

## **Fayetteville Shale Exploration Boosts Faulkner County Economy**

By Roger Lewis

The gas exploration industry has an annual impact exceeding \$115 million on Faulkner County's economy in terms of employment, taxes, payments to vendors and royalties. It has been a buffer that has helped keep Faulkner County from sliding into the national recession.

The estimated \$115 million for 2010 consists of \$70 million in wages, \$12 million for purchases of goods and services, \$7.7 million in Ad Valorem taxes, \$428,000 in severance taxes and \$25 million in royalties to mineral rights owners. When considering that Conway is the trade center for Cleburne, Conway and Van Buren counties, where the majority of the wells are located, much of the economic gains in those counties from the gas industry finds its way to Faulkner County further surpassing the estimated \$115 million impact.

### **Wages**

According to the Arkansas Department of Workforce Services, there are 35 firms in the Natural Resources business in Faulkner County, employing an average of 770 employees with a weekly wage average \$1678. It is the highest weekly wage of any business segment in the county. This amounts to a weekly payroll of \$1.3 million and an annual payroll of approximately \$70 million.

### **Purchase of Services and Supplies**

There are countless other employees serving the industry through contracted services and suppliers of goods. Data for the amount that the firms engaged in gas exploration spend on goods and services in the county are not available. The amount of money is formidable and I am going to roughly estimate it to be around \$12 million annually.

### **Ad Valorem Taxes**

Ad valorem taxes are taxes paid on the assessed value of property. The value of natural gas produced, the value of transmission lines, and real estate and personal property owned by the gas exploration companies are all subject to ad valorem taxes. The tax rate in Faulkner County varies by school district and city and ranges from 42.2 to 53.7 mils (total of county, city and school district). An average of fifty mils is used for calculations in this article.

The assessed value of gas produced in Faulkner County for 2010 to date it is \$19,384,110. A projected value for all of 2010 is \$30 million. The taxes on \$30 million at 50 mils, is \$1.5 million. The majority of the tax revenue goes to Greenbrier and Quitman school districts where most of the wells are located in Faulkner County.

The assessed value of the transmission lines is \$13.6 million and the tax revenue on these lines is \$681,000.

Personal property, essentially machinery and equipment, owned by this industry is assessed at \$54 million. The tax revenue on this is \$2.65 million. Most of the trucks are leased by the exploration companies and the personal property tax paid by leasing companies is not identified as to the lessee.

Real estate directly owned by the industry is assessed at \$5.7 million by the County Assessor's office with estimated taxes of \$285,000. The majority of this real estate is located in Conway, and the city, school district and county are all recipients of this tax revenue. Southwest Energy is building their regional office in The Village at Hendrix with an estimated cost of \$14 million for the building exclusive of the land. The taxes on this building are estimated at \$140 thousand and will not be paid until 2012.

Altogether, ad valorem taxes paid by this industry in Faulkner County are estimated at \$7.7 million for 2010.

### **Royalties**

Owners of the mineral rights are paid a royalty on the gas produced. The minimum royalty rate, by law, is 12.5 percent of the wellhead price. Many have negotiated rates of 15 percent and higher. The well head price of natural gas has been severely depressed, and the monthly average of \$4.40 per thousand cubic feet for 2010 is down from \$8.07 for 2008. The estimated wellhead value for natural gas production in Faulkner County for 2010 is \$180 million. Royalties' on this production at 12.5 % is \$22.5 million, and at 15% it is \$27 million. We will use \$25 million as the estimated figure.

### **Severance Tax**

The severance tax on natural gas was increased by the Arkansas legislature in 2008 from three tenths of one cent (.003) per thousand cubic feet to 5 percent of the well head price with provision for a lower rate for the first 24 to 36 months. The severance tax revenue in 2008, under the old rate was \$1.3 million. For 2010 the revenue is projected to be \$55 million.

Ninety-five percent of the severance tax revenue goes to the Arkansas Highway and Transportation Department (AHTD). By law, AHTD must distribute 30 percent of revenues to cities and counties for roads and transportation. The formula for distribution differs for counties and cities. The city of Conway will receive an estimated \$218,000, other municipalities in Faulkner County will receive \$41,000 and Faulkner County will receive \$169,000 in 2010 for a grand total of \$428,000.

### **Environmental Issues**

There have been many negative aspects of the natural gas exploration. According to County Judge Preston Scroggins the damage to county roads is approximately \$6 million, but he states that the gas companies are reimbursing the county for the repairs. As the roads fall in disrepair while wells are being drilled, little can be done until the gas exploration is completed in the area.

Several environmental issues have come to light. Cuttings and fluids from drilling are placed in lined holding ponds, and if contaminate levels are below a specified criterion, they can then be dispersed on the surrounding land. This is a very controversial issue. Also water used for fractioning the wells is hauled away and injected into deep wells, creating other issues. There have been numerous complaints that domestic wells have gone bad when drilling occurs in the area.

The time of drilling poses the most contentious problems. This includes very loud 24/7 noises until the well is completed. Numerous trucks hauling machinery, gravel, water for fractioning the well and waste water are noisy, dusty and severely damage the roads. Collection and transmission lines cut through much of the terrain. However, once the well is completed, these problems subside and all that remains is approximately an acre or so gravel pad with a well head at the center.

There is no way to calculate monetarily the adverse effects, long or short term, on the citizens relative to pollution, health and environmental damages.

More information on the Fayetteville Shale can be found at Pulse of Conway website, [pulseofconway.com](http://pulseofconway.com).