Tompkins County Council of Governments, Task Force on Gas Drilling
Assessment and Land Valuation Subcommittee

Outline of Concerns 11-26-11

A) Gas leases affect the ability to mortgage property.

- Leasing, even without wells drilled
- Affects individuals, lenders, market
- SONYMA, FHA, VA, mortgages in addition to private market/Fannie/Freddie
- Underwriting requirements
    - Setback to dwelling
    - Ancillary activities
    - Title Insurance
    - No subsurface bore-holes beneath dwellings
    - Secondary Market
    - Adjacent properties
    - Compulsory integration

B) Lease information unavailable

- NYS is a “race” state
- Market and govt. need complete, timely, information
- Initial lease, extensions, memoranda
- SONYMA mortgages affected
- Confirm agreement of extensions by both parties

C) Ramping up affects banks, markets

- Prior drilling had effect on individual properties
- New drilling at scale to affect the market
- Drilling, leases, in closer proximity to residential
- Anticipation/perception affects market
- Gas companies mortgaging their lease interests

D) NYS has insufficient systems to measure and tax gas production:

- NYS currently taxes gas extraction through an *ad valorem* property tax on production at the local level, but has no severance tax
- Production value formula set in 1978
- ORPTS Formula was set for a different type of gas production decline curve (set for the 5-10 year cycle of traditional drilling, not the quick high and then steep drop-off of shale gas output)
- Values in the formula may allow loopholes for industry
- Discount rate at 17%, while ad valorem rates for competing activities at 8-10%
- Production is self-reported by gas companies and meters are unverified

- Timing of production reports are not in sync with local tax cycle
- NYS unprepared to tax or track where to send bills in situations where there is severance of subsurface rights.
- Ensure allocation of any additional permit fees or severance taxes to cover local as well as state costs.
- ORPTS staff was reduced from 220 to 150 people

E) Local expenditure is required years before cost recovery

- Four year time lag between local budget, drilling, and receipt of taxes, best case
- Production delay increases lag
  - Bradford County, as of 4/11: 1700 permits, 240 producing wells
- Price influence on production timing
  - Industry strategy for NE formed at $12/mcf
  - Break even pricing estimated $4-7/mcf
  - Gas price currently $3.63/mcf
- New fee and/or tax structure must cover incremental local costs up front, as well as incremental state costs

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http://www.tompkins-co.org/tccog/Gas_Drilling/Focus_Groups/LandValues_Assessment.html
OR
http://tinyurl.com/GasAssessment