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Tompkins County Work Group Urges State to Address Taxation Issues Related to Gas Drilling

Following many months of research, a working group associated with the Tompkins County Council of Governments (TCCOG) is urging New York State to refrain from issuing drilling permits until it can capture appropriate taxes and fees and allocate them to cover costs to all levels of government, based on sound policy and verifiable data.

The recommendation is part of a White Paper issued this week by the Tompkins County Workgroup on Assessment and Land Valuation, a subcommittee of the Tompkins County Council of Governments' Gas Drilling Task Force. "Many changes to current policies are required to properly measure and collect tax revenue from Marcellus or Utica shale gas production," maintains Tompkins County Legislator and Working Group chair Carol Chock.

The working group, which includes municipal officials, the County's Director of Assessment, realtors, representatives of local financial institutions, real estate attorneys, and interested citizens, was formed to assist Tompkins County and its municipalities to prepare for potential impacts if the State approves high-volume horizontal gas drilling.

"Local officials may not realize that under the current system, there would be a minimum three-year lag between the time we need to budget and pay for extra expenses and the receipt of potential tax revenues," Chock states. "The time lag increases if wells are drilled and capped. Further, we found the expected tax revenues to be far smaller than many of us had been projecting."

"The current method of calculating the tax must be updated, adds Caroline Town Supervisor Don Barber, former Co-Chair of the Council of Governments and a member of the workgroup. "That method was established in 1978 for a very different type of gas extraction, and it allows companies to self-report the amount of gas production with no verification."

The report states: "New York State must develop revenue streams from gas extraction to pay for the additional costs to both State and local governments, at the time they are incurred, through a blend of permit fees, severance taxes collected by the State, and *ad valorem* property taxes collected by local taxing entities such as municipal governments and school districts."

The research identifies four conditions that must be met before drilling permits can be considered:

- That New York establish a new severance tax and fee structure shared with local governments, as the most effective way of capturing tax revenue in a timely fashion;
- That new, accurate and verifiable methods of measuring shale gas be required as an essential condition of fair taxation;
- That the Unit of Production Value ("UPV") formula be updated for shale gas through an open and transparent process; and
- That a minimum delay in collection of tax revenue be addressed through permit fees and a minimum annual assessment on production.

(For further detail on these findings, see the summary of key recommendations that follows, entitled **"*Summary: White Paper on Taxation Issues Related to Gas Drilling*."**)

“We started the work of this committee to look at potential future impacts of hydrofracking— how might it impact our assessment rolls, the value of property in our community, and ultimately, the tax base,” says Chock.

“We have been promised a huge economic boom from drilling,” Barber concludes. “The reality is quite different, especially without significant tax changes and fees paid by the drilling industry.”

The Working Group’s full report is available online at http://tinyurl.com/GasAssessment
and on the TCCOG website at
http://www.tompkins-co.org/tccog/Gas_Drilling/Focus_Groups/LandValues_Assessment.html.

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Summary: White Paper on Taxation Issues Related to Gas Drilling

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1. NY must establish a new Severance Tax that is shared with local governments. It is the most effective way of capturing tax revenue in a timely fashion.
Gas is a New York State resource that once extracted will be gone forever. A severance tax provides one-time revenue to the State for its resource. A new severance tax is necessary to offset local and state government costs, especially, but not only, for the costs that come with the early stages of gas development. NYS must institute a tax and fee structure that provides timely revenue at both state and local levels to recover cost burdens, public investment and gas industry oversight in the short-term and in the long-term. It is common practice among gas-producing states to have both an ad valorem property tax at the local level and a severance tax at the state level. Both are necessary. And due to the time lag between permitting and ad valorem revenue to local governments, the severance tax will need to be shared with local governments to prevent the civil society from exceeding its tax cap limit in order to provide infrastructure for this industry. Further, funds must be allocated in a manner that is shared fairly to cover state, local, and regional cost increments.

2. New, accurate and verifiable methods of measuring shale gas are required as an essential condition of fair taxation.
The State must establish new, accurate, transparent, and verifiable methods of measuring and reporting shale gas production. The current method of self-reporting by the energy companies is not acceptable. Production is the critical factor in the formula for calculating ad valorem property taxes and a state severance tax, as well as for fair royalty payments to landowners and subsequent income tax payments.

3. The Unit of Production Value ("UPV") formula needs updating for shale gas through an open and transparent process.
Shale gas economics will result in extremely low property tax collection for NYS municipalities, if any, if the existing formula is applied. The key factor in calculating ad valorem property taxes is the "Unit of Production Value" (UPV) formula. It must be updated in order to value the real property of this new and different type of natural gas extraction. NY State's Office of Real Property Tax Services (ORPTS) must conduct a transparent open process when establishing the formula and all applicable values.

4. A minimum delay in collection of tax revenue must be addressed through permit fees and a minimum annual assessment on production.
There will be at least a three year time lag between local budget determination, initial well construction, and collection of ad valorem tax revenues, more if wells are drilled and capped. NY should update the minimum ad valorem assessment, which can be applied in cases where annual production is delayed, and consider appropriate permit fees at both local and State levels that would apply related to each aspect of operations.

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