer</td>
<td>621,250</td>
<td>---</td>
<td>621,250</td>
</tr>
<tr>
<td>Town of Kemmerer</td>
<td>Water and Sewer</td>
<td>750,000</td>
<td>---</td>
<td>750,000</td>
</tr>
<tr>
<td>Town of Douglas</td>
<td>Water and Sewer</td>
<td>1,790,225</td>
<td>---</td>
<td>1,790,225</td>
</tr>
<tr>
<td>Town of Evanston</td>
<td>Water, Sewer and Street</td>
<td>1,505,414</td>
<td>---</td>
<td>1,505,414</td>
</tr>
<tr>
<td>Town of Glenrock</td>
<td>Water, Sewer and Streets, Study &amp; Plng.</td>
<td>36,000</td>
<td>36,000</td>
<td>---</td>
</tr>
<tr>
<td>Town of Hanna</td>
<td>Sewer</td>
<td>452,828</td>
<td>---</td>
<td>452,828</td>
</tr>
<tr>
<td>Town of Mountainview</td>
<td>Sewer</td>
<td>102,156</td>
<td>---</td>
<td>102,156</td>
</tr>
<tr>
<td>County of Sheridan</td>
<td>Highway</td>
<td>605,000</td>
<td>85,000</td>
<td>520,000</td>
</tr>
<tr>
<td>Highway Department</td>
<td>Highway: Rock Springs Belt Line</td>
<td>8,090,516</td>
<td>---</td>
<td>8,090,516</td>
</tr>
<tr>
<td>Town of Saratoga</td>
<td>Water and Sewer</td>
<td>2,884,200</td>
<td>---</td>
<td>2,884,200</td>
</tr>
<tr>
<td>Town of Baggs</td>
<td>Sewer, Study and Planning</td>
<td>99,500</td>
<td>24,500</td>
<td>75,000</td>
</tr>
<tr>
<td>Town of Glendo</td>
<td>Water and Sewer</td>
<td>400,000</td>
<td>---</td>
<td>400,000</td>
</tr>
<tr>
<td>Town of Wamsutter</td>
<td>Water</td>
<td>85,000</td>
<td>---</td>
<td>85,000</td>
</tr>
<tr>
<td>Town of Glenrock</td>
<td>Water, Sewer and Streets</td>
<td>2,903,000</td>
<td>---</td>
<td>2,903,000</td>
</tr>
<tr>
<td>City of Moorcroft</td>
<td>Sewer, Study and Planning</td>
<td>10,000</td>
<td>---</td>
<td>10,000</td>
</tr>
<tr>
<td>Town of Clearmont</td>
<td>Water, Study and Planning</td>
<td>27,000</td>
<td>---</td>
<td>27,000</td>
</tr>
<tr>
<td>City of Rawlins</td>
<td>Water, Study and Planning</td>
<td>77,000</td>
<td>---</td>
<td>77,000</td>
</tr>
<tr>
<td>City of Sheridan</td>
<td>Water, Study and Planning</td>
<td>30,000</td>
<td>---</td>
<td>30,000</td>
</tr>
<tr>
<td>Town of Elk Mountain</td>
<td>Water, Sewer and Streets, Study &amp; Plng.</td>
<td>20,000</td>
<td>---</td>
<td>20,000</td>
</tr>
<tr>
<td>City of Newcastle</td>
<td>Water and Sewer, Study and Planning</td>
<td>20,000</td>
<td>---</td>
<td>20,000</td>
</tr>
<tr>
<td>Town of Ranchester</td>
<td>Water, Study and Planning</td>
<td>25,000</td>
<td>---</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Source: Communication from Mr. A.E. King, Commissioner of Public Lands and Farm Loans, State of Wyoming.
for public projects, the members can be expected to try to please everyone. Judging whether or not the FLB tends to spread grants to too broad a group of communities is a difficult task. One aspect is whether the grants have been made to impacted communities. Of 27 grants made by March of 1977, only seven were made to communities not on a list of impacted communities* prepared by the FEA. This is not the crux of the local officials' complaint, however. They feel the FLB tries to give something to all impacted communities and as a result does not concentrate on those with the most serious problems. Whether this is the case is difficult to establish. It does seem likely that many local officials see their own problems as more acute than others and tend to feel their requests for assistance have more merit than those of other communities. This could be the origin of the perception held by some local and energy company officials that their towns are given the short shrift by the FLB.

Conclusions. The use of project grants must be an integral part of state aid programs to deal with energy development. Project grants maintain the flexibility to respond to unusual or unexpected problems. They also allow contractual grants between the state and a locality so that grants may be pledged to debt retirement. While the problems associated with project grants are real, sensitive and sensible administration can overcome them.

Unrestricted Grants

Unrestricted grants are made to cities and other local governments for them to use as they please. Since there are no restrictions, there is no need for an application process and no opportunity for administrative arbitrariness. The size of the grants is usually determined by a formula established by the legislature.

Justifications. Unrestricted grants are justified on four grounds. Supporters claim that local governments are better able to judge the needs of their constituents than is a bureaucrat from the state. It is seen as an advantage that the money is not being used to further state goals. Local officials generally support unrestricted grants because of the extra

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* Of course, the list itself is open to question. This writer would have two other cities which received grants as being severely impacted. In addition, it is intended to make grants to communities which are potentially impacted by coal, and such towns were not included in the FEA list.
degree of freedom it provides them. A second argument in favor of unrestricted grants claims that restricted grants tend to cause over-investment in the target programs. This is often true from the standpoint of local governments, but presumably a state would not create a targeted grant program unless it thought expenditures should be increased.

The other two advantages of unrestricted grants stem from their responsiveness to local needs. Whether they are seen as advantageous or not depends on the overall goal toward which fiscal assistance is striving. If a goal of impact assistance is to redress a fiscal imbalance between the state and its localities that is caused by energy development, then allowing maximum local decision making is desirable. An example will clarify this point. The research of the Select Committee on Industrial Development Impact discovered that, because of the tax and expenditure patterns of the state, energy development would impose severe costs on cities and towns while providing revenues to the state and to a lesser extent, the counties.* One goal of the Select Committee's legislative package was to correct this systemic imbalance. Unrestricted aid is most appropriate since it provides revenues which can be used for general government expenses, rather than for projects which are of special interest to the state.

Finally, one goal of impact assistance may be to compensate local communities because they must bear the burdens of energy development. Unrestricted aid is more appropriate as a compensation payment since it maintains decisions in local hands, as they would have been before the boom.

Counterarguments. Objections to the use of unrestricted grants generally follow the arguments in favor of project grants. Unrestricted grants are seen as an abdication of the state responsibility to decide how the money it raises in taxes will be spent. They are seen as neglecting state priorities and financing actions for local governments which have little benefit for the state as a whole. Perhaps most importantly, it is seen as extremely difficult to set a formula which will respond appropriately to need. The final argument accepts a state intent to provide compensation.

* Cities rely on property taxes which do not respond well to boom developments because the facility is typically located outside the limits of the city and new housing is often less valuable than old housing. The state relies on sales and mineral severance taxes which react well to energy development. In addition, the state is the recipient of lease revenues from the federal government.
The claim is that unrestricted aid will not succeed since no formula would adequately reflect the present or future strains which energy development places on public services. Rather, grants should be made on a case by case basis since this would allow need to be demonstrated in concrete terms.*

Opponents of unrestricted aid generally have the encouragement of energy development as their goal, rather than compensation. Since they would like to see the state aid spent on activities which smooth the progress of energy development, rather than on whatever a community prefers, they would prefer restricted or project grants.

Experience to date. Wyoming has several existing programs of unrestricted aid to municipalities. Portions of the state sales and use, cigarette, and gasoline taxes are returned to the counties in which they are collected and from there on to the cities and towns within the county on the basis of population. The cities are free to use the money as they wish and aid goes to all communities whether or not they are boomtowns. The details of changes in sales and use tax distributions are discussed in the section on general state taxes and will not be repeated here. However, it should be emphasized that the increase in distributions was enacted to redress the fiscal imbalance discussed above. It came out of an effort to help energy boomtowns, but provides assistance to all municipalities in the state.

Recent legislation allocated 7 1/2% of the royalty payments to the state under the Federal Minerals Leasing Act for automatic distribution to cities and towns. The formula is based on school enrollment and population.* Once again, aid is available to all communities and no attempt is made to give more to impacted communities.

Consequences. One consequence of Wyoming's aid programs is the strengthening of all municipal governments in the state. The increased distribution of the sales and use tax has the effect of broadening municipal tax bases and making them more responsive to growth.

* For example, an agency might conclude, "without this grant either these streets will remain unpaved, or taxes will rise by X. Either alternative is considered an undue burden on the community so a grant will be made."

** Revenue is divided among counties in proportion to total school enrollment. It is then divided among incorporated municipalities in the county in proportion to population. No funds are granted to counties or school districts, even though they are used in the formula.
The state has not attempted to write a formula which would compensate heavily impacted communities more than those with relatively mild impacts. In fact, no unrestricted money was earmarked for impacted communities. Thus, there can be no evidence that unrestricted grants are an effective (or ineffective) means of compensating communities. That function was left to other programs.

**Conclusions.** While there are strong reasons to believe, in theory, that unrestricted grants grants are better for compensating impacted communities than are other mechanisms discussed here, no state has experimented with grants explicitly for that purpose. Wyoming has not chosen to use unrestricted grants to local governments as a form of impact assistance, but rather as a general means of revenue sharing.

**Block Grants**

Block grants are an intermediate step between project grants and unrestricted grants. A grant is made with the provision that it be directed toward a particular service or range of services (i.e. transportation, education, or "social services"). While decisions about the exact uses of the aid are made by the local governments, the state sets the priorities among broad classes of projects.

**Justifications.** While the idea of block grants for impact assistance has not been widely proposed in Wyoming it might be claimed that block grants combine the most desirable features of project grants and unrestricted grants. Block grants allow local officials, who are presumably knowledgeable about local needs, to decide on the specific activities to be funded. Yet the state is still in a position to require that funds be spent in general program areas in which it has special interest.

**Counterarguments.** A principal counterargument is that block grants combine the weaknesses of unrestricted and project grants and have weaknesses of their own. First, it may not be possible to assure that funds will be spent in line with established state priorities, and still allow meaningful local decisions. For example, in the state would like to build roads which would service an energy facility and some new housing developments, it might make a block grant for roads. (It would also have to make a block grant for roads to all communities, whether or not there were projects that the state wanted to see built, but that is a different issue.) Yet the
community, on receiving the grant, might decide to repair roads downtown or to pave streets in the older residential areas. If the state starts restricting the grants to leave only the projects it wants, it is transforming the program into one of project grants.*

Local governments find it easy to substitute block grants for local tax effort. If the general purpose for which a grant is made currently receives some support from local sources it is relatively easy to curtail local effort in favor of the grant. While the needs of the boomtowns may preclude tax reductions, local effort could be directed toward other, higher priority, projects. Whereas in the previous objection block grants degenerated into project grants, in this case they degenerate into unrestricted grants.**

The administration of block grants may also prove costly since some state oversight is necessary to ensure that grants are spent in the manner desired, especially if the state intends to prevent local substitution.

*For some services this may not be a problem since the state and local government share goals. Oldtimers' children presumably suffer from overcrowded schools as much as newcomers do, so a block grant for education would most likely be spent in a way acceptable to the state.

**There is also a danger that project grants would be used in this manner. However, it would be more difficult to do so. The administration of project grants in Wyoming would make it even more difficult since projects are only funded if there is no local capacity to carry them out.
elements of the Foundation Program formula (which is quite complicated) that tend to help impacted districts. The equalization provisions increase aid to districts with smaller than average tax bases per pupil. Thus, should a district absorb additional students because of an energy facility in another district, (or should the delays in assessing and placing a facility on the tax rolls keep the tax base below average), the district may receive partial compensation. Recent administrative changes have also made it possible for districts to increase their allotments during the school year should enrollment increase by ten percent or more. These aspects of the School Foundation Program will not be discussed further since the first is motivated by a desire for equalization rather than for impact assistance, and the second is a minor adjustment.

**Consequences.** The experience with block grants in Wyoming for impact assistance has been so limited as to render a discussion of their consequences superfluous.

**Conclusions.** The discussion presented here challenges the use of block grants in most situations, including assistance to impacted communities. Block grants cannot simultaneously obtain the goals of local decision making and decisions made in the interest of the state unless the interests happen to coincide, in which case either project or unrestricted grants would suffice.

**Loans**

Since the granting of a loan implies a commitment on the part of the recipient to repay the debt, and contracts to that effect must be executed, a lone program can only be handled on a case by case basis. While it is conceivable for the state to loan funds to local governments for general purposes, states usually wish to specify the uses of funds and clearly establish the means by which the recipient will repay the loan.

**Justifications.** Many local jurisdictions face only temporary difficulties in financing public services. Once energy facilities are placed on the tax rolls and the major infrastructure investments have been made, their budgetary positions are satisfactory. A fuller justification of local borrowing in a boom situation is presented in the section on state borrowing. For the purposes of considering alternative means of distributing state aid, there are three salient advantages of loans.
First, loans to local governments can provide front-end money. Even if the state intends to allow local governments to repay loans with the proceeds from grants, the loans can be provided before the state has been able to raise the full amount needed for debt retirement in the form of taxes.

Second, loans to governments, when they are not retired with state grants, avoid the possibility of overcompensating communities which are experiencing only temporary difficulties. If, after the turmoil of the boom has subsided, a community will be very well off by state standards, it is not fair to make grants to it during the boom which would only contribute to that prosperity. Rather, loans, which must be repaid during the period of prosperity, are the appropriate tool to get the community through the difficult period and onto its feet.

Third, loans to local governments are the appropriate means of correcting capital market inefficiencies which work to the detriment of small communities.

**Counterarguments.** There are three objections, other than a general dislike of debt instruments, to making loans to energy development impacted communities.

First, many local leaders claim that loans are not adequate compensation for the burdens of energy development. They feel that just because future tax bases are projected to be substantial does not mean the citizens of the city have not suffered or do not deserve compensation. Local leaders prefer grants or subsidized loans to ordinary loan programs.

Second, making loans to impacted communities is a high risk proposition, or at least is thought to be. This is the very reason that private lenders are reluctant to lend in boomtowns. Some citizens of the state might object if loan programs were to jeopardize the permanent funds or left open the opportunity for state taxes to absorb local debts, (ie. through forgiveness provisions).

Finally, it may be difficult to tell whether or not a specific community could be helped by a loan or will really need a grant. Especially if attempts are made to make loans before an energy facility is under construction, it is hard to predict the revenue and expenditure balances of local governments in order to make decisions between loans and grants.
Experience to date. There are two programs of loans to impacted communities in Wyoming. The first is the joint powers loan program, which is administered by the Farm Loan Board (FLB), since they are the sole proprietors of the permanent funds, from which the loans are made. Applicants to the FLB for joint powers loans are Joint Powers Boards formed by two or more local units of government for the express purpose of providing a specific service. The FLB can make up to $40 million in loans with interest rates between 4 and 8 percent. Since these rates are often lower than communities could achieve elsewhere, there is some encouragement to form Joint Powers Boards and seek loans. In order to qualify for loans communities must demonstrate both an urgent need for a project and their inability to obtain conventional funding. They must also completely secure the loan so that the principal in the permanent fund is not risked. This is usually achieved by signing over title to the facility to the state until the loan is repaid. The FLB has also been making coal tax grants to many joint powers loan recipients when the ability to repay loans is uncertain.

The 1975 session of the legislature created the Wyoming Community Development Authority (WCDA) to float up to $120 million in bonds. The constitutional limitation on indebtedness forced the creation of an independent authority. The funds raised were to be loaned (with a small mark up to cover operating expenses) to local governments for public service needs. (The WCDA also plans to make loans to banks for them to buy mortgages in rapid growth areas, but that is outside the scope of this paper.) Applicants to the WCDA must also document a severe need for the proposed project, the inability to find private financing, and the ability to repay the loan (preferably through user charges). When loans can not be secured through reasonable service charges, the FLB can make grants to cover the gaps.

Consequences. When the state loans money to local governments it serves as an agent for the movement of capital. If the municipality is truly credit worthy, private capital markets should be able to perform this function. However, small, isolated Western communities are not well situated to take advantage of national capital markets. Tools such as joint powers and WCDA loans are a means of providing these governments with access to capital.
The state is not a neutral or disinterested lender of money. With limited resources, the state can be expected to lend for projects which, in addition to meeting formal criteria are of some benefit to the state. Thus, the FLB is seen making loans for airports and hospitals which serve regional needs rather than solely the needs of the boomtown.

Bond banking agencies like WCDA are caught on the horns of a dilemma. At the same time that they are expected to make loans only to projects that cannot find conventional financing (and are therefore probably risky), it must be sure that it will be able to repay its bonds and convince lenders of this. Project selection will be a delicate task, but the availability of coal tax grants and state sponsored reserve funds should strengthen the WCDA position.

Many of the loans which the FLB has made have been heavily subsidized by the coal tax for impact assistance. When loans are used in this way they are no longer simply a means of access to capital. The combination of loans and grants is also a redistributive mechanism. Since the grants are financed by taxes on energy development, the effect is to redistribute wealth from the owners of energy resources and the present and future users of energy to the present and future residents of boomtowns. This is fair form the standpoint of penalizing energy development beneficiaries for the impacts of energy development. However, the use of coal tax revenues to support public capital investment provides benefits to many who were not hurt by energy development, such as newcomers to the town.

*Conclusions.* Loans to local governments are a legitimate means of correcting capital market flaws which impede the entry of some communities into the market. However, when loans are subsidized, either through low interest rates or grants, they have redistributive consequences which should be recognized by policy makers.

*Summary*

The issue which has permeated the discussion of strategic alternatives in this chapter is one of entitlements. What is the proper distribution of costs and benefits from energy development? Discussion of the distributive impacts of various actions can identify the winners and losers with some precision. Discussion of whether the winners are entitled to their winnings or the losers should be reimbursed for their losses requires
an overall conception of what a just outcome or system would look like.

One such conception is the perfect market paradigm of economists. The essential assumption of that system, from the standpoint of studying the boomtown problem, is that all goods (or bads) must be exchanged at a competitively determined price. When there are externalities, such as the impacts of energy development, it is necessary for the government to step in and establish prices for those goods.

This was the paradigm underlying our assessment of the desirability of redistribution from energy consumers to long term residents of boomtowns. If one is pleased with the initial distribution of wealth, systems with appropriately administered prices for those goods which a market cannot price will perform fairly well.

However, since these prices are administered as taxes and subsidies by units of government whose interest diverge from "society's" there is little reason to expect that prices will be set at appropriate levels. It is not in Wyoming's interest to tax energy development at a level equal to the adversities it must face. Rather, it is in Wyoming's interest to tax energy at the highest level the market will bear. Similarly, it is not in the federal government's interest to grant Wyoming sufficient revenue to cover the advantages to federal taxpayers from energy development there. It is in the interest of the federal government to give Wyoming as little as possible, without jeopardizing energy production. If Wyoming is able to stop energy development, the federal government may have to pay substantially more than is "justified" by the principles of administered prices.

The tax and subsidy decisions are set, not by reference to actual costs and benefits (except as a rationalization), but by the relative power of the participants. Under those circumstances, the outcome may bear no resemblance to the economic notion of optimality.

When administered prices abound it is a mistake to place too much faith in the existing distribution of wealth and seek only to redress changes which occur. For example, were Wyoming to stop giving mineral leasing revenues to the School Foundation Program in order to fund impact assistance, a real redistribution between the children of the state and the citizens of boomtowns would occur. It would be difficult to justify this action by our criteria, yet it might be more difficult to justify the original decision to distribute the revenues to statewide education, or
even the decision to grant Wyoming the revenues.

An elaborate system of entitlements has been politically established. Few would defend the entire system as being rationally constructed or just. The system of rights and responsibilities is changed daily by governmental actions, and the workings of the economy favor different groups at different times. An event like energy development, which enriches some as it impoverishes others, is not out of the ordinary. Consideration is given to compensating individuals for suffering energy development because we feel that the losses are substantial and that they are undeserved.
At this point it is appropriate to consider an ordering of preferences among the alternatives in light of the goals which were posited in the second chapter. As we expected, different alternatives are effective in achieving different goals. Decisions as to the set of strategies which a state will use should be made by legislators who are able to weigh the relative importance of these and other goals to the state and are cognizant of the probable implications of the alternatives for meeting the goals.

**Correcting Capital Market Flaws**

Attempts to correct or circumvent the inefficiencies in national capital markets which work to the disadvantage of booming communities should avoid disrupting the market in more fundamental ways. A state should also prefer not to take on contingent liabilities if there are less risky means of providing access to capital markets. For these reasons, borrowing from the permanent funds is the preferred means of raising revenue. By shifting some of the assets of the state into local debt, the state directly increases the flow of investment into impacted communities and stems the flow of investment out of state. There are two difficulties with the strategy. First, not all states have permanent funds. Second, the permanent funds are generally regarded to be held in trust for all the people of the state, so it may be politically difficult to target assistance to communities which are experiencing energy development. In states where non-booming local governments also have difficulty marketing their bonds, however, assistance on a statewide basis may be justified.

A second choice, for those states with federal land in them, is to use federal lease bonus payments as a source of capital. The advantage of bonus payments is that they arrive in one large lump sum when a lease is signed, rather than over the active life of the lease; the money is available before impacts are felt and can create public facilities in anticipation of population growth, the benefits of which will be enjoyed for many years. Using bonus payments in this way is also preferable to spending them all in the year they are received for the operating expenses of state agencies.*

* Federal lease payments originate out of state and do not impose a burden
A third, and still attractive means of providing local access to capital is for the state, or an agency of the state, to issue bonds. This strategy is less attractive to a state than using permanent funds or bonus payments since the state must seek out new sources of capital and assume the responsibility to repay the notes in the event of local default.

The use of taxation to raise money for correcting capital market failures would probably not be effective since a substantial fund should be available and there are many current needs for state revenue. This would not rule out the gradual creation of a revolving fund out of state taxes which would be used to make loans to communities. In fact, that strategy is similar to using the permanent funds, which are simply an accumulation of rental and sales revenues from the trust lands. However, such a device would be a long term approach to correcting capital market failures which affect small towns, rather than an immediate response to the problems of boomtowns.

Among the distribution mechanisms discussed in this report, loans are the only appropriate means to address capital market failures.** Providing a community with a loan is responsive to the nature of the problem: a credit worthy government has been unable to obtain credit from traditional sources. Although local governments would certainly prefer grants to loans, grants would perform a redistributive function. While there is nothing intrinsically wrong with redistributing wealth, in many situations it is called for, it should not occur as an unintended side effect of other policies. Redressing capital market flaws is not a legitimate reason to make grants to impacted communities.

**Providing Compensation**

If the purpose of compensation is to redistribute wealth from the beneficiaries of energy development to those who suffer from it, excise taxes on energy development are the preferred means of raising revenue.

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**The state might help some governments by easing legal restrictions on borrowing. For some communities this would not help since they have been unable to sell bonds even though they are below the legal limit.**
Excise taxes can directly penalize the activity which is creating the problem. However, most energy excise taxes fail to tax some of the groups of beneficiaries. The most common energy tax, the severance tax, is ultimately paid by the resource owners and consumers. Energy companies, newcomers, businesses and workers who will gain indirectly are spared by a severance tax. Other mechanisms might be devised to tax some of these groups, however. For example, there might be an excise tax on energy company profits or a license fee for working in an energy facility. However, as the group of beneficiaries becomes more diffuse it becomes more difficult to tax them according to the benefits they actually receive.

The proceeds of federal lease revenue payments to states are also useful for compensation since they vary with the level of energy development. Whether the use of federal lease revenues constitutes a redistribution from winners to losers is open to debate. The issue depends on a judgement as to the 'rightful' ownership of the federal revenues.

The third choice for raising compensation money is federal grants. Grants would be favored by the state since they originate with federal taxpayers. However advantageous this may be to the state, it is not necessarily a tax on the beneficiaries of energy development, except insofar as taxpayers gain satisfaction from 'energy independence.'

General state taxes could provide the necessary revenue, but it is hard to justify taxing the people of the entire state for the benefit of a few, especially if the citizens of the state are not considered to benefit from energy development.

Bonding could raise large amounts of money for substantial compensation payments at the outset. However, it would still be necessary to raise money to repay the bonds, and this would require the use of another strategy which would be the actual source of the compensation payments. The use of bonds does have one feature to commend it: the benefits of energy development accrue to the owners, consumers and energy companies for many years into the future, yet the adverse impacts are felt immediately. When bonding is coupled with taxation of the beneficiaries, those paying the taxes can support the same compensation payment with smaller taxes over many years rather than being hit by a stifling tax or fee at the outset of a project.

It is not clear that there is a fair means of compensating those who are hurt by energy development by payments to the governments where they
live. In the second chapter, three reasons for providing compensation were discussed: fairness, efficiency (bringing private costs to the supporters of energy development in line with social costs), and currying local favor for projects. Providing payments to local governments does not ensure fair compensation since all who choose to live in the town will be free to enjoy the fruits of the payment, while those who find boomtown conditions intolerable and wish to move out cannot take the compensation. More generally, the services which governments provide cannot be sold for cash in order to purchase the goods which the intended recipient would rather have had. Since many who do not deserve aid may reap the benefits, a payment large enough to adequately compensate the truly aggrieved will place an undue burden of the groups providing the revenue. One set of development beneficiaries will be called on to aid another.

The conventional wisdom is that efficient allocation is not furthered when those who suffer from a public externality are compensated for it. Baumol and Oates argue that to compensate the victims leaves them with no incentive to avoid the adverse conditions and actually pays them to suffer when it might be more efficient to leave.28 This analysis does not hold in the boomtown case. As long as lump sum payments are made before development occurs, and there is no further opportunity to receive compensation, individuals would have the same incentives to depart as they did without the compensation. However, this argument does imply that individuals should be compensated for the lesser of the two evils they face: living in a boomtown or moving from their hometowns.*

From the standpoint of obtaining local approval for energy projects, payments to local governments may actually be more advantageous than payments to individuals. Since specific favorable governmental actions are required, rather than the general goodwill of the community, payments to the government would be as effective. Grants are very popular with local leaders since they allow local leaders to increase services without raising taxes. Even if there are long term reasons for gaining the goodwill of the community, providing visible public services would probably be more effective than payments to individuals. After the boom has started, many of the members

* Boomtowns illustrate a gap in the Baumol and Oates thesis. If compensation is paid to victims of a public externality at the time when the hardship is imposed, and all others are judged ineligible for compensation, fairness can be achieved without sacrificing efficiency.
of the community are newcomers who would be ineligible for compensation. The provision of a public service is a "gift that keeps on giving" and may be more effective at gaining long term local support.

It is likely that state policy makers will continue to favor programs of aid to local governments. Aid to governments is an old and respected tradition, whereas aid to non-impoverished individuals is not. Legislators from non-impacted communities, who might go along with payments to local governments to meet public service needs, would balk at the notion of payments to selected individuals. The Director of the North Dakota Coal Impact Office claims that there is no possibility that the state would make payments to individuals in boomtowns, and that to do so would be unconstitutional.29 This predilection would indicate that state officials are not actually concerned with providing meaningful compensation. Payments which are made to local governments in order to smooth the course for energy development or to meet state policy goals can be called compensation in order to appease local residents.

If payments to local governments are to be accepted as a second best means of providing compensation, an ordering among the distribution strategies is possible. Unrestricted grants to local governments are the preferred alternative since that allows the citizens of the town to decide how their compensation will be spent.* After unrestricted grants in priority are block grants since they may be used relatively freely and can also substitute for local tax effort. Project grants are not an attractive alternative unless they are meant to be used for projects which specifically serve the long term residents, an eventuality which we consider unlikely since the state is primarily interested in providing services for energy development. Loans are inappropriate for compensation purposes. However, if the benefits from a loan can be enjoyed before the newcomers arrive and the loan repaid by the future residents, redistribution of the type desired has occurred.

* Under certain circumstances unrestricted grants would be unfair to the intended recipients. If newcomers have already become powerful in the community when the grant is received, they can be expected to fund programs which meet their needs. Thus, compensatory payments must be made before the major influx of new residents arrives.
Orderly Development of Natural Resources

When state aid to energy impacted communities is intended to ensure orderly development the revenue source is not particularly important to the achievement of that goal. It might be argued that excise taxes on energy distort the market and preclude efficiency. However, the same groups which stand to gain from energy development also would benefit from state actions to make that development process more orderly by providing public services in boomtowns, so a tax on energy would not be unfair. Moreover, the state can use tax levels to effect the rate of minerals development, keeping it at manageable levels. If appropriately administered, excise taxes on energy development can be a tool for achieving the goal of orderly development.

From the state's standpoint, federal lease revenues are a preferable alternative since there are few restrictions of use. Yet there is likely to be opposition from the present recipients of the money. Energy excise taxes are popular because they are paid primarily by people from out of state and conform to the principal of benefit taxation if used to smooth the development process. When localities will eventually have plenty of tax revenue, loans are a convenient tool; this may call for tapping the permanent funds or state bonding.

Project grants, unrestricted grants and loans are all necessary ingredients of an effective distribution strategy. Each has a role to play. Since boom development places unprecedented strains on all local operating expenses and it is in the interest of the state that local services remain viable, unrestricted grants are needed. Unrestricted grants are preferred for this purpose since there is no compelling reason for the state to interfere with local allocational decisions. However, grants must be made in such a way as to favor those communities with the most severe hardships. Loans can be used to provide access to capital, but they may also be subsidized to allow non-credit worthy governments to obtain front end money. By subsidizing the interest the state is recognizing the statewide benefits of orderly development. Project grants are also needed to provide funding for important facilities where local governments would be unable to repay loans, even with an interest subsidy.

The management of a many faceted program such as this one requires two devices: a formula for the distribution of unrestricted aid to booming
communities which favors those that are hardest hit, and an agency or board to decide on local requests for loans or grants. The agency must be able to assess the need for the facility and the ability of the community to repay loans in order to decide the conditions under which each separate aid package will be disbursed.

Summary

The local impacts of energy development include social disruption, inflation, housing shortages, and aesthetic deterioration. However, the aspect of the boomtown problem which has been most troublesome to state and local officials is the strain placed on local budgets. Newcomers demand public services, but often local tax bases do not keep pace with the needs. Local governments have difficulties meeting both needed capital and operating expenditures. For some governments the problems are short lived; as new developments are placed on the tax rolls their budgets stabilize. Others face a much more serious problem, the energy facility may be outside the jurisdiction, and hence pay no taxes to the community, yet the workers choose to live there.

In energy rich states, local leaders facing severe fiscal strains have called on state governments to provide assistance. There are three possible goals for state programs of fiscal assistance to boomtowns. States may wish to: correct capital market failures, compensate those who suffer from energy development impacts, or ensure an orderly development process by providing public services when they are needed.

Any fiscal impact assistance program must both raise money and distribute it to the intended recipients. We have reviewed several possible sources of revenue: general state taxes, excise taxes on energy development, bonding, permanent funds, federal aid and federal lease revenues. Four techniques for distributing aid were considered: project grants, unrestricted grants, block grants and loans. Our discussion of the distributional impacts of alternative means of raising and distributing revenues highlighted the importance of an overall conception of an appropriate distribution of the costs and benefits of energy development. Without such a conception, the distributive impacts can be evaluated but no normative judgement on their validity can be made.

The final chapter has presented a preferential ordering of the various mechanisms based on their ability to help achieve each of the goals.
FOOTNOTES

1. See, for example, "Leaders in Congress Stress Compromise," The New York Times, April 21, 1977 p. 49. Speaker of the House O'Neill is quoted as saying, "The President is aware of the fact that this (the energy proposal) is his first tough major fight...This is a battle. I can anticipate parochialism along the line, people voting their area..."


8. Norman E. Toman, et.al., Economic Impacts of Construction and Operation of the Coal Creek Electric Generation Complex and Related Mine, North Dakota Agricultural Experiment Station, (Fargo: May 1976.)

9. Legislative Select Committee on Industrial Development Impact, Interim Report and Recommendations, Wyoming State Legislature, (Cheyenne: December 1974.)


13. Michael O'Hare, op.cit.

14. Legislative Select Committee, op.cit.

16. Wyoming Department of Revenue and Taxation, Annual Report (Cheyenne: Annual.) and Legislative Select Committee, op.cit.

17. Legislative Service Office, General Information on Revenues Available to the State, Counties and Selected Cities of Wyoming, Wyoming State Legislature, (Cheyenne: September 1974.) reports that the sales tax made up 15-20% of the typical city budget. No estimate is available for the period after the increases in distributions.


19. The general point that local people are more likely to support energy development when they and their friends have worked in the industry before was made by sociologist Ronald Little in a presentation at MIT, March 22, 1977.

20. Mineral Division, op.cit.


22. Legislative Service Office, op.cit.

23. Federal Energy Administration, Region VIII, Socioeconomic Impacts and Federal Assistance to Energy Development Impacted Communities, (Denver: May 1976.)


25. Federal Energy Administration, op.cit.

26. Legislative Select Committee, op.cit.


State government has reacted to the problems associated with boomtown development in many ways. Solutions or responses include automatic administrative actions, discretionary administrative actions, and legislative approaches.

**Automatic Administrative Responses**

Automatic responses which occur under existing statutes and procedures in response to changing conditions. For example, funds distributed to local units of government on the basis of service needs or sales automatically increase as a boom develops. In Wyoming, the School Foundation Program distributes funds to local school districts according to a formula based on average daily membership in the district, as well as special needs including transportation, homebound children, or vocational programs. Approximately 35% of all public school expenditures derive from state aid, primarily from the Foundation Program formula. This formula tends to equalize expenditures by increasing aid to districts with below average tax bases per student. Thus, districts which experience increased enrollments without increased assessments, either because developments are in other districts or because they have yet to be assessed, receive partial compensation from the state. The Department of Education also makes adjustments in state aid levels during the school year should attendance levels rise dramatically.

A portion of all sales tax revenues is returned to the county from which it was collected and then split between the cities and county according to population. Since sales respond very quickly to population increases, and since revenues are returned to local units of government each month, this source of income responds quickly to growth. Portions of state receipts from gasoline and cigarette taxes are distributed in a similar manner.

**Discretionary Administrative Actions**

Administrative departments have some discretion. In Wyoming they can provide technical assistance to selected communities and reorder departmental priorities to favor communities experiencing energy development impacts.

The principal agency engaged in providing technical assistance to locali-
ties is the Department of Economic Planning and Development (DEPAD). They have helped assess the needs for various services and provided aid in seeking and applying for federal grants, in locating technical expertise, and in providing management guidance.

Several state agencies, with DEPAD serving as the lead agency, have recently generated a pilot project to provide technical assistance to local governments in the Kemmerer-Evanston area in the southwestern part of the state. This area is expecting trona expansion, coal development in the Green River Basin, and exploration for oil and natural gas in the Overthrust Belt on the Utah border to cause additional growth. The project is in its third phase. The state agencies involved have inventoried the public facilities in the area to identify present deficiencies and strains which growth might cause. The state, federal and local participants are now prepared to develop specific action proposals. The heavy involvement of state and federal agencies at early stages does not imply a commitment of funds. The project is now heading toward the design of programs to increase the management capabilities of local governments, rather than toward major spending programs. The hope is that improved management can leverage more services at the same cost. In addition, grants or other fiscal assistance could be more productive with improved management. Along these lines, local governments in Lincoln and Uinta counties have formed an Association of Governments to coordinate planning.

The Department of Education has helped to prepare enrollment projections, although they have little faith in their own numbers since energy development is so uncertain. However, they consider projections for the Kemmerer-Evanston area to be better because of cooperation with the State Planning Coordinator's Office. The DOE also provides assistance in planning curriculum changes which energy development may make appropriate. The Division of Water Quality within the Department of Environmental Quality has analyzed and attempted to improve sewerage plans as a part of its administration of federal grant programs. Since many energy impact communities will be needing sewer systems and sewage plants for the first time, this assistance may be very valuable.

Several state agencies have reordered priorities to favor boom communities. Population increases which cause increased use of recreation facilities have affected the operations of the Recreation Commission, the Game and Fish Commission, and federal agencies such as the Park Service, the Forest Service.
and the Bureaus of Land Management, Reclamation, and Outdoor Recreation. The Recreation Commission draws up a State Comprehensive Outdoor Recreation Plan that is meant to guide the actions of these agencies. The most recent of these plans takes into consideration the increased needs of rapid growth areas and attempts to funnel recreation funds to them.

The Division of Water Quality has a specific concern for the quality of water in streams and has responsibility for the allocation of federal (EPA) water quality grants in the state. They have recently revised their criteria for setting allocation priorities to consider population impact because of water quality problems that many boomtowns experience. This has had the effect of raising projects in boom communities to higher positions on the list of projects to be funded.

Optional Sales Tax

In 1973 the legislature allowed individual counties to impose a 1% sales tax, by referendum, in addition to the state's 3% sales tax. The tax may only be instituted for a period of two years after which it must be submitted to another referendum. Several local officials comment that this provision has been the single state action most crucial to solving their areas problems. Seven counties have made use of the tax to date.

Joint Powers Act

The 1974 session of the legislature enacted a Joint Powers Act to allow local governments to form Joint Powers Boards. The Boards can undertake projects that individual governments might not be able to afford. The Act also allows $40 million in loans to Joint Powers Boards from the permanent funds of the state. The Farm Loan Board (FLB) which consists of the five elected statewide officials, (Governor, Secretary of State, Auditor, Treasurer and Superintendent of Instruction) has constitutional authority over the permanent funds and makes all decisions regarding loans. Since loans are available below market interest rates they provide an inducement to the formation of Joint Powers Boards. Since the loans are from the permanent fund, which may not not be risked in any way, the FLB requires that titles to land and structure be transferred to the state as security. The Attorney General must approve such transfers. Most joint powers loans have been made to areas experiencing growth due to energy development.
Wyoming Community Development Authority Act

The WCDA was empowered to float up to $120 million in tax-free revenue bonds, the proceeds of which were to be used to finance public facilities and housing. Since the state is not allowed to issue general obligation bonds in excess of 1% of its assessed valuation, the bonding authority of the WCDA has been challenged in the courts and the WCDA has been unable to operate. Some joint powers loans made by the FLB may be repurchased by the WCDA at a later date if the projects would be more appropriate under the WCDA. It was assumed by the Select Committee, though not explicitly stated in its report, that the WCDA staff would become the state level experts on the needs of communities affected by energy development. It was thought that the WCDA would be able to evaluate proposals on the basis of need, importance and financial soundness and that it would be able to keep accurate and up-to-date records so as to most efficiently use the funds at the state's disposal. It was also hoped that the WCDA would assist in the review of applications to other state agencies, particularly the FLB.

Increased Sales Tax Distribution

This provision increased from one-sixth to one-third the portion of the 3% sales tax automatically returned to the political subdivisions of the state. As mentioned earlier, the sales tax forms a significant portion of local revenues and is responsive to growth.

Imposition of a Coal Tax for Impact Assistance

The legislature created a special severance tax on coal which phases in with progressively higher rates, reaching 2% of value in 1978. Originally, the tax was designed to expire once it had raised $120 million; this has now been increased to $160 million. The FLB is authorized to disburse these funds to areas that are either directly or indirectly affected by coal development. The legislation restricted grants for use on highways, road or street improvements, or water and sewer projects. The Select Committee intended that the grants be used primarily as pledges to pay portions of WCDA loans to communities that would be unable to repay the loans out of user charges or local tax revenues. The Committee also wanted the WCDA to evaluate applications for these grants. The WCDA was not allowed to make decisions on grant proposals because the Select Committee felt that grant decisions
would become politicized and wished to avoid politicizing the Authority. Therefore, the FLB, which is made up of elected officials, was given jurisdiction over the grants.

**Land Use Planning Act**

In 1975 the legislature enacted the Land Use Planning Act which created a Land Use Advisory Committee (to represent county interests), a Land Use Commission and the Office of Land Use Administration to provide staff assistance. The Act mandated local planning for the first time and provided financial assistance of up to $20,000 over two years for each county to prepare the land use plans (defined in the Act as "any written statement of land use policies, goals and objectives adopted by local governments.") Local plans are to be consistent with goals, policies and guidelines promulgated by the State Commission and are subject to Commission approval. Should a county not submit an acceptable plan, the Commission must prepare an "appropriate land use plan using goals established by the local governmental units." The Act also provides for the designation of areas of critical or more than local concern. The Commission may assist local governments in planning for and regulating critical areas after setting state guidelines. The Commission has general powers of enforcement but the Act does not specifically allow it to regulate land use in critical areas. Thus, its powers are unclear.

The Commission has adopted goals, policies and guidelines and most counties are preparing preliminary plans to meet the June 30, 1977 deadline. Given the ubiquity of energy development, most county plans will have to consider means of accommodating population increases associated with energy facilities. Counties are being encouraged to plan for their entire land area, including federal lands within their jurisdiction where the regulatory power of the state is in doubt. Since federal agencies are supposed to consider local plans when making land use decisions, the existence of explicit plans will improve the bargaining position of local governments.

**Mineral Trust Fund**

In 1974 the legislature proposed an amendment to the Wyoming Constitution (adopted in November of that year by the voters) providing for a mineral excise tax equivalent to 1 1/2% of the gross value of production.
These funds are placed in the Permanent Wyoming Mineral Trust Fund. Although the Fund is inviolate, the income from it is deposited in the general fund and the legislature may specify conditions under which monies in the Fund may be lent to political subdivisions. In 1975, the legislature implemented this amendment, and increased the tax to 2% for the Mineral Trust Fund and 2% for the general fund.

The Industrial Development Information and Siting Act

The 1975 session of the legislature enacted the Wyoming Industrial Development Information and Siting Act. The Act created an Industrial Siting Council and the Office of Industrial Siting Administration, within the Office of the Governor, to serve as staff to the Council. The Siting Act requires all industrial activities with a proposed construction cost in excess of $50 million and all energy conversion facilities in excess of certain capacities to apply for a permit from the Council prior to commencement of construction. It requires the payment of substantial fees used by the Office of Industrial Siting Administration to review the impacts of the proposed project. The legislation assigns them responsibility for a wide ranging assessment of social, economic, land use and public service impacts. The Council has the power to refuse a permit if it does not find that the likely impacts of a project are held to an acceptable level or that every reasonable precaution has been taken to minimize adverse impacts. The Council may also place conditions on the permits which it does grant.

The Industrial Siting Act does not specifically cover mineral extraction operations, yet surface mining might be included under the clause which places any industrial facility with an estimated construction cost of at least fifty million dollars" under the jurisdiction of the Industrial Siting Council (ISC). The Office of Industrial Siting Administration believes the legislative intent is unclear. They had hoped the 1977 session of the legislature would clarify the matter. However, no amending legislation was enacted.

Distribution of Federal Lease Revenues

Under the Federal Mineral Leasing Act of 1920, the federal government returned 37 1/2% of all royalties and bonuses on mineral leases on federal
lands to the state in which those lands were located. The Coal Leasing Act Amendments of 1975 increased the state share of these royalties to 50%. Federal law places no restrictions on the use of the funds. The legislative histories of the Amendments and the BLM Organic Act strongly indicate that the funds were intended for public facilities and services in communities experiencing the impacts of energy development on public lands.

From 1923 to 1977, the formula used by the State of Wyoming for the distribution of federal lease revenues remained basically unchanged. The formula gave 50% of the revenues to the school foundation program, 35% to the highway fund for general purposes, 9% to the University of Wyoming, and 6% to roads in the counties containing federal lands. In fiscal year 1972-1973 the state received $19,855,000 from the leases. By calendar year 1975 this figure reached $34,786,000.

Act 120 of the 1977 legislative session provided for the future distribution of the mineral lease revenues received from the federal government. Bonus payments, which are made by companies when leases are signed, are separated from royalty payments and reserved to alleviate problems associated with mineral development. Half of the bonus payments will be placed in the government royalty impact assistance account for distribution by the FLB. The other half will be reserved for the legislature to decide on its use.

Under the new legislation, royalty payments will be distributed as shown in Table 11 in the text. (p.51.) This distribution preserves exactly the share allocated previously with the exception of the amount allocated to the highway fund. In 1983, the additional 6% the fund now gains will be shifted to the royalty assistance account. The FLB is authorized to make grants from the government royalty assistance account for planning, construction, and operation of public facilities and services. Priority will be given to impacted communities. The FLB plans to decide on grant awards at meetings every six months in which applications will be compared on the basis of relative need and the ability of a community to fund the project itself. If an application is rejected, it will remain pending and be reconsidered at subsequent meetings. In July the FLB will make the first $2 million in grants, which may not be pledged against future expenditures, and will grant about $4 million each year under the program.