

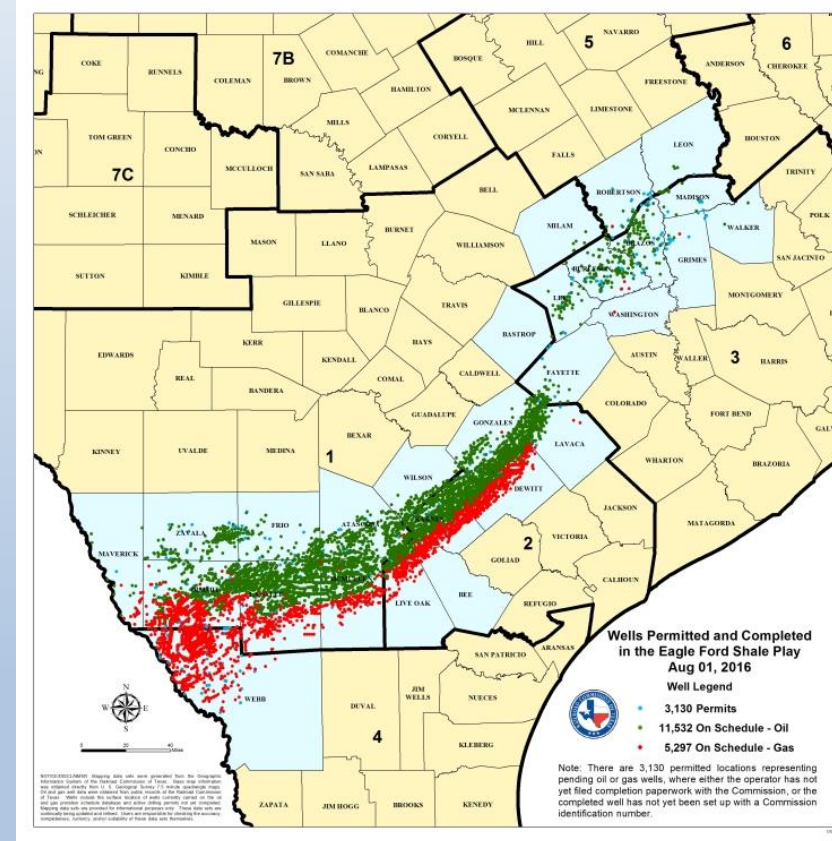
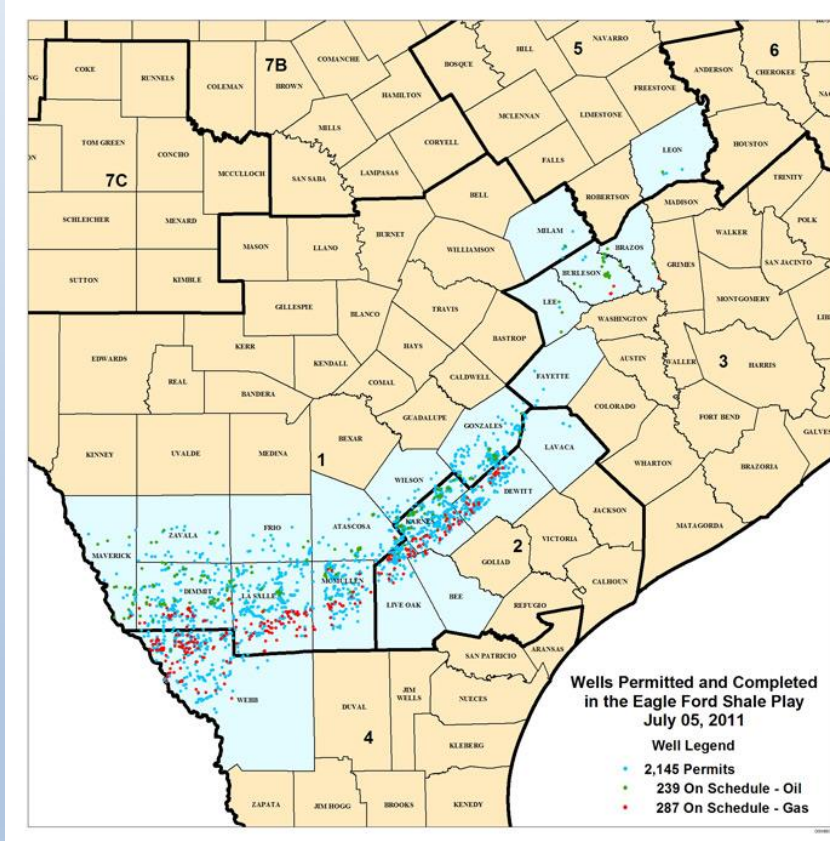
# FY 2019 Budget of DeWitt County, Texas

## Local Government Code

Section 111.002. COUNTY JUDGE AS BUDGET OFFICER.

“The county judge serves as the budget officer for the commissioners court of the county.”

# Eagle Ford Shale: the game changer



[Online Video Transition of Permit Maps](#)

# New W-1 Drilling Permits in DeWitt County

- 114 approved in 2010
- 345 approved in 2011
- 422 approved in 2012
- 495 approved in 2013
- 601 approved in 2014
- 355 approved in 2015
- 168 approved in 2016
- 248 approved in 2017

2748 new well permits issued since 2010



# Summary of Recent Budget History

- Current tax rate is lower than 1997 tax rate
- 28.7 percent tax rate reduction since 2011
- \$280.70 less tax bill on a \$100,000 home than in 2011
- \$9,563,391 in Outstanding Debt paid off in 2016
- \$1 million of debt payment redirected to Road and Bridge budget
- \$112 million cumulative road and bridge appropriation since FY 2011
- Competitive wage scale implemented
- CETRZ Tax Increment revenue source for road projects was repealed in 2017
- HB2521 royalty provided \$2,117,000 in revenue in the first year of existence.

# FY2019 Budget Policy

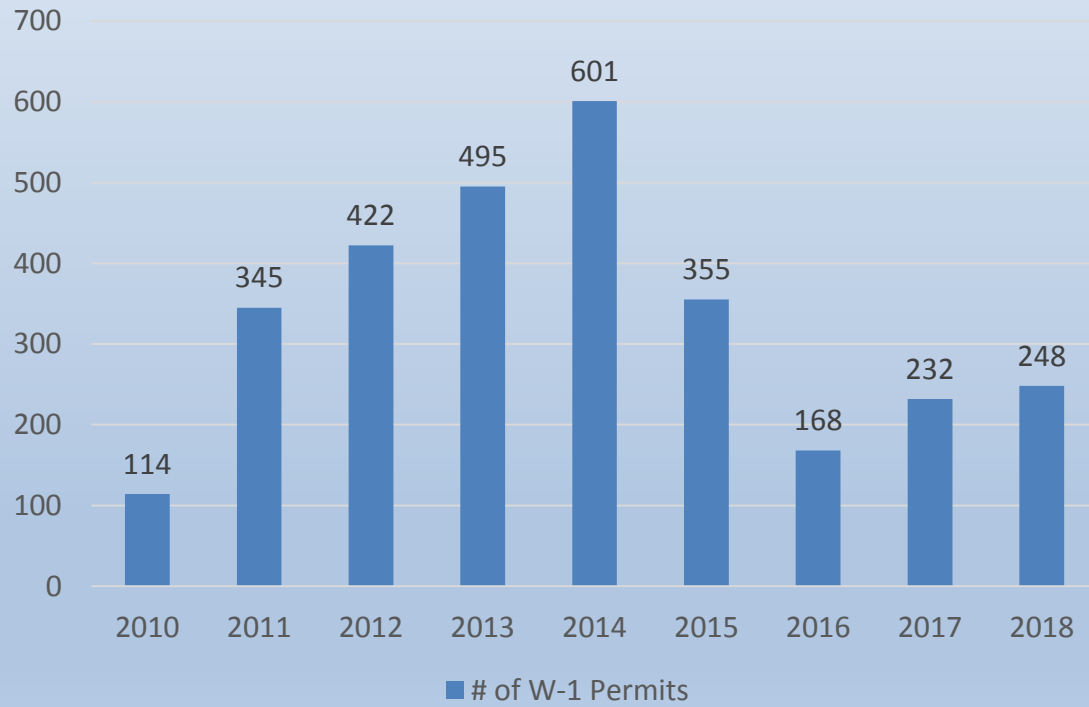
- Observe fiscal discipline
- Focus on long term stability of operations
- Utilize cash reserve balances (where needed) to maintain a consistent level of public service
- Maintain road and bridge efforts in all precincts
- Maintain current level of employees
- Maintain competitive wage scale with 3 percent COLA
- Continue 21<sup>st</sup> Century fiber optic upgrades in County facilities
- Conduct a Courthouse basement water mitigation project
- Conduct a County office space and utilization study
- Conserve cash reserve balances and enhance portfolio yield
- Prepare for a soft landing
- Avoid issuing additional debt

# Drilling Activity vs. R&B Expenditures

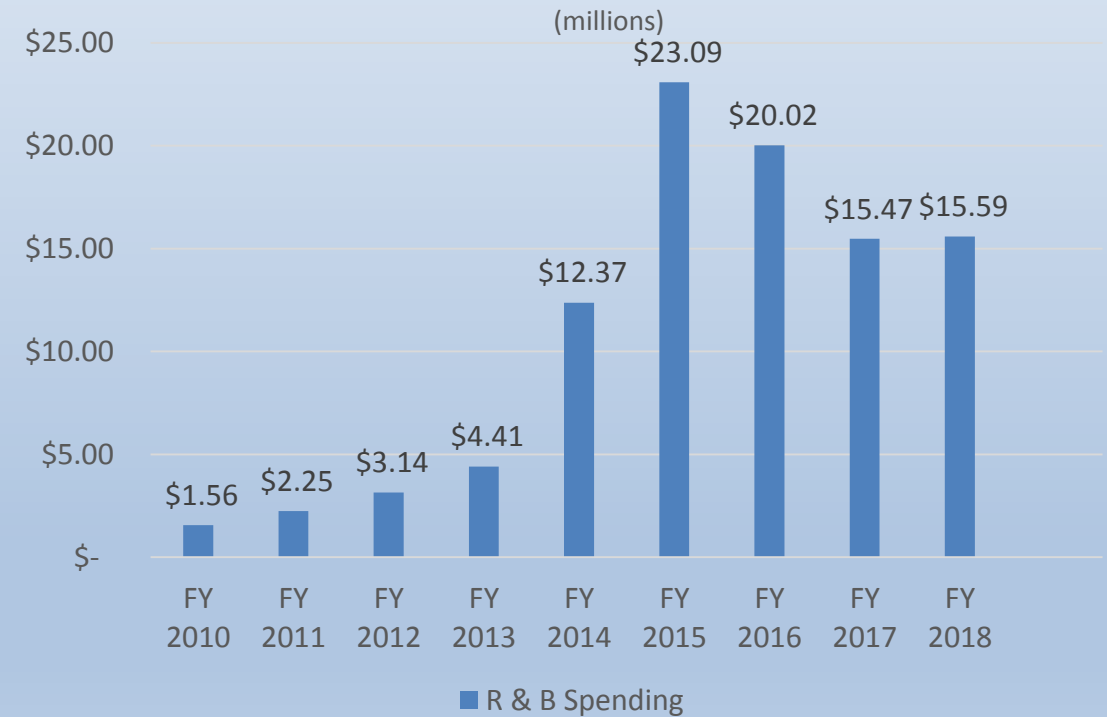
Drilling and production activity leads to...

more damages and higher expenditures

### Annual W-1 Permits Approved



### Combined Road and Bridge expenditures

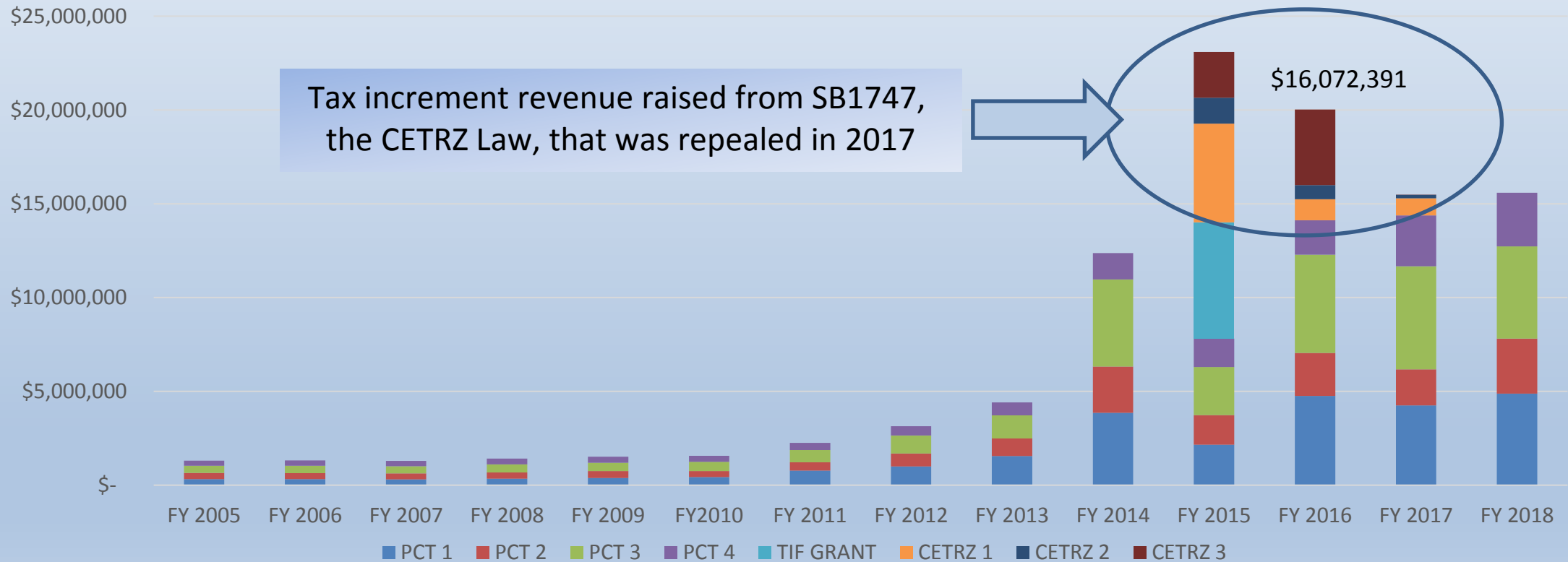


# Road and Bridge Expenditures

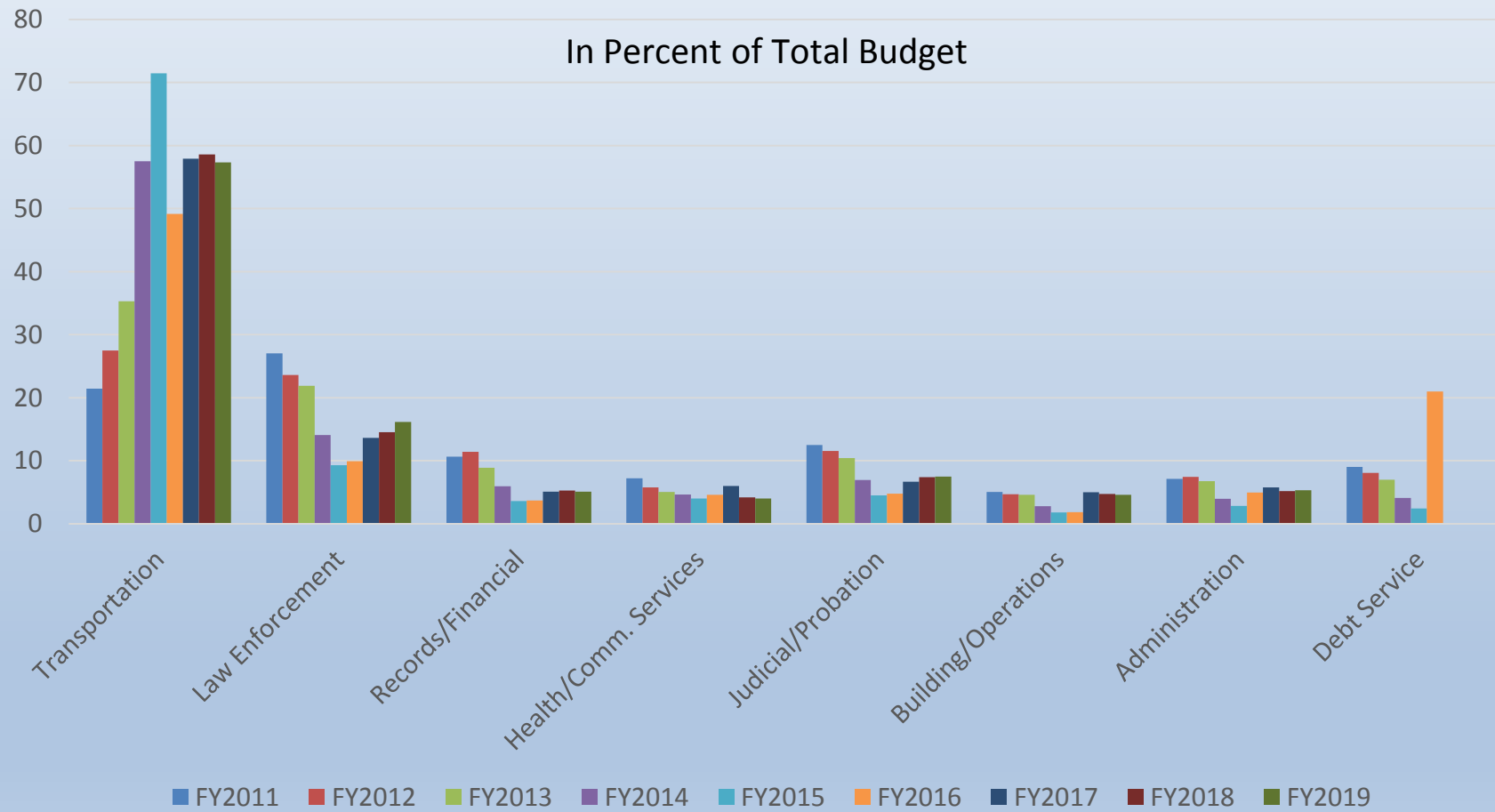
\$6.8 million FY 2005 thru FY 2009

\$97.9 million since FY 2010 (Eagle Ford Era)

Funded by Local Property Tax Revenue and one TIF Grant of \$4,957,614 in FY 2015



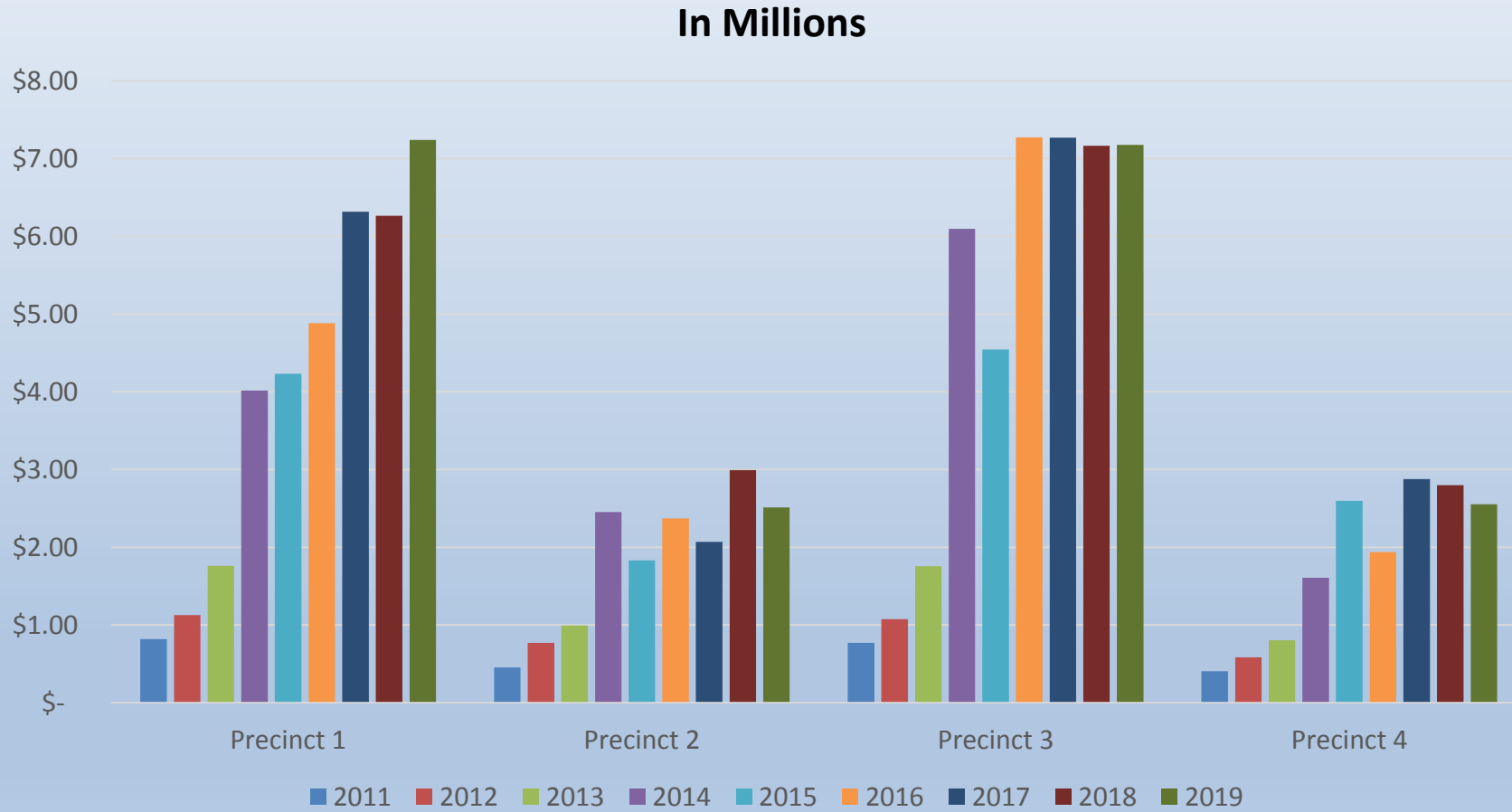
# Budgeted Appropriations by Category during the Eagle Ford Shale Era





# Road and Bridge Budgets by Precinct

\$112 million appropriated since FY2011



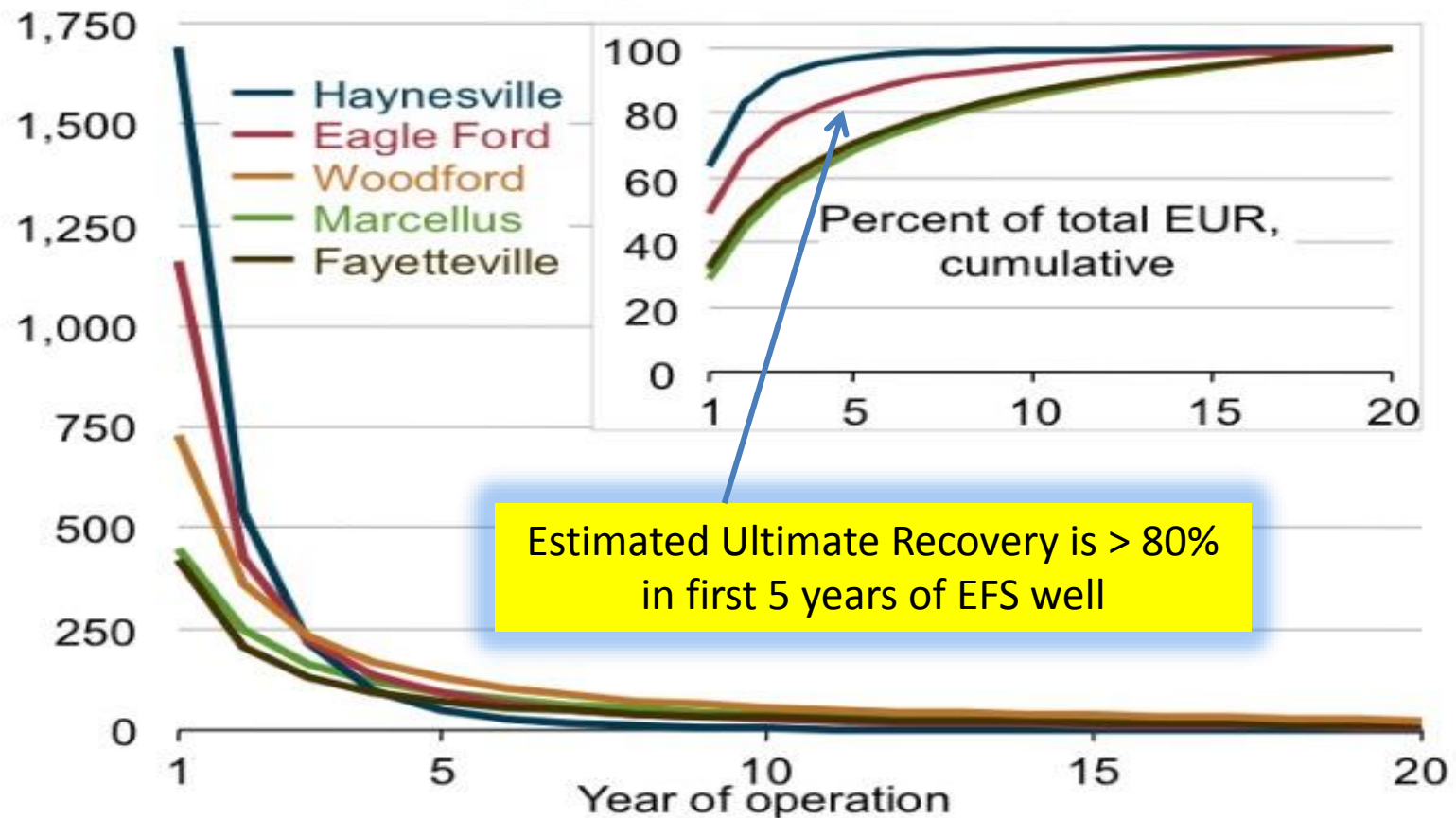
# FY2019 Tax Policy

- Maintain tax rate of .46937 and achieve 14.4 revenue increase to continue road projects
- Minimize the disruptive impact of volatile tax rates on businesses, landlords, renters, and family budgets
- Recognize that Mineral Value is volatile and is not a dependable source of revenue over the long term
- Recognize that state-sanctioned tax formulas in Chapter 26.04 of the Tax Code provide abatement of taxes to the energy industry and its beneficiaries because mineral values are not treated like New Improvements (see Line 21 of the Truth In Taxation tax rate worksheet)

# The Basis of Tax Policy:

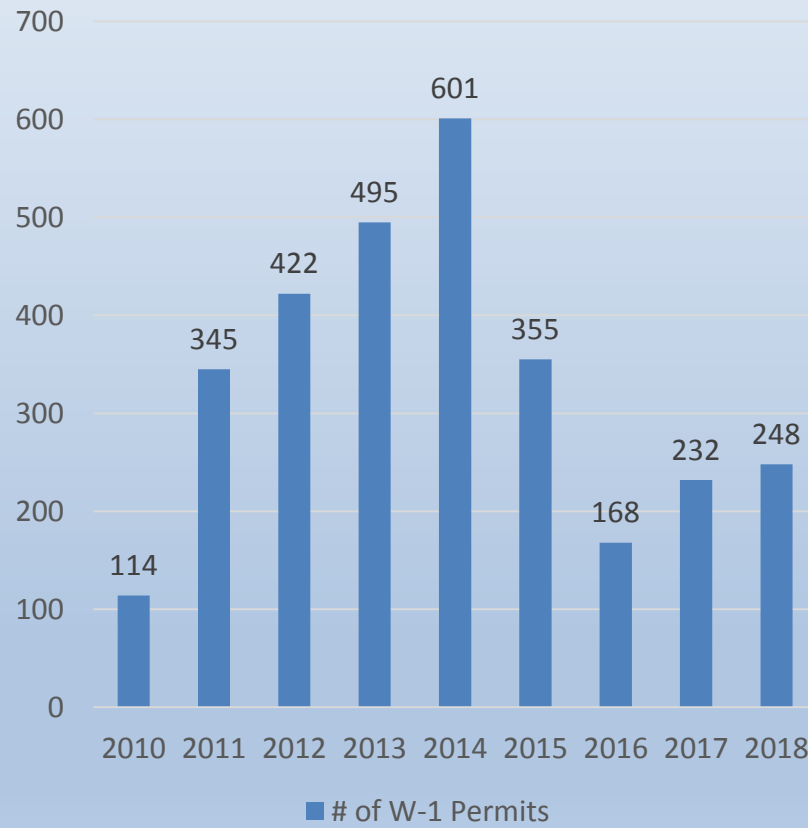
Mineral property values are predictable: they decline rapidly

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

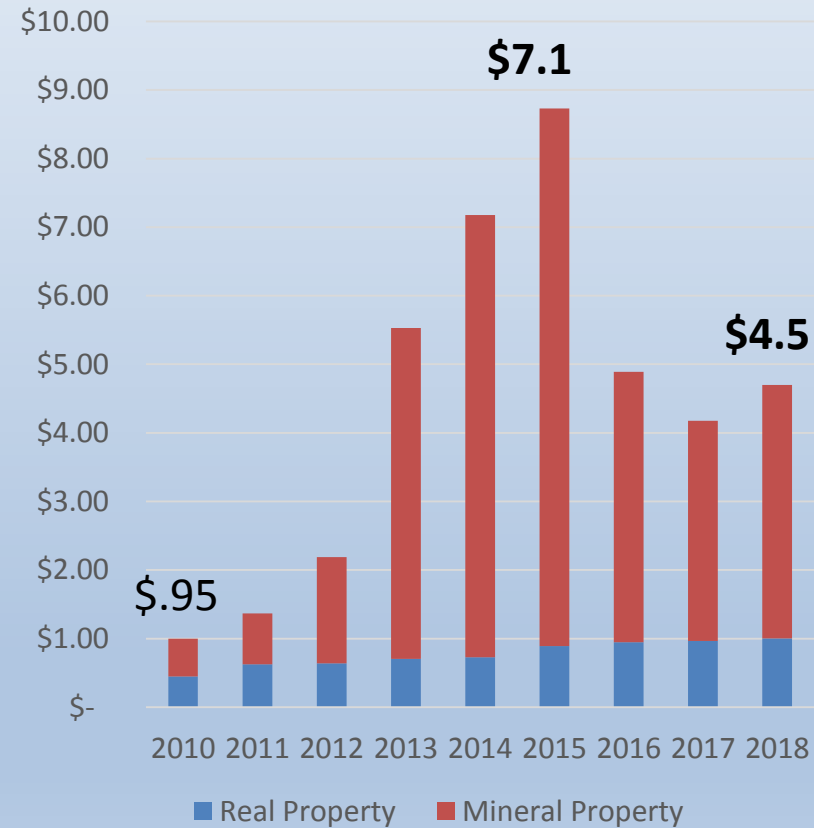


# Drilling Activity Impact on Tax Base

## Annual W-1 Permits Approved



## Property Tax Base (Billions)

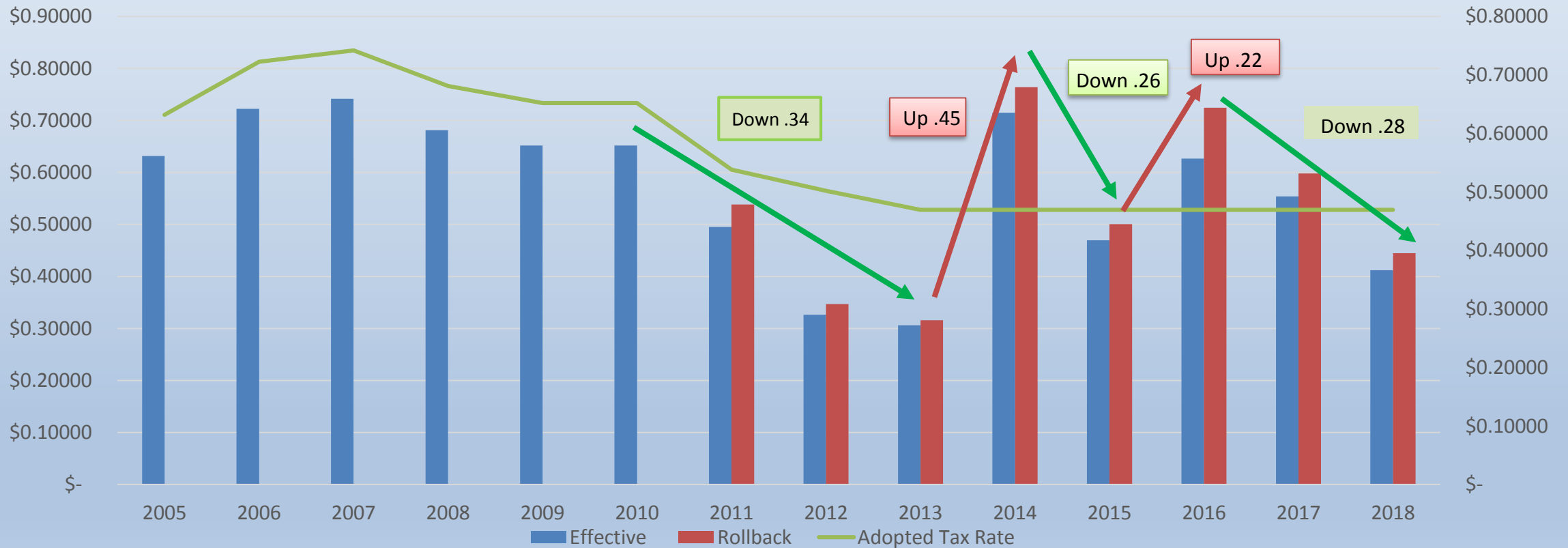


## Comptroller's Explanation of Effective Tax Rate from *Truth In Taxation: Tax Rate Adoption*

- The effective tax rate is a calculated rate that would provide the taxing unit with about ***the same amount of revenue it received in the year before on properties taxed in both years.***
- If property values rise, the effective tax rate goes down and vice versa.
- Although the actual calculation can become more complicated, a taxing unit's effective tax rate is a calculated rate generally equal to the last year's taxes divided by ***the current taxable value of properties that were also on the tax roll last year.***
- The resulting tax rate, used for comparison only, shows the relation between the last year's revenues and the current year's values. [Tax Code 26.04 (c)]

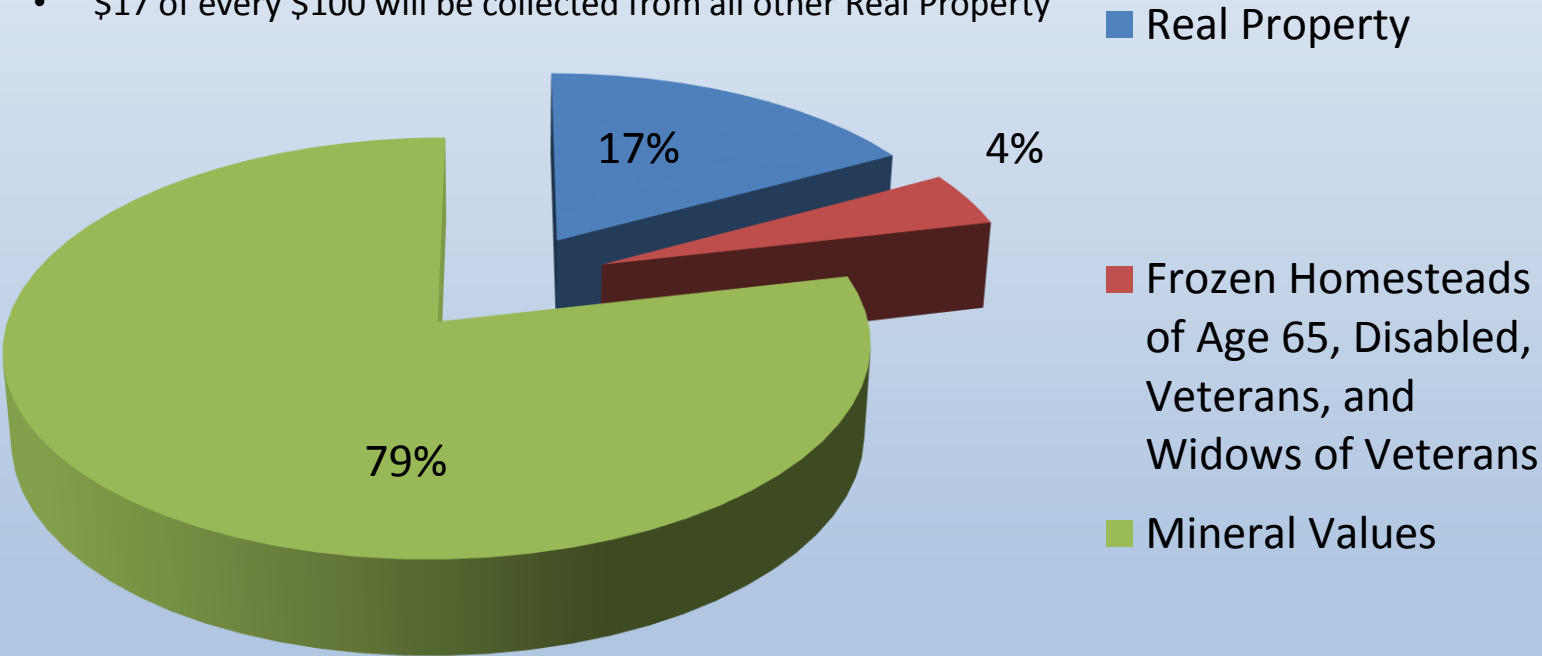
# Mineral Values Fluctuate Wildly Disrupting Business and Family Budgets

Treating New Minerals like New Improvements provides stability in the Tax Rate



# 2018 Tax Levy

- \$79 of every \$100 will be collected from oil and gas interests based on 80:20 O&G Lease
- \$ 4 of every \$100 will be collected from the Over 65 and, Disabled Veteran/Widowed homesteads
- \$17 of every \$100 will be collected from all other Real Property

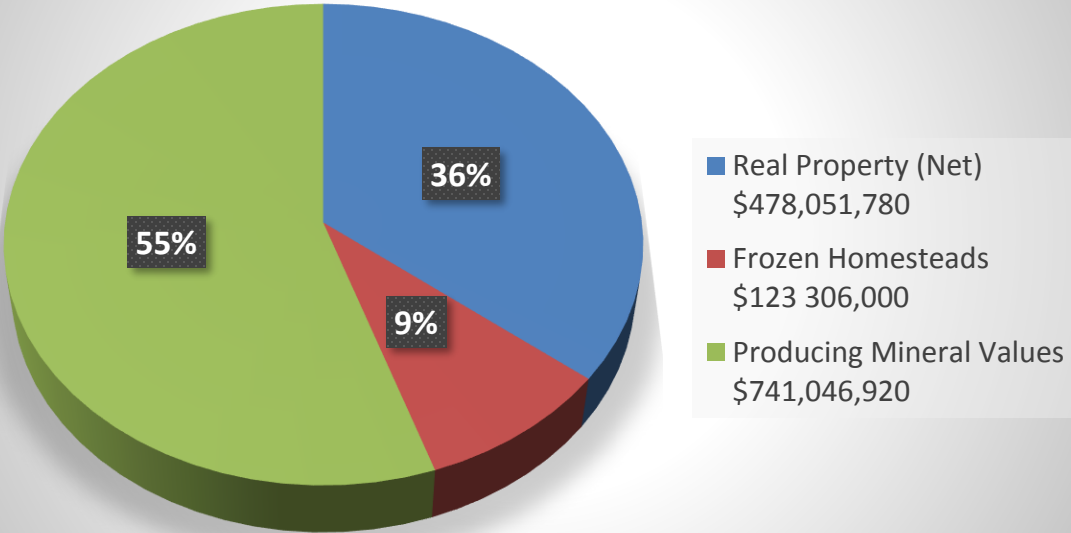


Frozen Values represent the designated homesteads of the Over 65 and Disabled. Taxes are frozen even if tax rates increase. Improvements to the property may increase the appraised value and the tax levied on the property. Reappraisals and changes in the property tax levy may apply to future improvements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

# Tax Base Comparison: Eagle Ford Shale Era

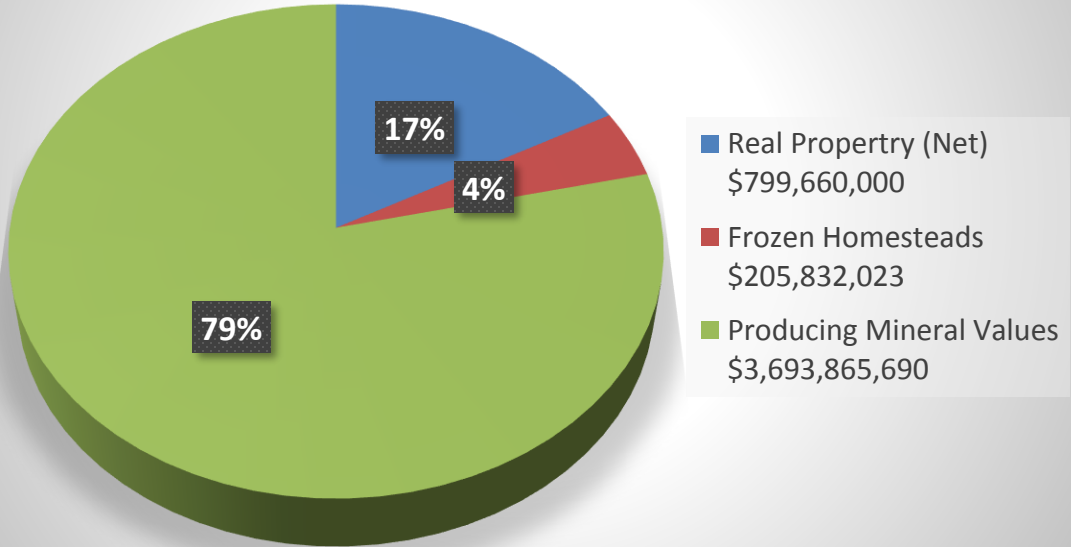
**2011**

Percentage of taxable property



**2018**

Percentage of taxable property



- \$79 of every \$100 will be collected from oil and gas interests (split by 80:20 O&G Lease)
- \$ 4 of every \$100 will be collected from the Over 65 and Disabled homesteads
- \$17 of every \$100 will be collected from all other Real Property

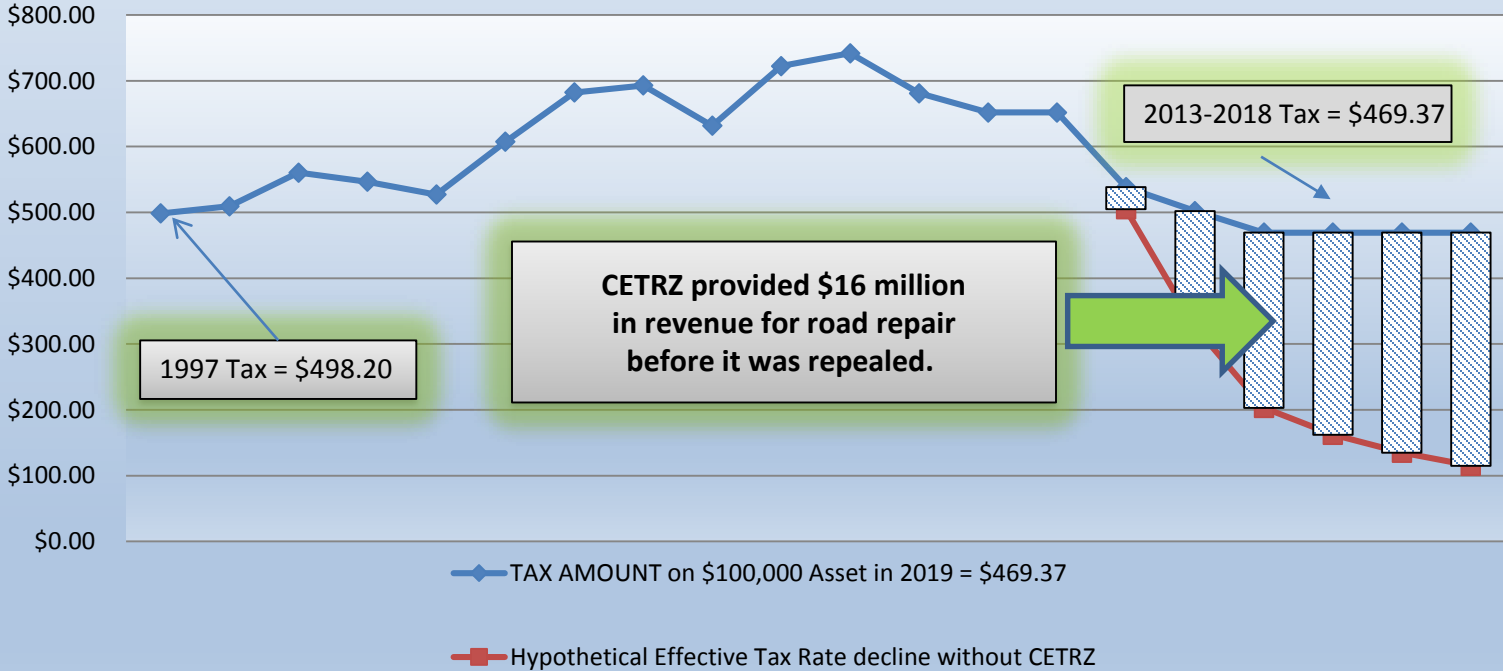


# CETRZ Captured Additional Tax Revenue for Road Projects

## Alert: SB1305 repealed CETRZ in 2017

The CETRZ was the industry solution for stemming the decline of the Effective Tax Rate and enhancing tax revenue to pay for road damages under SB1747.

The unconstitutional CETRZ was repealed in 2017 with the blessing of the industry. No replacement revenue



# Growing trend: Homesteads with a Tax Freeze

\$123,306,000 to \$205,832,023 in Seven Years



# Proposed Legislative Solutions



86<sup>th</sup> Texas Legislature

# Interim Charges of the 85<sup>th</sup> Legislature

- Joint charge of the House Energy Resources and Transportation Committees: *“evaluate the impact energy exploration and production have on state and county roads and make recommendations on how to improve road quality in areas impacted by these activities.”*
- Representative Geanie Morrison is the current chairman of the House Transportation Committee. She will schedule a hearing on this interim charge in her district or in Austin.
- The Interim Report of the House Transportation Committee can be found here:  
<https://lrl.texas.gov/scanned/interim/85/T687.pdf>

# Legislative Proposals for New Revenue

- **House Bill 4231 (85-R)** by Rep. James White would redirect two percent of the state production tax to a trust fund outside of the appropriation process and return it to the county of origin for road repair and maintenance. If this proposal was the law during 2013 to 2016, DeWitt County would have received about \$20 million over four years for road repair and maintenance. This Bill was approved by the House Ways and Means Committee in 2017 and died on the House Calendar.
- **House Bill 3614 (85-R)** by Rep. Geanie Morrison would eliminate a tax loophole provided to oil and gas companies by treating “new minerals” as being equal to “new improvements” in the calculation of the local property tax rate. This Bill was opposed by the Texas Oil and Gas Association (TXOGA) and died in the House Ways and Means Committee.
- The Interim Report of the House Transportation Committee contains a section of infrastructure needs in energy sectors counties and proposes solutions. The report can be found here: <https://lrl.texas.gov/scanned/interim/85/T687.pdf>