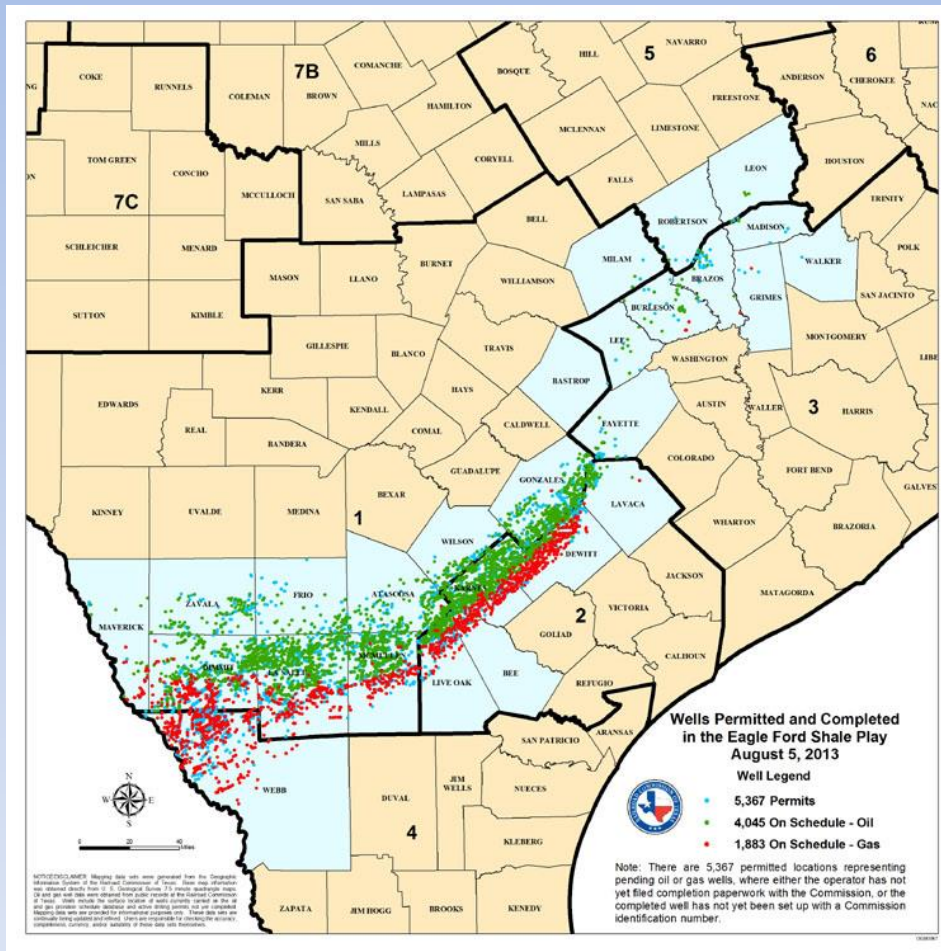


DeWitt County Budget FY 2014 and 2013 Tax Rate

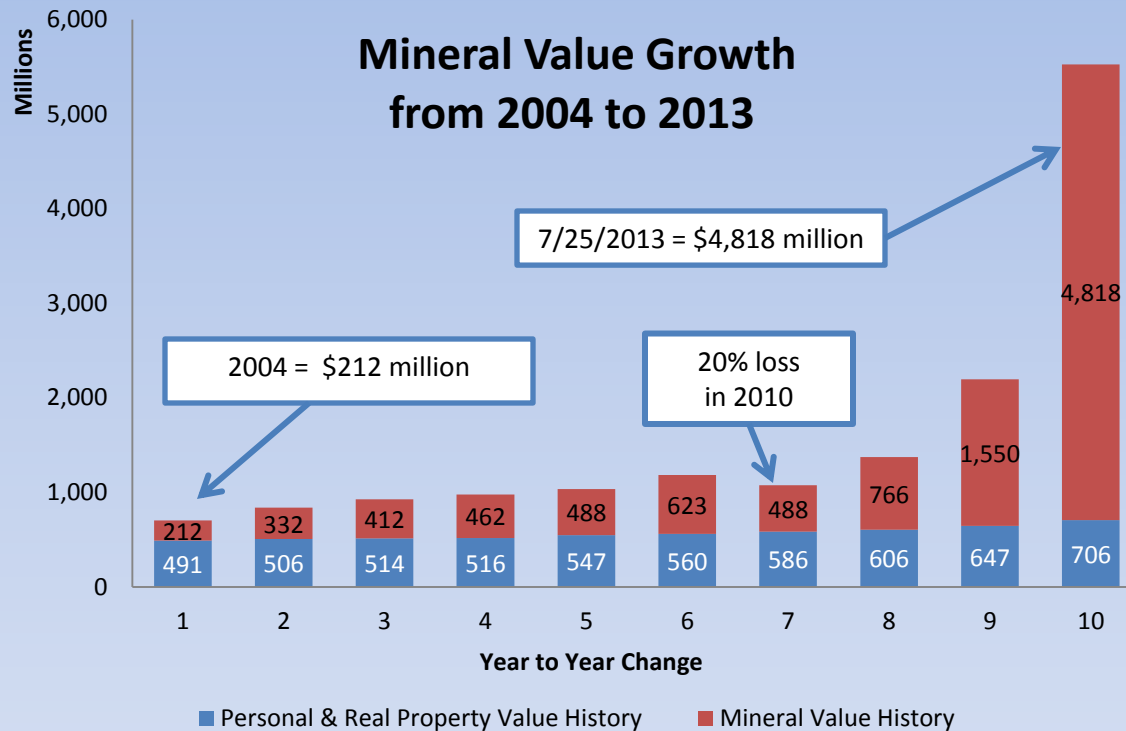


Prepared by:
Daryl L. Fowler, County Judge
DeWitt County, Texas

Current Eagle Ford Shale Map



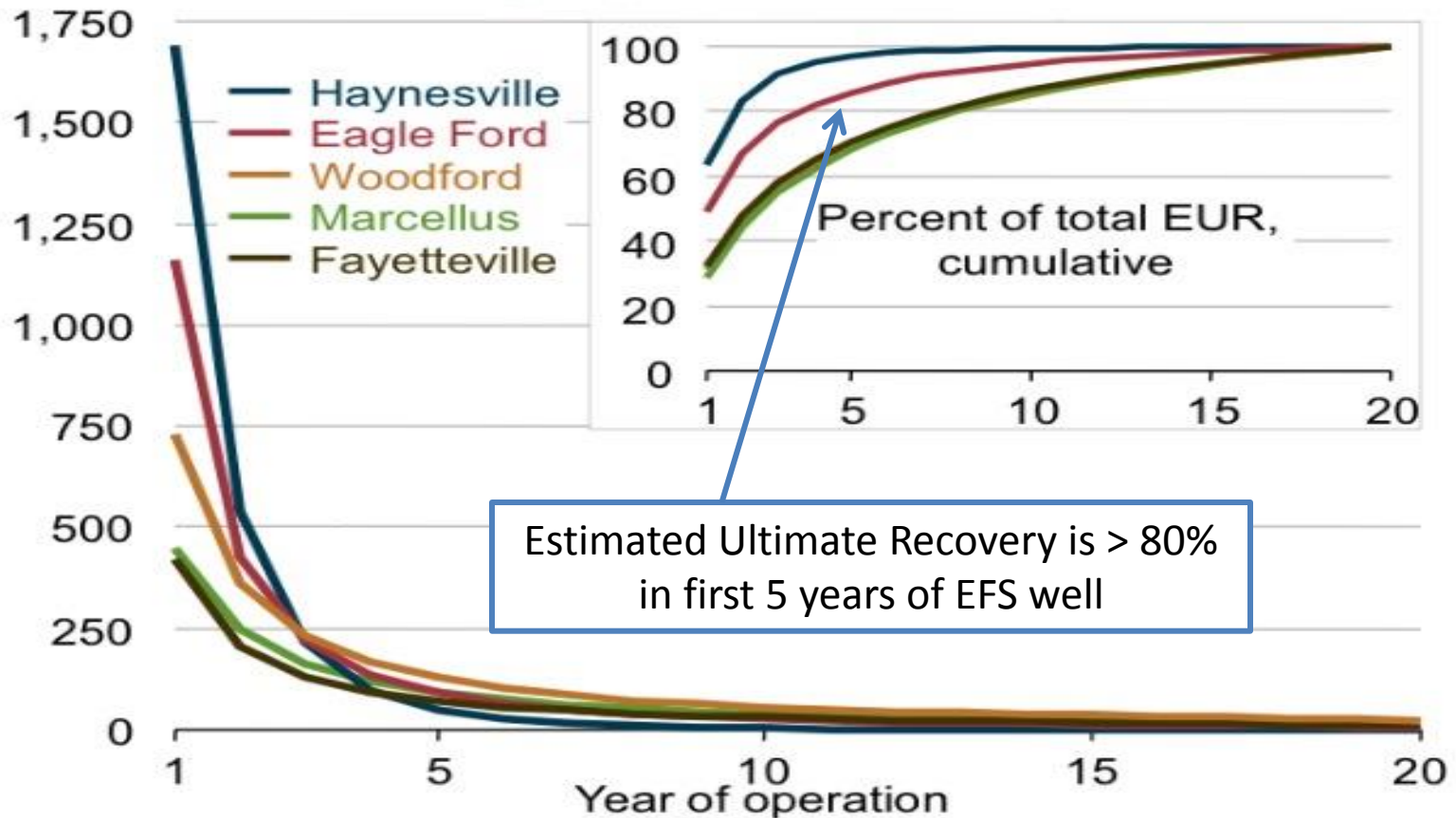
Rapidly Rising Tax Base of Volatile Mineral Values



- Real Property value up 44% since 2004
- Mineral value reaches \$4.8 billion in 2013 (3X value in 2012 tax roll)
- \$87 of every \$100 in property taxes paid by oil and gas interests
- Hypothetical 20% value loss in 2014 would possibly = \$964 million
- \$964 million value loss = tax levy loss of \$4,522,850

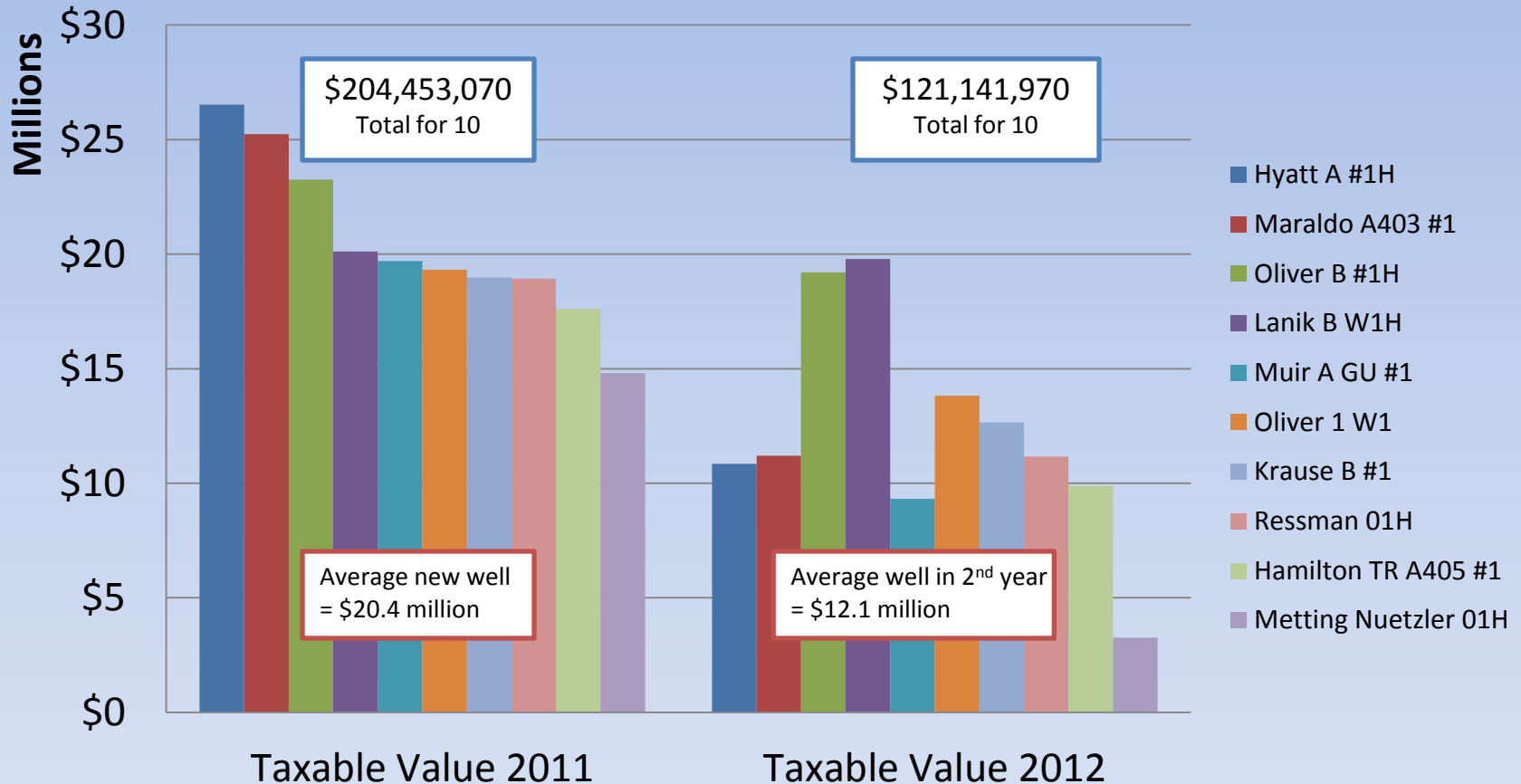
Typical Decline Curve of Shale Wells

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



EFS wells expected to produce 80-90% of EUR in the first 5 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
- RRC Drilling permits > 400 wells in 2012
- RRC Drilling Permits > 400 anticipated for 2013
- Contract lobbyist hired to augment efforts of County Judges and Commissioners Association of Texas in 83rd Legislature
- 3 Bills introduced 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

Budget Policy

- Current Budget (FY 2013) focus is on road repair = \$5.4 million
- Secondary focus is to meet growing demand for county services, law enforcement, and competitive payroll demands
- Shift maximum amount of tax revenue to R&B efforts while drilling activity is high
- Proposed budget will create staff positions to ease overtime pay in existing offices, create an information technology office, raise Emergency Management Coordinator to a fulltime position, and increase the workforce on the road maintenance efforts
- Proposed budget will leverage state grants from SB 1747

Tax Policy

- Tax Oil and gas companies while they are here and causing damage to the road system
- Gently guide tax rates down over time vs. volatile swings
- 2011 Adopted Tax Rate declined by \$.11370 (-17.44%)
- 2012 Adopted Tax Rate declined by \$.03619 (- 6.72%)
- 2013 Proposed Tax Rate decline to \$.03266 (- 6.50%)
- Total Tax Rate reduction since 2007 \$.27238 (-36.70%)

Legislative Efforts

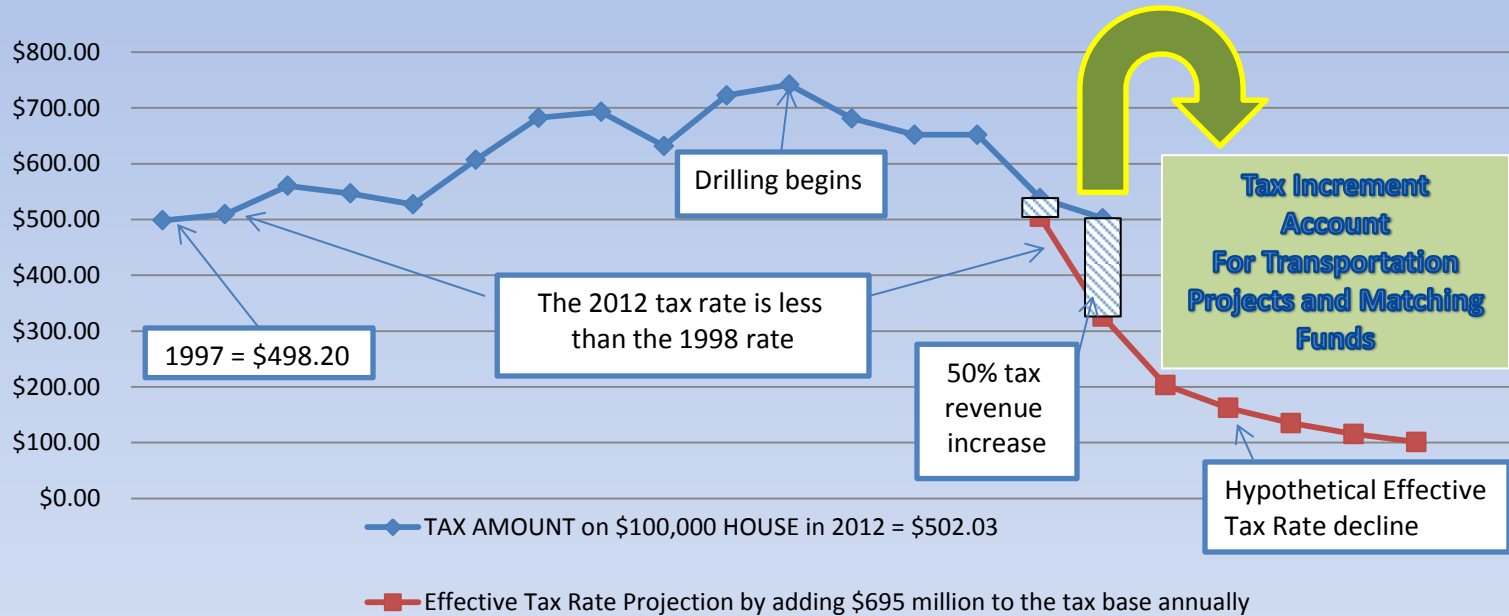
- Recognition of a tax rate formula modification in order to generate sufficient revenue for roads repair without triggering a rollback election
- Recognition of cost-free production taxes going to “rainy day fund”
- Recognition of state responsibility to pay for damages caused by drilling efforts
-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

Legislative Results

- SB 1747 (Senator Carlos 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 (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

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.



For FY 2014, every penny of the proposed tax rate will capture \$481,790 in tax revenue from oil and gas interests and \$70,624 from real property owners.

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

DeWitt County Budget FY 2014 and 2013 Tax Rate

- 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

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 mineral values and lessen the probability of a tax rate increase in the future
- Oil companies and mineral owners will pay a fair share of the damages to the county road system
- Up to \$250,000 in administrative costs of implementing SB 1747 and securing transportation grants will be state paid
- Transportation projects will be bid out to private contractors
- A tax rollback election could prevent transportation projects from being funded
- Better roads are safer roads and a constitutional responsibility

Good Roads are Good for the Economy and the Community



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 83rd 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
- 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 83rd 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