

DeWitt County
Fiscal Year 2013 Budget
Issues and Considerations

Notice of Public Hearing on Tax Increase

DeWitt County will hold two public hearings on a proposal to increase total tax revenues from properties on the tax roll in the preceding year by **53.92 percent** (percentage by which proposed tax rate exceeds lower of rollback tax rate or effective tax calculated under Chapter 26, Tax Code).

Your individual taxes may increase at a greater or lesser rate, or even decrease, depending on the change in the taxable value of your property in relation to the change in taxable value of all other property and the tax rate that is adopted.

Do Not Panic !!!

- If you are 65 years old or older, or disabled, and your homestead is in DeWitt County, the taxes on your homestead are frozen.
- If you are over the age of 65 or disabled, taxes on your other taxable property will decrease by \$36.19 per \$100,000 of appraised value.
- If you are under the age of 65, a business owner, or you own other taxable property, your taxes will decrease by \$36.19 per \$100,000 of appraised value.

County Revenue Sources

- Permits (Wine & Beer)
- Court Costs
- Miscellaneous (interest earnings, etc.)
- Fines, Fees, and Forfeitures
- Intergovernmental Transfers (grants, etc.)
- Fees of Office
- Property Taxes
- Total Revenue Budgeted in FY '12 = \$13.5 million

Uses of Revenue

- Fulfill Constitutional purposes
- Implement Statutory mandates
- Debt service

Long-Term Debt

- 2006 Certificates of Obligation for Law Enforcement Center Construction with \$8,920,000 remaining principal.
- 2010 Series Refunding Bonds for 2003 Courthouse Restoration with \$2,635,000 remaining principal.
- Interest varies from 3.59% to 4.75%
- \$15,485,816 Total Outstanding Debt Service.

The Eagle Ford Shale 2010

Life Before the Eagle Ford and Now

- An average of 69 new drilling permits issued annually between 2000-2009
- 125 new permits issued in 2010
- 355 new and amended permits in 2011
- 223 permits through July 2012
- On track for 372 permits in 2012
- 3,250 potential wells to be drilled in the Wet Gas window of the Eagle Ford Shale @ 65 acre spacing. (Naismith Engineering)

Unprecedented Growth is a Challenge

- Rapid Mineral Value growth in two years (95%)
- Rapid Decline in Effective Tax Rate (50%)
- 65.192 to 32.617 cents per \$100 valuation
- Rapid deterioration of road system
- Increased administrative needs/personnel costs
- Increased civil and criminal dockets/personnel
- Increased needs for law enforcement/patrol deputies

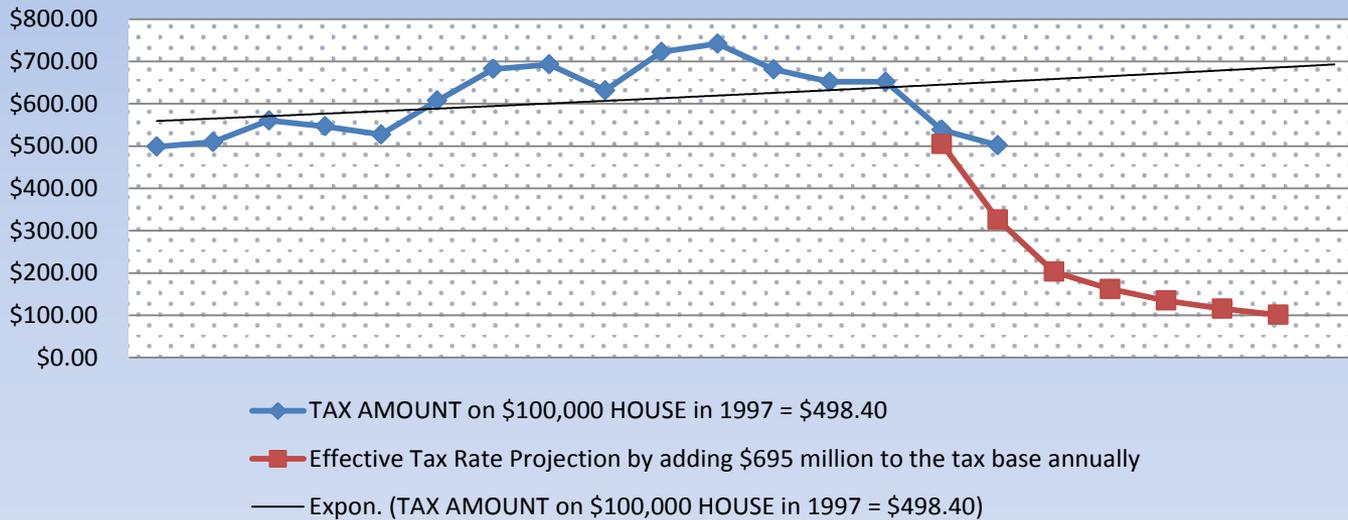
Recent History of M&O Tax Rates

<u>Tax YEAR</u>	<u>M&O Tax Rate</u>	<u>Adopted Rate +/-</u>	<u>Tax Levy Increase</u>	<u>Appr'd Values</u>
2002	0.52722			
2003	0.60722			
2004	0.68230			
2005	0.64681			
2006	0.59554			
2007	0.58615			
2008	0.61067			
2009	0.56301			
2010	0.54295			
2011	0.53717			
2012	0.44919	-0.08798	7.15%	+ 27%
2013	0.44919	0.00000	50.01%	+ 68%

95% growth in Mineral Values in 2 years

Trend line of tax bills is rising until 2007
when Edwards Reef mineral values appear

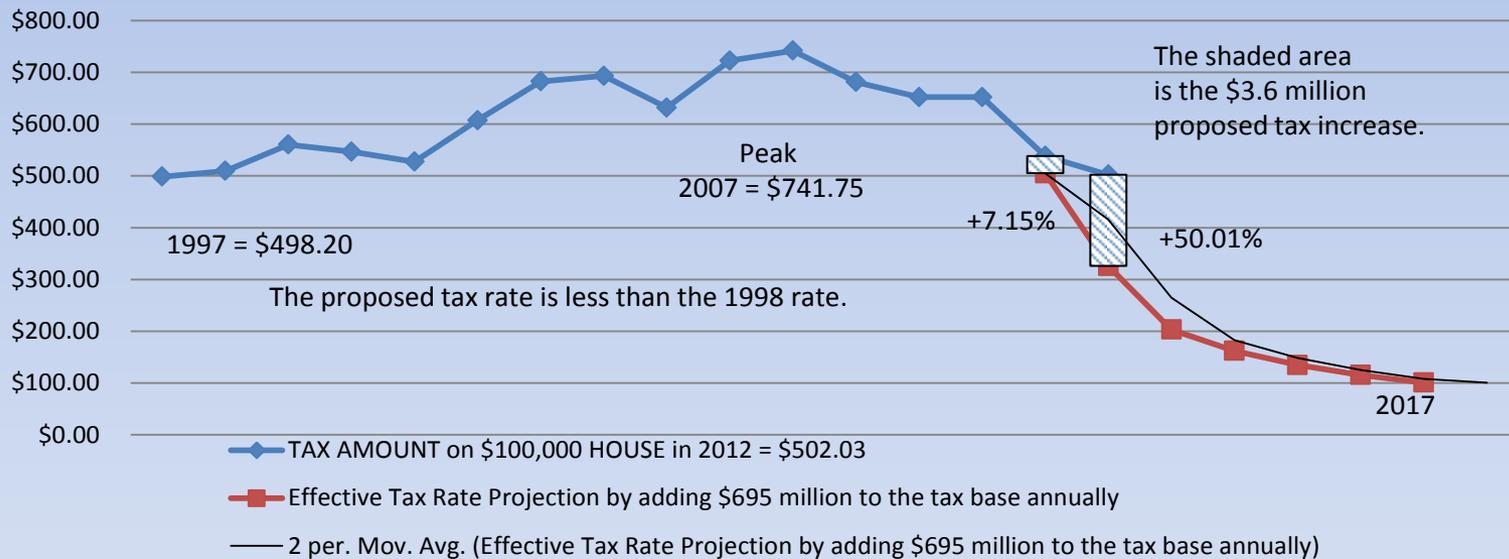
Actual Taxes on \$100k Home since 1997 v. Projection of Effective Tax Rate



The prudent path is to slowly guide the tax rates down to capture funds for road repair until state assistance is available.

Anatomy of the 2012 Tax Revenue Increase

Actual Taxes on \$100k Home since 1997 v. Projection of Effective Tax Rate



By 2017, Mineral Values could be \$5 Billion

Note: The industry projects 60-80% first-year decline curves on individual wells

General Fund Revenue

2003 to Current Budget FY 2012

Revenue Source	FY 2003	FY 2012
Permits (Beer & Wine)	\$ 4,500	\$ 4,000
Court Costs	42,145	46,412
Miscellaneous	66,000	66,500
Fines, Fees, Forfeitures	281,000	402,300
Intergovernmental TXFRS	109,650	371,910
Fees of Office	329,000	730,100
Property Taxes	<u>2,689,704</u>	<u>3,357,433</u>
Total Revenue & Transfers	\$ 3,521,999	\$ 4,978,655

General Fund Revenue

Current Budget vs. Proposed

Revenue Source	FY 2012	Proposed FY 2013
Permits (Beer & Wine)	\$ 4,000	\$ 4,500
Court Costs	46,412	53,462
Miscellaneous	66,500	72,700
Fines, Fees, Forfeitures	402,300	422,300
Intergovernmental TXFRS	371,910	465,296
Fees of Office	730,100	728,100
Property Taxes	<u>3,357,433</u>	<u>5,435,697</u>
Total Revenues & Transfers	\$ 4,978,655	\$ 7,182,055

Road Damage Study

- Engineers hired in January 2012.
- 342 miles of roads with 4-6 inches of base material and some asphalt surface.
- Traffic volume and weight of trucks demands construction of heavier roads to support 3,250 potential new wells @ 65 acre spacing.
- Additional ROW purchases, rebuilt fences, utility moving, drainage engineering are significant cost factors in addition to gravel.
- Summary:
 - 45 miles annual maintenance @ \$80k/mile
 - 187 miles Basic Reconstruction @ \$920k/mile
 - 99 miles Major Reconstruction @ \$1.9M/mile
- Approximate cost \$432,140,000 or \$133,000/well.
- Report (PDF) is on the Home page of www.co.dewitt.tx.us

Basic Repair is Costly

- 3.5 mile Basic Repair project.
- 9,400 tons of gravel needed to lay 8 inches of base material = \$190,000
- Manpower and equipment supplied by Precinct 1 and Precinct 3.
- Donation made by Rosetta Resources and formally recognized by Commissioners Court.
- Project cost = \$72,000 per mile.

Road and Bridge Budget 2003-2012

Tax Fund	FY 2003	FY 2012	Proposed FY 2013
R & B General Fund	\$ 210,713	\$ 1,104,716	\$ 1,173,988
Special Road & Bridge Maintenance	243,069	544,704	883,308
County Road & Flood	<u>73,352</u>	<u>562,690</u>	<u>1,595,346</u>
Total Tax Revenue	\$ 527,134	\$ 2,212,110	\$ 3,652,642
Other Revenue(s)	<u>+ 409,587</u>	<u>+ 2,224,075</u>	<u>+ 1,051,674</u>
Total Revenue	\$ 935,521	\$ 4,436,185	\$ 4,704,316
Total Appropriations	\$ 1,640,416	\$ 3,710,238	\$ 5,148,460
Annual Appropriation Increase since FY 2003 (Annual)			\$ 3,508,044

Voluntary Sources of Revenue to Offset Damages

- 2010 – Voluntary contract between Petrohawk Energy and DeWitt County: \$8,000 per well.
- 2011 – Voluntary contract between Pioneer Natural Resources and DeWitt County: \$8,000 per well.
- Ad hoc donations for specific projects.
- \$2.5 million estimated donations since 2010.
- A county cannot impose an impact fee.

State Revenue for Road Repair

- **Overweight Axle Fees** (State issued 2060 permits) in FY 2011 = \$52,972
- **Texas Gasoline Tax** (known as Lateral Road Funds) in FY 2011 = \$26,990
- **Surplus Materials** (Trans. Code Sec. 201.706) in FY 2011 = \$32,331
- **Total Sources from the State = \$112,293**

Issuing Debt is Full of Risk

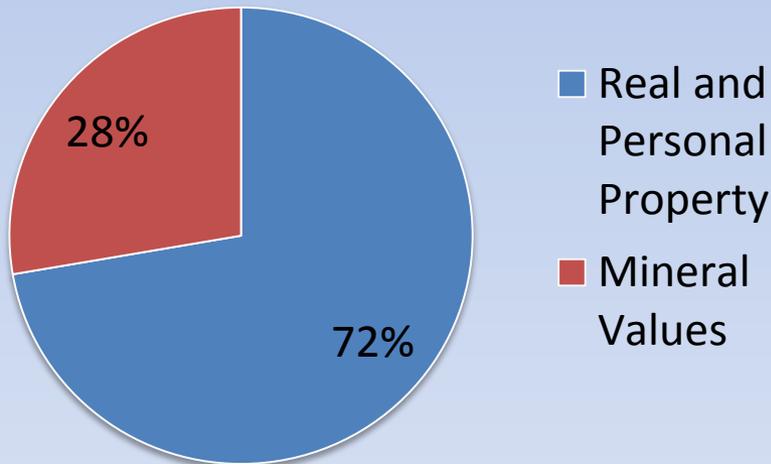
- Long-Term Debt for Road Repair is not prudent.
- EFS wells are predicted to produce 80-90 percent of Estimated Ultimate Reserves in first five years of production.
- At 5 years, the Taxable Value of an EFS well could be 10% of initial tax appraisal value.
- Without continuous drilling, the tax base declines rapidly.
- Property Tax revenue falls proportionately with declining mineral values.
- Debt Service Tax Rate could rise exponentially.

Changes in the Tax Base in Charts and Graphs

Tax Base: Trading Places

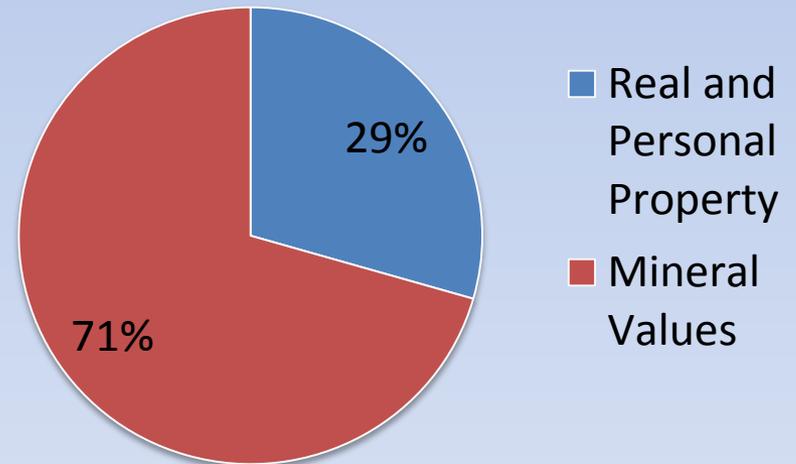
2002

Tax Base



2012

Tax Base



Currently, for every \$100 in taxes levied, \$71 are billed to operating companies at their Working Interest and to mineral owners at their Royalty Interest. The remaining \$29 is assessed to real property owners.

Rapidly Rising Tax Base of Volatile Mineral Values



2011 Top 10 Producing Wells

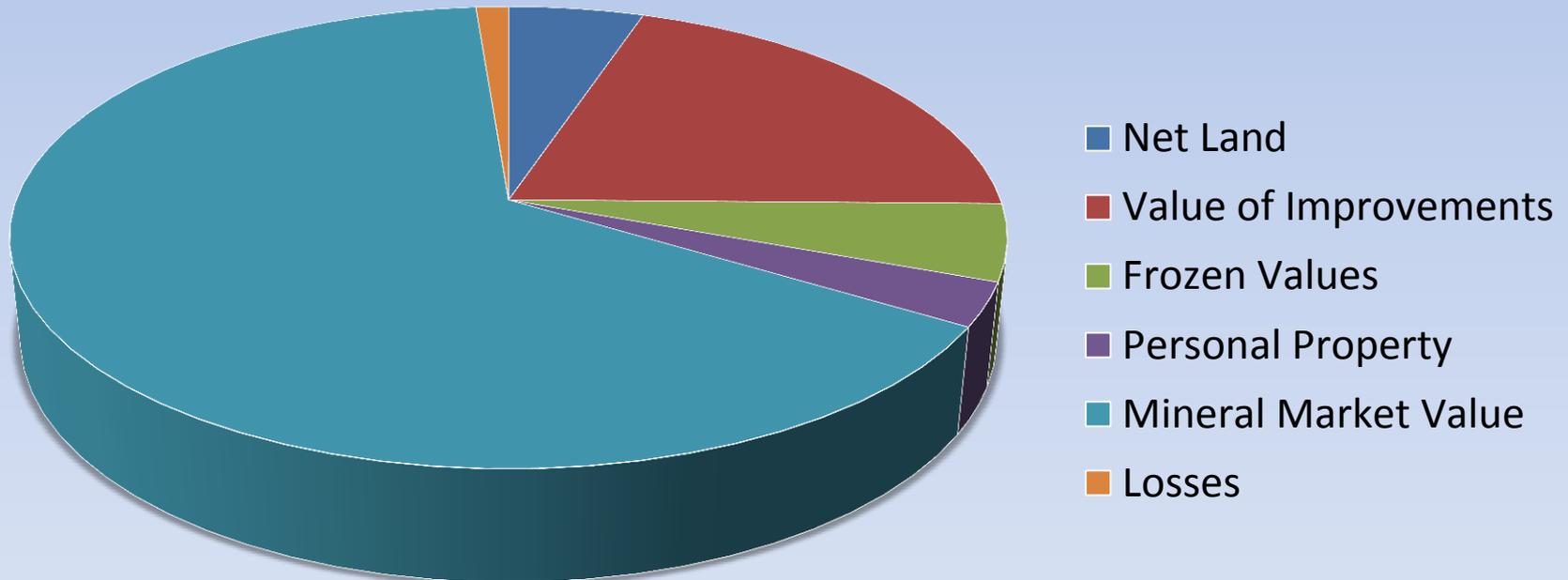
40.74 % decline in first year of operation



EFS wells expected to produce 80-90% of EUR in the first 5 years

Where the taxes come from...

Composition of the 2012 Tax Base \$2,189,120,150 [Frozen Values = \$127,565,320]



Frozen Values represent the designated homesteads of the Over 65 and Disabled. Taxes are frozen even if tax rates increase. Improvements to the property may increase the appraised value and the tax levied on the property. Reappraisals and changes in the property tax levy may apply to future improvements in the property.

Regarding a Successful Rollback: Remember These Points

- If a Rollback Election is called and the petitioners prevail, the tax rate will revert to the Rollback Rate.
- The tax revenue increase will be less than \$472,000.
- Oil companies and royalty owners will save more than \$3 million dollars in taxes.
- County roads cannot be maintained or rebuild like they need to be for the heavy traffic and public safety.
- School buses, postal carriers, EMS, law enforcement, rural residents, and oilfield alike will share in the increased wear and tear on vehicles and potential harm from accidents.

August 28, 2012



Presentations made to policy and budget advisors of the Governor, Lt. Governor, and Speaker of the House by a delegation of county judges, TAC, and CJA CT representatives.

Legislative Issue #1

SEVERANCE TAX ALLOCATION

Severance Tax Yields Cost-free Windfall for the State

- Texas charges a Severance Tax on the first sale of oil and gas
- Tax on Oil and Condensate sales = 4.6%
- Tax on Natural Gas sales = 7.5%
- Tax applies to WI, ORRI, and Royalty interests
- \$57.5 million Severance Tax from production in DeWitt County in TX-FY 2011 (August 31, 2011)
- \$389 million Severance Tax from EFS and contiguous counties (24 counties) in TX-FY 2011 (August 31, 2011)
- \$500 million or more projected for FY 2012 and future years from Eagle Ford Shale.
- DeWitt County production receipts = \$71.6 million (March - August 31, 2012)
- Statewide Severance Tax Receipts = \$3.6 Billion in TX-FY 2012 (August 31, 2012)

Severance Tax Received by Comptroller of Public Accounts

County	TX-FY 2011	March-August '12	TX-FY 2013
Webb	\$ 123,194,790	\$ 56,809,026	?
DeWitt	57,563,390	71,677,158	?
Dimmitt	32,375,805	34,871,959	?
La Salle	26,588,905	18,780,199	?
Karnes	23,636,477	31,310,694	?
McMullen	23,438,538	15,240,114	?
Live Oak	23,421,780	20,181,123	?
Lavaca	12,211,548	2,855,443	?
Duval	11,156,628	1,395,428	?
Bee	9,738,291	1,674,552	?
All 14 Others	45,877,629	16,377,866	?
Total 24 Counties	\$ 389,203,781	\$ 271,173,562	>/= \$ 500,000,000

Allocation of Severance Tax

- 25% of the Severance Tax is deposited into the Permanent School Fund to pay for textbooks and the university system(s)
- 75% is deposited into the General Fund, Economic Stabilization Fund aka “Rainy Day Fund”
- Should petroleum producing counties be compensated for their road damages first?
- How much is needed annually?
- DeWitt’s minimum needs = \$27 million annually. Maintenance only, no construction.
- Consider an amount representing the local royalty owner’s severance tax contribution (~20-25%).

Legislative Issue #1

Recommendation

- Reallocation of the Severance Tax to TXDOT districts and the petroleum producing counties would provide revenue for the repair of the damaged highways and county roads and promote further economic activity which creates more tax revenue.
- Damages are paid for as the severance tax is collected and is self-regulating.
- More drilling, more damage, more Severance Tax.
- Less drilling, less damage, less Severance Tax.

Legislative Issue #2

COUNTY UNABLE TO LEASE FOR OIL AND GAS UNDER IT'S ROADS

Royalty from County Roadways Goes to Texas General Fund

- In 1960, Kleberg County asked for an opinion from Attorney General Will Wilson on the issue of its authority to negotiate an oil and gas lease under its county roads.
- AG Opinion WW-870 (1960) says “...*the [Kleberg] county, therefore, has no lawful authority to make a valid oil and gas lease on a county road right of way in the absence of some legislative authority conferring such power.*”
- Texas General Land Office is Lessor of county roadways.
- Lease Bonus and Royalty (Type 56) goes to TX General Fund.
- **GLO reports indicate \$1,973,087 of royalty income came from mineral leases in DeWitt County in the last 12 months.**
- **Karnes, Gonzales, Live Oak, and McMullen royalty income = \$4,391,943 in the last 12 months.**
- No distinction between state or county roads in the report.

Legislative Issue #2

Recommendation

- Propose Legislation which grants authority to county to negotiate an Oil and Gas Lease, or
- Propose Legislation allowing counties to collect the Lease Bonus and Royalty upon GLO negotiation of an Oil and Gas Lease, or
- Propose Legislation transferring the cost of maintenance of county roads to the State of Texas.
- **Alternative Remedy:**
- Civil Suit(s) Alleging Trespass: File lawsuits against individual Lessees to recover royalty legally owned by the County as owner of fee-simple title to the roadway and mineral estate.
- Expensive, time-consuming and relationship damaging.

Legislative Issue #3

TRUTH-IN-TAXATION: CLARIFY THE DEFINITION OF NEW IMPROVEMENTS

Truth In Taxation

- The Effective Tax Rate and Rollback Tax Rate are calculated according to Chapter 26 of the Property Tax Code.
- Effective Tax Rate = current tax levy divided by the new adjusted tax base (no new revenue).
- Rollback Tax Rate = a tax levy increase of 8% above the prior year.
- Line 21 of the worksheet allows “New Improvements” in the tax base to be excluded from the calculation so as not to skew the rate down too far, too fast.

Definition of a “New Improvement”

- See Chapter 26 of the Property Tax Code
- “*New*” means the item was not on the appraisal roll in ***the previous year***.
- “*Improvement*” is a building, structure, fixture, or fence erected **on** or affixed **to** land.
- Minerals are **not** considered “personal property”, and further, minerals are not an improvement – by definition (PTC Sec. 26.04)

Effect of a New Improvement

- As of January 1, 2012, DeWitt County appraisals grew by \$967,780,568 before adjustments.
- Minerals grew by \$783,152,760
- Only \$14,749,760 qualified as “new improvements.”
- Rapid growth caused a 17.7 cent drop in the effective tax rate from .44919 to .32617 per 100 of valuation.
- If mineral values were classified as “new improvements,” the effective tax rate calculation would have yielded a tax rate of .44409 per 100 of valuation.
- Virtually no change of M&O tax rate: .44919 vs .44409

Consequences of a Bad Definition

- Minerals which are technically “new” to the appraisal roll are counted as though they were already in existence and therefore push the tax rate down disproportionately.
- The effect is a de facto **abatement** for the oil and gas exploration companies.
- Prudent county officials who recognize the abatement for what it is – and hold the tax rate where it should otherwise be - are labeled as tax hikers or spendthrifts.
- Taxpayers have the right to initiate a referendum and force a rollback election when the proposed tax rate exceeds the 8% rollback rate cap.

Comparison of Values Used for Rate Calculations using Truth- In-Taxation Worksheet

2012 Total Taxable Value Line 19	Less: New Improvements Line 21	Effect of Law Change: Less New Mineral Values	Less: Mineral Values and New Improvements # Line 21	2012 Total Adjusted Taxable Value For Rate Calculation Line 23
\$2,057,067,523	\$14,749,760			\$2,042,317,763
	\$14,749,760	+ \$783,152,760	= \$797,902,520	
\$2,057,067,523			- \$797,902,520	\$1,259,165,003

Modified Rate Calculation of Effective Tax Rate

Line 15: Adjusted 2011 Taxes	Line 23: 2012 Adjusted Taxable Value	Line 24: Effective Tax Rate x Per \$100 of Valuation	Line 25: All County tax rates added together	Percent tax increase using .44919/100 as proposed in FY 2013 budget
\$5,591,842	\$2,042,317,763	.27379/100	.32617/100	50.01 %
\$5,591,842	\$1,259,165,003	.44409/100	# .44409/100	
			# = estimated	# 1.87%

Summary

Legislative Agenda

1. Change the allocation of the Severance Tax so that counties and the TXDOT districts may be allocated revenue to repair damages caused by the drilling activity in the county where the production occurred.
2. Pass Legislation authorizing counties to negotiate an oil and gas lease on minerals owned in fee simple interest under a county road and allow them to receive bonus and royalty income.
[Nullifying AGO #WW-870]
3. Change the Property Tax Code and classify new mineral values added to the tax roll as “new minerals” for purposes of Line 21 in Truth-In-Taxation; or
4. Provide a new line in the ETR worksheet which would provide for an adjustment to be included with “Total adjustments to the 2012 taxable value” used on Line 22 (sic).

Intended Effect of New Legislation

- Self-regulating Severance Tax Rebate for producing counties and TXDOT comes precisely when maximum damages are occurring.
- More drilling, more damage, more rebate; Less drilling, less damage, less rebate.
- Royalty from minerals under county roads would provide funds (and incentive) to maintain the off-road system.
- Steep declines and reversals of ETR are avoided and Rollback elections are avoided.
- Prudence rewarded vs. political consequences.

The Plea

- Good roads are good for business, and by extension, good for the Texas economy.
- Traffic Safety.
- Preserve the benefits of rural life.
- Avoid negative headlines and misunderstanding of “tax increases.”
- Avoiding taxpayer panic.
- Preserve the mental health of elected officials.

Next Steps

- Develop draft legislation and present to policy makers.
- Build relationships with legislators and solicit sponsorship.
- Enjoin taxing entities with similar needs, i.e. hospital districts, school districts, and etc.
- Engage affinity groups with a need for good roads.
- Work through TXDOT Energy Solutions Task Force, RRC Eagle Ford Task Force, TAC, and CJACTION.
- Make calls, presentations, and provide testimony.