

# DeWitt County Budget FY 2014 and 2013 Tax Rate



Prepared by:  
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DeWitt County, Texas

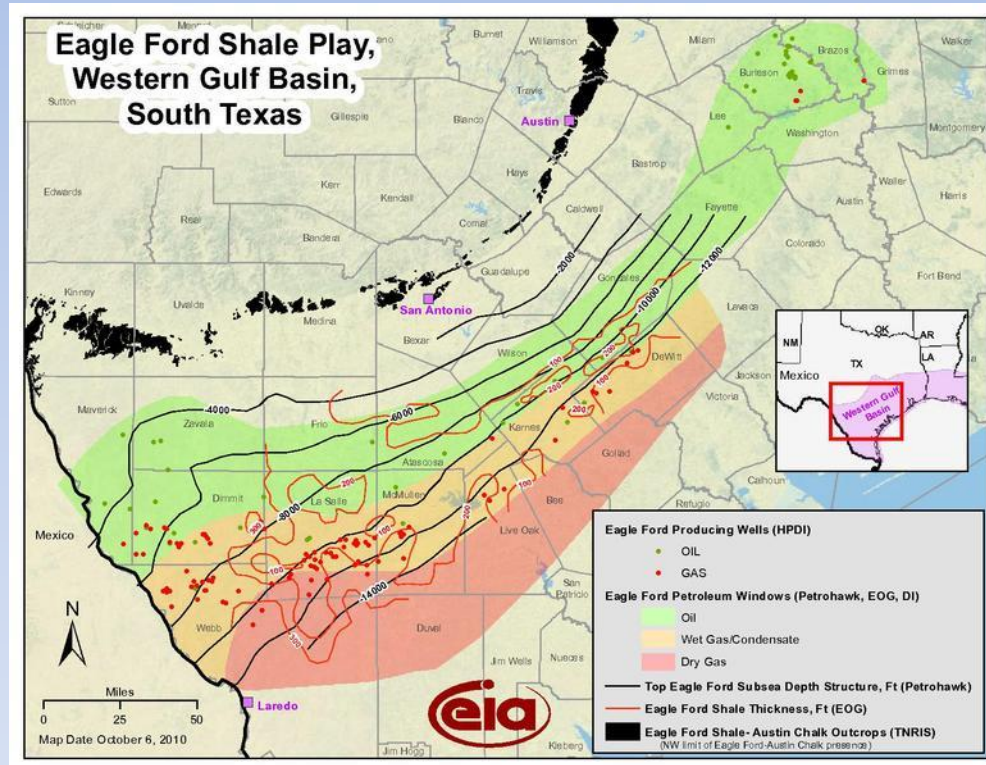
## Mandated Tax Statement

This budget will raise more total property taxes than last year's budget by \$6,036,333 or 33.14%, and of that amount, \$92,989 is tax revenue to be raised from new property added to the tax roll this year.

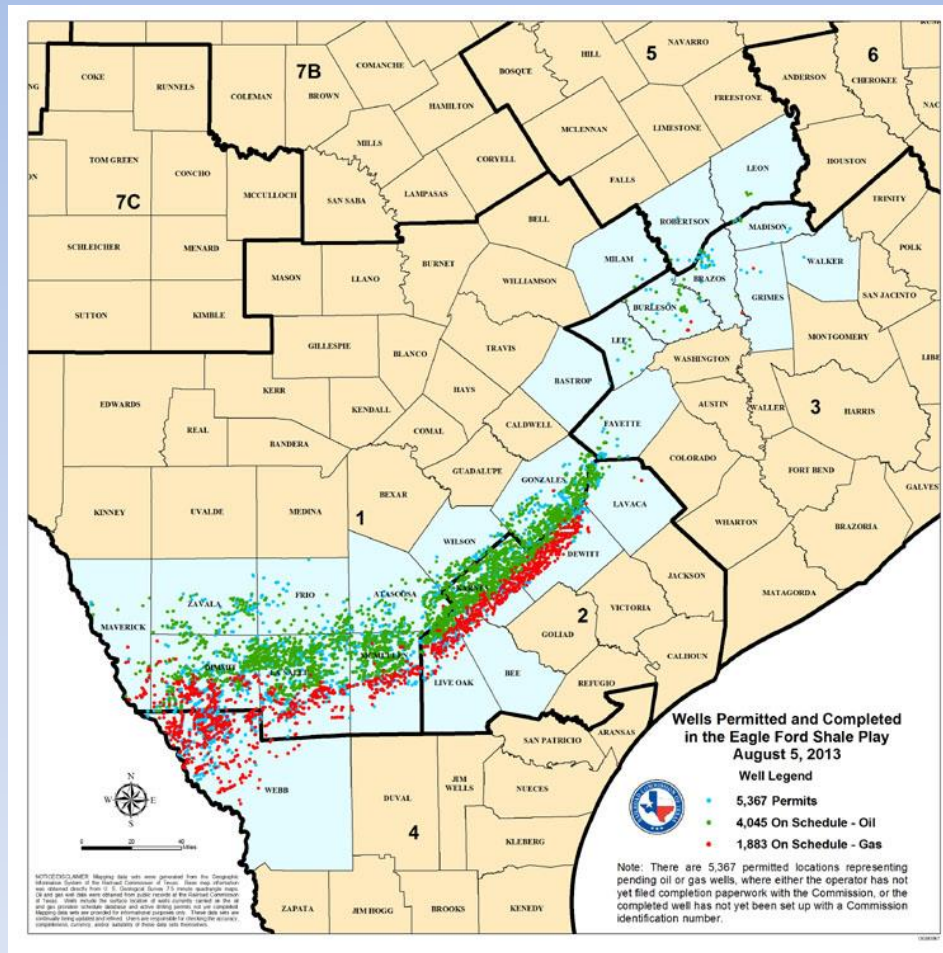
## Do Not Panic !!!

- Tax rates are decreasing by 3.266 cents ( - 6.5 percent)
- Over Age 65 and Disabled homeowners with the proper exemption in place enjoy a 'tax freeze'
- Over Age 65 and Disabled homestead taxes are applied at the current tax rate or the 'frozen' dollar amount, whichever is less
- Taxes on other homeowners may increase or decrease based upon appraisal of new improvements or depreciation
- Taxes on business property may increase or decrease based on valuation factors such as property improvements or inventory fluctuation

# Eagle Ford Shale in the beginning



# Current Eagle Ford Shale Map



## EFS in DeWitt County

Less than 70 RRC permits per year before EFS

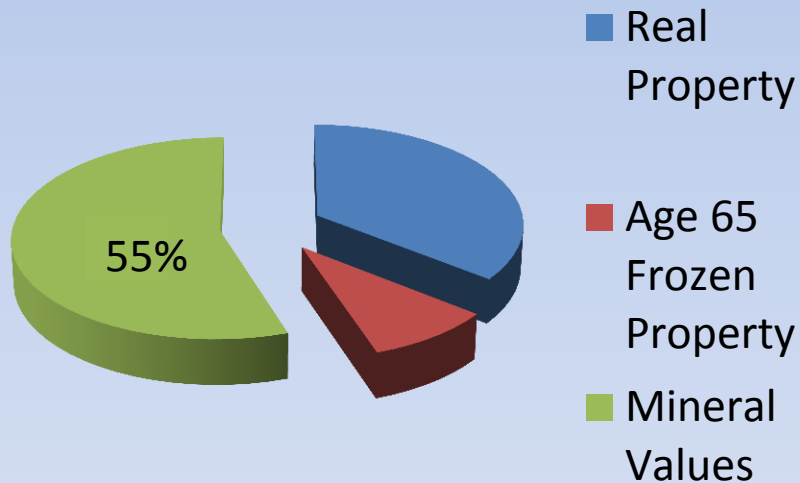
Now:

- 125 RRC well permits in 2010
- 255 RRC well permits in 2011
- 455 RRC well permits in 2012
- Infield drilling of captured leases is taking place
  - Drilling for oil and condensate
  - 3250 potential wells at 65 acre spacing
  - 4600 potential wells at 45 acre spacing
  - 8 to 10 years of primary drilling potential in EFS
  - Dry Gas window of EFS is not economic to drill
  - Other potentially productive formations exist

# Tax Base Comparison: Mineral Values

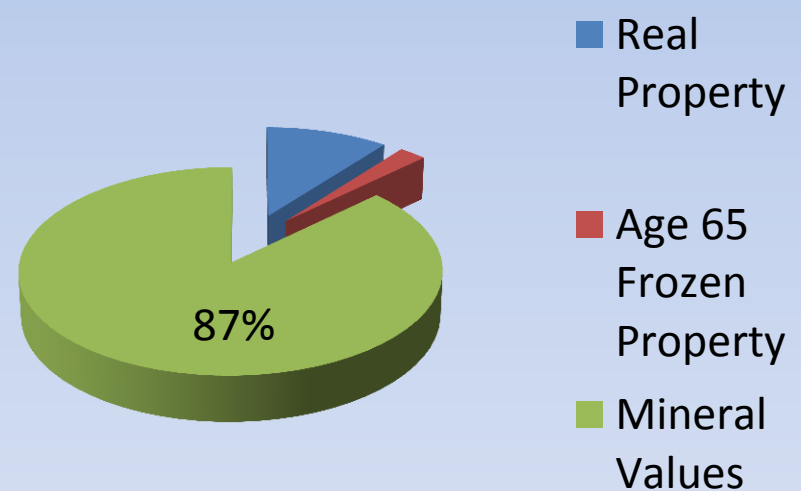
**2011**

**Percentage of taxes paid**



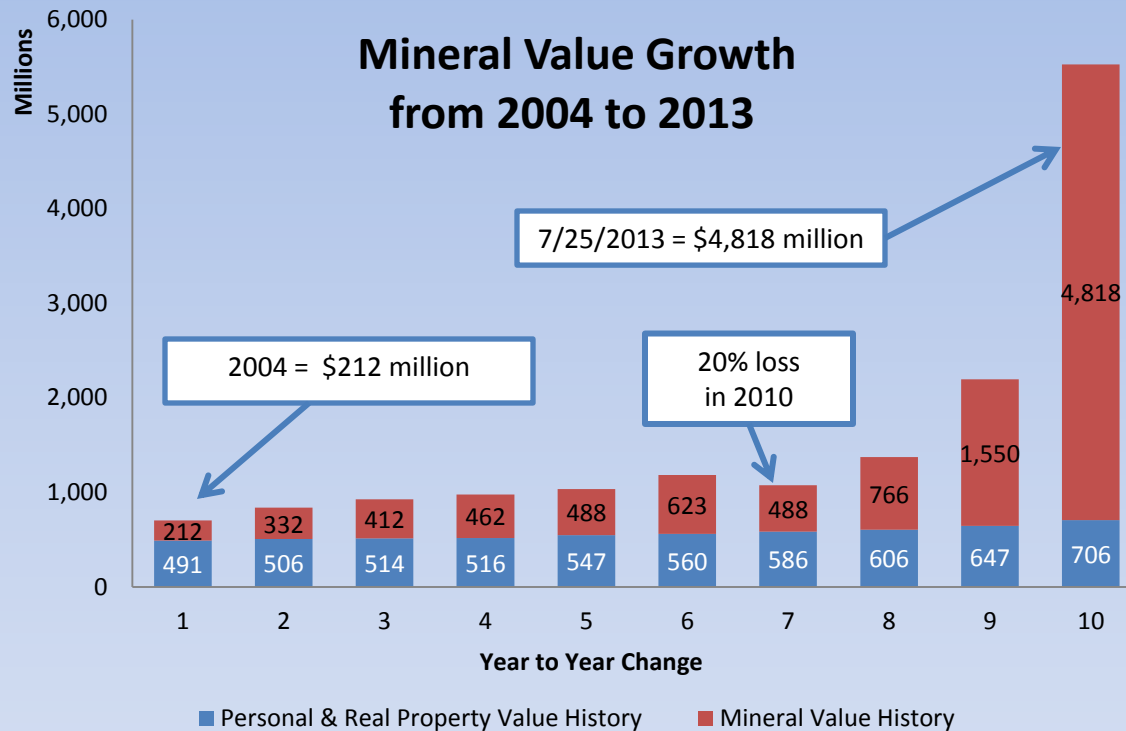
**2013**

**Percentage of taxes paid**



- \$87 of every \$100 in property taxes to be paid by oil and gas interests based on 2013 tax roll
- \$2.44 of every \$100 will be collected from the Over 65 and Disabled homesteads

# Rapidly Rising Tax Base of Volatile Mineral Values

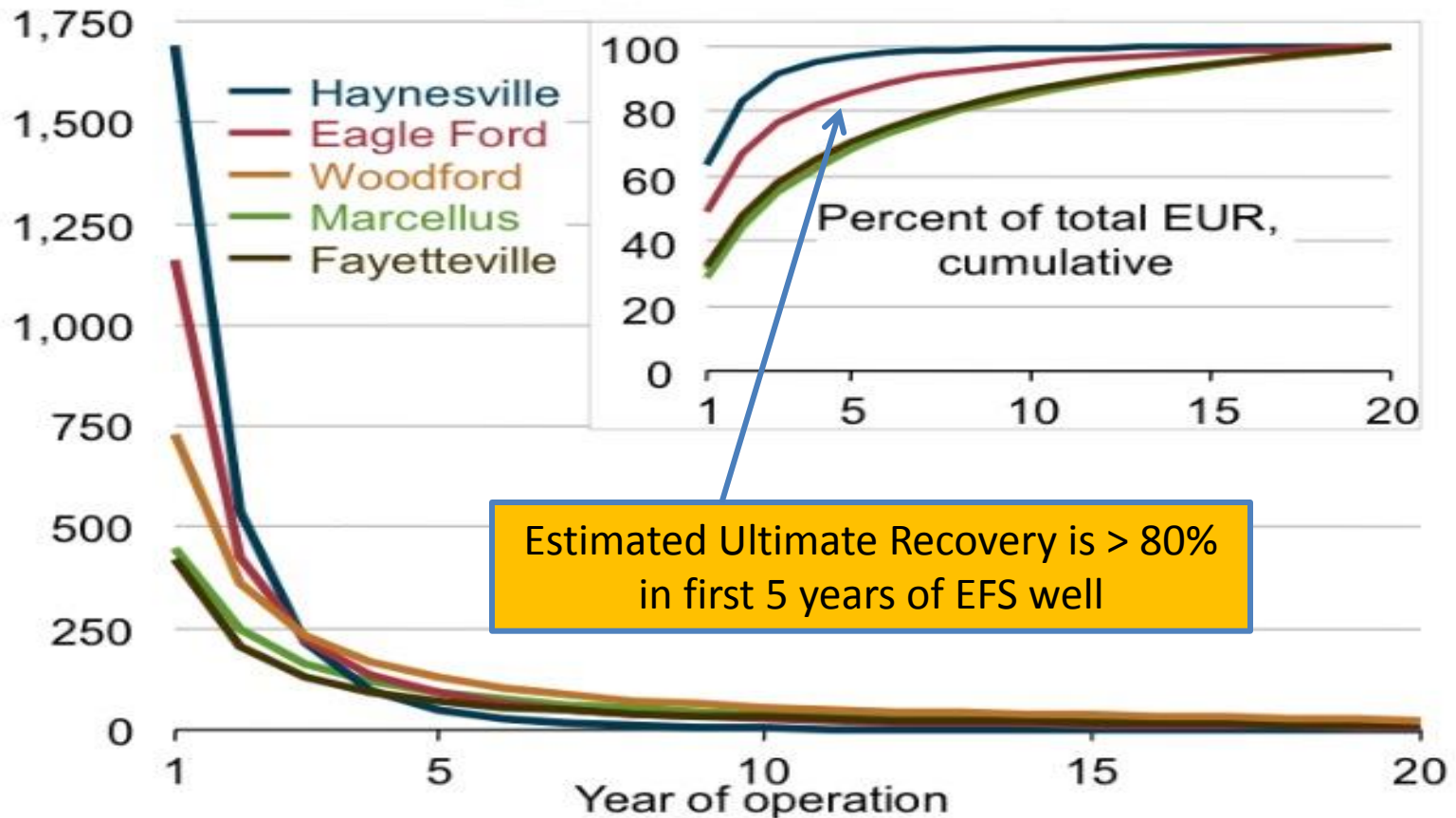


- Real Property value up 44% since 2004
- Mineral value reaches \$4.8 billion in 2013 (3X value in 2012 tax roll)
- Hypothetical 20% value loss in 2014 would possibly = \$964 million
- \$964 million value loss = tax levy loss of \$4,522,850



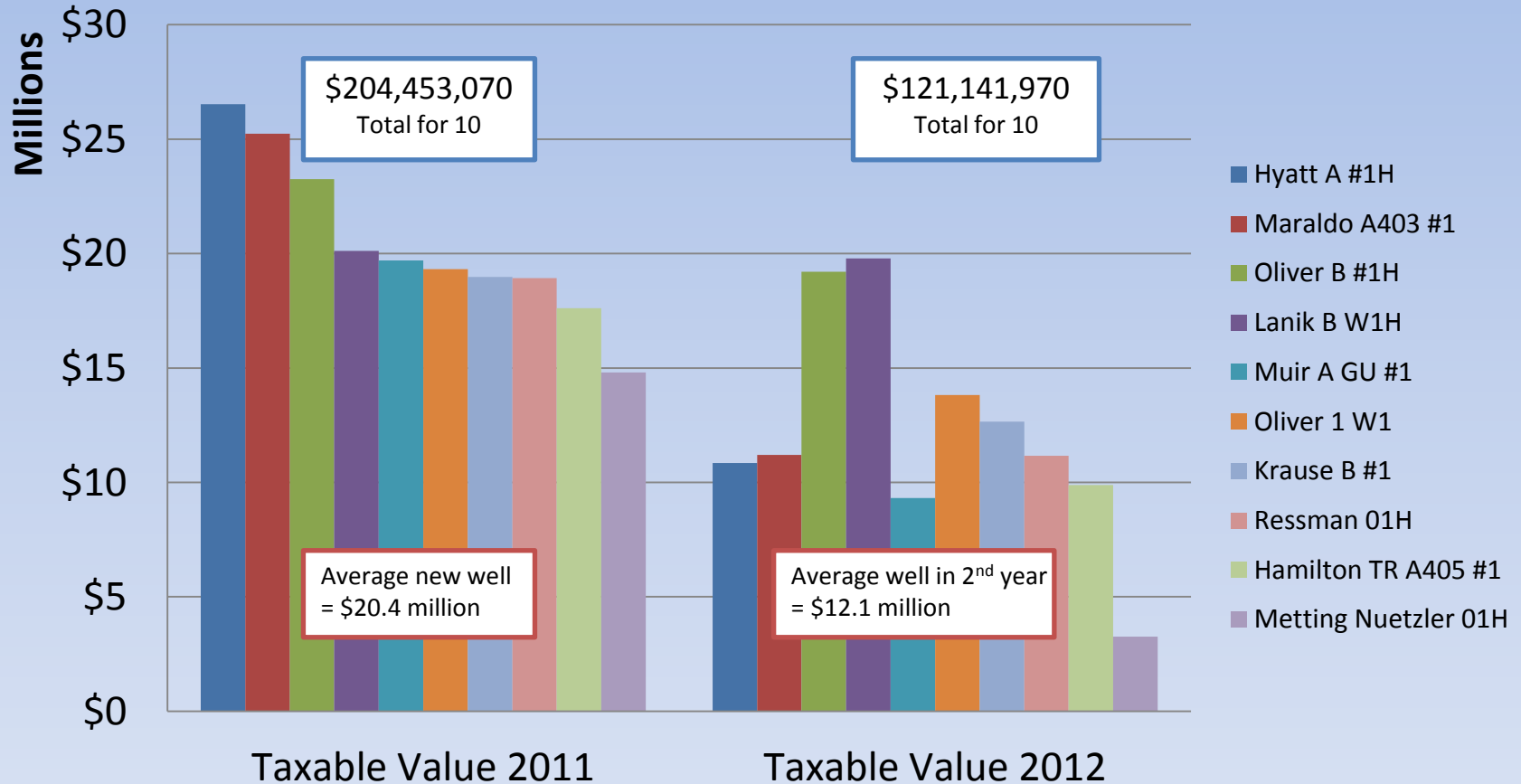
# Typical Decline Curve of Shale Wells

**Figure 54. Average production profiles for shale gas wells in major U.S. shale plays by years of operation (million cubic feet per year)**



# 2011 Top 10 Producing Wells

experienced a 40.74 % decline in first year after completion



Maraldo A403 #1H appraised at \$9,445,537 (- 62.58%) in 2 years

## Recent History

- Road Damage Study by Naismith Engineering \$432 million
- Contracts with Petrohawk Energy and Pioneer Natural Resources cease at YE 2012 - cumulative donation > \$2,600,000
- Contract lobbyist hired to augment efforts of County Judges and Commissioners Association of Texas in 83<sup>rd</sup> Legislature
- Numerous bills introduced in Legislature to pay for road damages caused by drilling
- Judge Fowler testifies on bills affecting transportation
- SB 1747 creating County Energy Transportation Reinvestment Zones (CETRZ) passes and is effective September 1, 2013
- HB 1025 appropriates \$225 million for counties to repair roads in the energy sector - which is an unprecedented event
- HB 1025 appropriates \$225 million for **TXDOT** to repair roads in the energy sector

## Road and Bridge Needs

- Approximately 690 total road miles in DeWitt County
- 342 miles currently impacted by exploration activity
- 286 miles need to be widened to meet industry and public safety needs
- 10 year project = need to reconstruct 28.6 miles annually
- Additional 56 miles of annual maintenance in the impact zone can cost \$4.5 million annually
- Estimated \$21.5 million to \$40.5 million annual need
- Naismith Engineering indicates potential need of \$432 million
- 3,250 potential new wells @ 400 RRC permits = 8 to 9 years of active drilling in Eagle Ford Shale formation

## Road and Bridge Appropriations

- General Fund appropriation is below the effective tax rate
- Budget focus is on road repair and reconstruction
- FY 2001 = \$ 1.4 million local taxes
- FY 2013 = \$ 5.4 million local taxes
- FY 2014 = \$18.1 million local taxes
- R&B General Fund = \$4.0 million (\$3.6 transfer out)
- R&B Precinct 1 = \$4.0 million heavy drilling
- R&B Precinct 2 = \$2.5 million moderate drilling
- R&B Precinct 3 = \$6.1 million heavy drilling
- R&B Precinct 4 = \$1.7 million related damages

## Budget Policy - Primary

- Meet all county service needs without issuing debt
- Shift maximum amount of tax revenue to R&B efforts while drilling activity is high
- Proposed Road & Bridge Budget:
  - Revenue, all sources = \$17,853,547
  - Appropriations = \$14,173,358
- Hire contractors for road projects **in all precincts**
- Hire employees for increased maintenance efforts
- Proposed budget will leverage state grants from SB 1747
- Additional \$1,000,000 set aside for matching funds (10%)

## Budget Policy - Secondary

- Meet growing demand for county services, including additional court staff, financial services staff, emergency management staff, and information technology staff
- Proposed budget will create new staff positions to ease overtime pay in existing offices
- Increase law enforcement presence in the county
- Address competitive payroll demands:
  - Salary committee formed in March
  - Composed of elected officials and two public members
    - DeWitt County Taxpayers League
    - Grand Juror member of the county salary grievance committee

## Tax Policy

- Tax oil and gas companies while they are here and causing damage to the road system
- Spare local citizens the burden of rebuilding infrastructure when minerals are depleted and oil companies are gone
- Gently guide tax rates down over time vs. volatile swings
- Each penny of the proposed tax rate will raise:
  - \$481,790 in tax revenue from mineral interests
  - \$57,145 from real property owners
  - \$13,478 from frozen homesteads

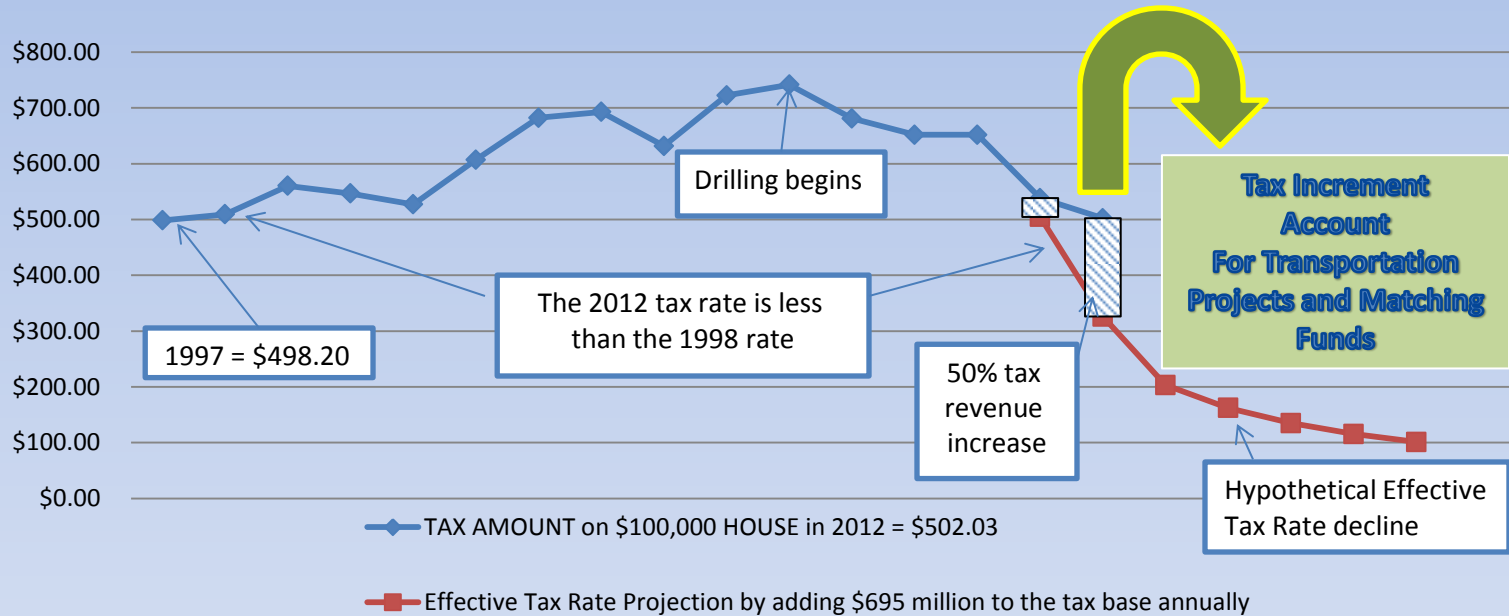


## Recent Tax Experience and Indications

- 2011 Adopted Tax Rate declined by \$ .11370 (-17.44%)
- 2012 Adopted Tax Rate declined by \$ .03619 (- 6.72%)
- 2013 Proposed Tax Rate declines by \$ .03266 (- 6.50%)
- Total Tax Rate reduction since 2007 \$ .27238 (-36.70%)
  
- County tax rate is below 1997 rate:
  - \$498.20 on \$100,000 property
  - Indications for a qualifying Over 65 homestead on Third Street in Cuero are that taxes will be below the “freeze amount” if the proposed rate is adopted.
  - The proposed tax for homeowner X is \$416.85 vs. tax freeze \$472.27 even though the home is appraised 10% higher than in 2010

# CETRZ Captures Tax Revenue Above Rollback Rate

CETRZ establishes a baseline of property value when established. Added property value does not influence the decline of the Effective Tax Rate. Tax dollars are dedicated.



In the proposed budget, every penny of the proposed tax rate will capture \$552,414 that can be broken down like this:  
 \$481,790 from mineral interests, \$57,145 from real property, and \$13,478 from frozen homesteads.

# Taxpayer Considerations

- All taxpayers will see a decline in property tax if property values have not been reappraised
- Reserve funds will be available to offset a decline in tax revenue from minerals in the future
- Local tax dollars will be leveraged 9:1 with state grant funds from SB 1747
- Oil companies and mineral owners will pay a fair share of the damages to the county road system
- A tax rollback election could:
  - interfere with constitutional obligation to maintain roads
  - abate tax dollars to oil companies that are destroying roads
    - up to \$6,156,000 would be abated at the rollback rate of .35063/100
  - impede performance of county services and law enforcement
    - more employee turnover, more overtime pay, and lost productivity
    - slower EMS response times and damage to vehicles, school buses, etc.

## Legislative Efforts

- Recognition of a tax rate formula modification in order to generate sufficient revenue for roads repair without triggering a rollback election
- Recognition of cost-free production taxes going to “rainy day fund”
- Recognition of state responsibility to pay for damages caused by drilling efforts
- Legislation allowing a county to lease minerals owned under its Right-of-Way, effectively nullifying AG Opinion WW-870

## Legislative Results

- SB 1747 (by Senator Uresti) creates CETRZ to capture a tax increment above the rollback rate and dedicate funds for transportation projects or matching funds for state grants
- HB 1025 (by Representative Pitts) provides \$450 million for energy sector roadway needs with one-half dedicated to grants for counties with oil and gas well completions
- Transportation grants require 10% or 20% matching funds
- DeWitt County allocation estimated between \$5-8 million during State FY 2013-15 biennial budget
- Proposed property tax revenue adds \$16 million more available for road projects

## Other Resources

- Judge Fowler was appointed to the Eagle Ford Shale Task Force of Railroad Commissioner David Porter in 2011. The task force produced a document related to stakeholder issues and presented the document to the 83<sup>rd</sup> Texas Legislature in March 2013 for the purpose of developing best practices in the Play. The document can be found here: [http://www.rrc.state.tx.us/commissioners/porter/reports/Eagle\\_Ford\\_Task\\_Force\\_Report-0313.pdf](http://www.rrc.state.tx.us/commissioners/porter/reports/Eagle_Ford_Task_Force_Report-0313.pdf)
- Judge Fowler was appointed to the TXDOT Energy Sector Roadway Needs Task Force in 2012 and worked with state and local officials to produce a document for the Texas Legislature to consider for funding solutions during the 83<sup>rd</sup> session. The document can be found here: <http://www.county.org/member-services/legislative-updates/news/Pages/Task-Force-on-Texas'-Energy-Sector-Roadway-Needs-Releases-Report.aspx>
- The Naismith Engineering study of DeWitt County roads can be found on the county's website here: [http://co.dewitt.tx.us/default.aspx?Dewitt\\_County/Eagle\\_Ford\\_Growth](http://co.dewitt.tx.us/default.aspx?Dewitt_County/Eagle_Ford_Growth)
- SB 1747 implementation: [www.RoadsForTexasEnergy.com](http://www.RoadsForTexasEnergy.com)

# Good Roads are Good for the Economy and the Community

