Meeting Minutes of the Funding Levels and Potential Funding Sources
Study Group of the
North Carolina Mining and Energy Commission
February 20, 2013

1. Preliminary Matters
   Acting Director Vikram Rao called the meeting to order at 1:00 p.m. and welcomed all study group members and others attending. He noted that Director Lewis-Raymond was absent due to recent surgery. He read the ethics statement and asked Study Group Members whether or not they had conflicts of interest with respect to any items on the agenda. No conflicts were noted.

   The following personnel were in attendance for all or part of the meeting.

2. Study Group Members
   Dr. Vikram Rao, Acting Director
   Mr. George Howard
   Mr. Jim Womack, via teleconference
   Ms. Johanna Reese

3. DENR Staff Members
   Mell Nevils
   Katherine Marciniak
   Debra Godwin
   Walt Haven
   Toby Vinson

4. Others in Attendance
   Refer to the attached meeting sign in sheets for additional attendees.

5. Introductions
   Those in attendance introduced themselves to others in the group.

6. Approval of Minutes January 31, 2013
   Acting Director Rao made a motion, seconded by Mr. George Howard, to approve the minutes as presented. Vote was unanimous.

   Acting Director Rao requested that #8 on the agenda entitled "*Review of Analysis of Cost Associated with Emergency Management and Law Enforcement*" be moved to the beginning of the agenda because Mr. Womack was presenting this item to the group via teleconference.

7. <u>Review of Analysis of Cost Associated with Emergency Management and Law Enforcement</u>

Mr. Jim Womack, Chairman of the Mining and Energy Commission, advised the group that he had polled counties within Pennsylvania and Colorado that are active in the oil and gas industry on their Public Safety, Emergency Management, Police and Fire Services. He had received responses as follows:

- Marshall County, Pennsylvania and approximately other six counties were impacted in these services.
- In Weld County, Colorado, no major impacts were reported. This is in part due to the existing emergency personnel having received specialized training along with the industry personnel in emergency management and hazardous materials safety; and that there was no needed expansion of emergency services or staff.
- In Bradford County, Colorado the county did increase the size of its jail, but it was felt, that the increase was because it was already undersized prior to the oil and gas industry in the area. It was noted that there was an increase in the number of other police investigations pertaining to incidents of drinking and disorderly conduct, as well as an increase in the number of 911 calls.
- The affected counties were generally able to ramp up services based on the increased tax revenue and impact fees, which were enough to offset the costs of additional law enforcement and public safety needs. Mr. Womack further stated that he is still waiting on information from more counties and will continue to get additional data on cost impact.

The group discussed the possibility of *ad valorem* taxes to create a revenue stream; however, current North Carolina law does not allow for an *ad valorem* tax on oil and gas. Impact fees are the only way to create a revenue stream to provide monies to local levels of government. However, the study group could recommend respective statutory revisions to the Legislature.

Mr. Womack stated that Pennsylvania counties are not allowed to tax the oil and gas industry and in that state the revenue comes from severance taxes and impact fees set by the state with an allocation to the counties. Mr. Womack further stated that potential revenue sources might include property taxes that the counties already assess, a state allocation from severance taxes, or local impact fees.

Mr. Howard questioned if the state could use *ad valorem* tax. Ms. Reese stated that Senate Bill-76 had been amended to allow for property taxes to be assessed by counties for oil and gas operations, but that counties could not assess a per use/or per production tax. Staff clarified that the Study Group could recommend to the MEC that counties should have the ability to further tax operations.

Ms. Reese questioned if mineral rights were subject to property taxation. Mr. Womack stated yes, but that the law should be administered uniformly. Other minerals in the state have been taxed based on mineral rights, such as coal.

Brandon Jones with NCDOT questioned if a tax on mineral rights was being paid to the County. The Study Group noted that this topic required further research.

Mr. Womack stated that there needs to be some study of how the Register of Deeds would treat property taxes with severed mineral rights taxes. There are approximately 35 parcels of property in Lee County that have severed mineral rights that are taxed. Local governments do not want be denied the ability to assess an *ad valorem* tax because it is the "life blood" of local government.

8. Discussion of Impact Fee Structure
Acting Director Rao stated that Pennsylvania chose to make their impact fee proportional to only the "dry" component of natural gas, and not the more profitable "wet" component. Further, he stated that he questioned why the least value part was taxed

Trina Ozer stated that a new version of Senate Bill 76 differentiates the severance tax between gas and condensates.

Acting Director Rao stated that the fees should be proportionate to the volume of the production.

Staff was directed to study impact fees based on oil and gas production and activity and to determine how fee strategies might be applied. Dr. Rao offered to provide assistance with this issue.

9. Review of Proposed Draft Outline for the Study Report
It was the general consensus of the group to add, under (b) "Local Government Cost", the sub-heading of "vii. Administrative Costs."

10. Discussion of the Costs Incurred and Costs to Upgrade Existing Infrastructure to NCDOT
Ms. Judith Corley-Lay, NCDOT Supervisor, made a presentation to the study group on the costs and impacts to the existing infrastructure as follows:
    - Transportation Impacts (roads, bridges, schools, safety, trucking, public transportation and manpower)

    - Construction Sequence
      4-6 weeks for pad development with approximately 300-400 truckloads
      4-5 weeks for drilling operations with approximately 15-200 truckloads
      7-30 days for fracturing process with 10,000 to 15,000 lb trucks

32-42 days for reclamation
- Maintaining the Infrastructure
- NCDOT Role and Expenses
- NCDOT Next Steps
- Conclusions

Trina Ozer asked from where the data were taken. Ms. Corley-Lay stated that the information had been provided by an oil and gas drilling company.

Dr. Rao asked about the quantity of water being trucked into the sites versus recycling on-site. Currently in Pennsylvania, there is a recycle rate of 15-20% of water coming from back from the ground. Thus, a greater quantity of water is put into the ground than is returned to the surface.

Mr. Mell Nevils asked about the truckload equivalent to normal car traffic. Ms. Corley-Lay stated that one 18,000 lb. truck is the equivalent of 6,000 cars on a road.

Mr. Womack questioned why the materials would be brought in on trucks and not by railway. He further explained that expected gas production sites in Lee County were geographically located close to local rails, which should reduce overall truck traffic. The NCDOT explained that generally, the industry does not pay for infrastructure improvements until they are able to determine the viability of an oil or gas drilling site.

Ms. Corley-Lay stated that the source of future funding needs was uncertain. She further explained that additional monies would be needed for future staff support and infrastructure maintenance.

The three major areas of concern for NCDOT are as follows:
- The potential for chronic road problems in Lee and Moore county due to 56% and 68%, respectively, of roads being less than 22 feet wide.
- The "lifetime" of many of the secondary roads being exceeded by development and operations truck traffic.
- Having a hauling route plan submitted and reviewed by NCDENR and NCDOT staff prior as a part of the permit approval process.

11. <u>Discussion of Costs to Local Governments</u>

Ms. Reese lead Study Group discussion, which addressed the sources of revenue needed to assist local governments with expected costs:
- Hazardous materials financial assurance
- Hazardous materials training
- Damage to State Roads
- Additional workload to local governments

Mr. Womack stated that highly specialized training was provided at the American Petroleum Institute or by natural gas companies.

A member of the public questioned on-site and well site expertise and training for handling a blow-out. Mr. Womack stated that State rules should require industry personnel to be available to handle wellhead blowouts or pipeline emergencies. Mr. Womack noted that he would place this item on his agenda.

12. General Discussion

Mr. Howard asked about the endpoint for the Study Group. Staff responded that the study group was tasked to examine all costs and revenue sources, including severance taxes and impacts fees, at both the state and local levels. Further, the study group had the authority to recommend to the MEC alterations or changes to taxes or fees.

Dr. Rao stated that incurred costs should be linked to equivalent sources of revenue to eliminate cost impacts.

There being no further business, the meeting adjourned at 3:00 pm.

DEMLR staff contact for these minutes: Walt Haven, Energy Program Supervisor