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The Market Drives Pennsylvania's Gas Activity and Values

The development of the Marcellus Shale as a major source of natural gas has been underway for three years. Geologic maps show that the shale is beneath roughly 60 million acres across Maryland, New York, Pennsylvania, Ohio, and West Virginia. While the deposit is widespread, production volumes have varied widely from location to location and from well to well.

Total estimates of producible gas have varied nearly as widely as individual well performance. For instance, geologists at the State University of New York and Penn State estimate that total Marcellus gas production volumes could range from 49 trillion to more than 1,300 trillion cubic feet. These estimates are widespread because the Marcellus is still an "unknown" entity and because estimates of recoverable volumes are dependent upon geologic and engineering knowledge, the economics of oil and gas production, and, perhaps most important, the viability of oil and gas markets.

Economics play a most critical role. When the Marcellus was first exploited, dry deliverable natural gas was selling for more than $4.50 per thousand cubic feet (roughly one million Btu's). Many of the producers had contracts to deliver gas at substantially higher prices based on contracts signed during previous years when gas prices spiked. With prices high it was easy to justify high front-end bonuses, expensive drilling, and the costs to lay-in the infrastructure to gather and deliver the gas to commercial transmission systems.

A leasing boom ensued. Lease signing bonuses increased rapidly, royalty rates climbed and land prices soared. Drilling was focused on gas that could be taken to market with little if any expensive post-production processing – dry gas (consisting of nearly 100% methane). In the Marcellus, the dry gas has been found in the northeastern counties of Pennsylvania.

In contrast, in the western part of the state the Marcellus has tended to yield wet-gas, that is gas that includes various liquids including butane, propane, ethane and some light oils. These liquids, which are used by the chemical and plastics industry, sell for substantially higher prices than the "dry" methane. However, the liquid-rich gas must be processed to separate the natural gas liquids (NGL's) from the methane..

In the early days of Western Pennsylvania Marcellus development, the presence of NGL's posed a handling problem. There was no way to efficiently separate and handle the NGLs from the methane. With uncertainty concerning the extent of the NGLs and with only a few wells producing NGL's, there was no incentive to develop the mid-stream infrastructure needed to efficiently separate and market the NGLs. Drillers continued to focus on Northeastern dry gas – generating gas flow while driving down prices. Since then, a large number of wet-gas wells have been completed and, for the most part, the viability and the areal extent of the wet gas production has been proved.

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Ideas for You

SET GUIDELINES FOR ON-THE-JOB BEHAVIOR

Insisting that employees show courtesy and respect is not about forcing them to "make nice" with each other. It's about making money for your organization. No one wins when employees exhibit uncivil behavior. You can reduce incivility and limit its damage by raising awareness and squelching bad behavior when you see it. *Start with these basic tactics:*

Set a zero-tolerance policy. Let employees know that rudeness, sarcasm, backstabbing and similar behavior will draw a written warning. Be sure to follow through.

Look in the mirror. Listen to yourself, too. Make sure that you are serving as a positive role model.

Take complaints seriously. Do not brush them off as whining or act as if complainers merely suffer from "thin skins." Do not make excuses for offenders, even if they are your rainmakers or proteges.

Adapted from *"Zero Tolerance: Business Leaders Who Understand the Cost of Incivility in Their Organizations Make Eliminiting Bad Behavior a Priority,"* Christine Pearson and Christine Porath, American Executive

What's Inside

President's Message, Legislative Update, AAP People

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President's Message

Dear AAP Members,

2012…You've got to be kidding…what happened to 2011?

As we make plans for 2012, be sure to place on your calendars the 2012 AAP conferences…the Annual Conference is May 9 to 11 at Seven Springs, and the Fall Conference is November 15 and16 at the Penn Stater in State College. If you're marking your 2013 calendar, Annual Conference is scheduled for Seven Springs from April 24 to 26 and the fall conference at the Nittany Lion Inn from November 7 to 8.

We all realize that budgets are strained to the limit. Mandatory continuing education required under Act 28 is one thing, but getting together with other assessors and having the ability to just talk over issues is equally important.

We'll also be looking for nominations for the AAP Board at the upcoming Conference in May. In addition to nominations from the Nominating Committee, you as AAP members can make nominations from the floor for anyone you, as AAP members, believe will represent you on the Board.

As county budgets are stretched, we have found that more and more tasks are being added to directors, chief assessors and assessment offices. If you find yourself in this position, let us know. We as an association may want to look at developing educational opportunities to assist you in your "newly found" responsibilities. This is your association…let us know how the AAP can help.

Very truly yours,

Steve

Legislative Responses to Clifton et al: The General Assembly's Assessment Task Force

By: Joan Righter Price, Esquire
Solicitor to Montgomery County Board of Assessment
Chair, AAP Assessment Law Committee

On April 29, 2009, the Pennsylvania Supreme Court handed down Clifton et al v. Allegheny, 969 A2d 1197 (2009) holding that Allegheny County's indefinite use of a base year system of assessment was unconstitutional. The majority opinion, authored by Chief Justice Ronald D. Castille, stopped short of adopting the position urged by Justice Max Baer in his concurring opinion. Justice Baer called on the majority to set a constitutional threshold of uniformity that all counties must meet or be presumed to be in violation of the uniformity clause. Justice Baer stated: "Because a COD of twenty is the highest COD acceptable, once a county's COD, as demonstrated by STEB, reaches this threshold, it seems appropriate that a presumption should arise that the county's assessment scheme has become non-uniform and therefore unconstitutional in accord with the Uniformity Clause." Clifton, 969 A2d 1197, 1235.

Although this decision is clearly of great importance to Allegheny County, it is equally significant to the other 66 counties in Pennsylvania, more for what it doesn't say than for the decision itself. Although the Clifton majority declined to adopt any particular statistical measure as a constitutional threshold of uniformity it put the Legislature on notice with these words:

While there may very well come a time when this Court will be obliged to fill a legislative void in this area, it is today's decision that provides notice to the General Assembly to make any necessary amendments to the Commonwealth's property assessment laws so as to ensure their constitutionality when applied in the various counties. The likelihood or unlikelihood of the General Assembly's doing so in the future is not for us to presume. Rather, we should await a future case where a party actually requests and argues for such relief and where the General Assembly's failure to respond to today's decision has become apparent. Respectfully, we view this restricted approach as the essence of the judicial function, and not an abdication of responsibility. Clifton v. Allegheny County, 969 A.2d 1197, 1231.

The Pennsylvania General Assembly heard the Supreme Court and responded. In June of 2009 the House of Representatives directed the Legislative Budget and Finance Committee (LBFC) to undertake a study of Pennsylvania's assessment system and specifically directed the LBFC to compare Pennsylvania's assessment system to the methods of other states. (House Resolution 2009-334). LBFC's report was released on September 22, 2010 and it contained a number of findings which were largely incorporated into two resolutions unanimously adopted by the Pennsylvania House on June 27, 2011 that created two task forces to study the findings of the LBFC and make recommendations. These task forces are discussed in more detail in the rest of this article.

Each task force was directed to utilize the staff of the House Local Government Committee and House Finance Committee in consultation with the Local Government Commission and the LBFC. Several members of the House of Representatives from various parts of the Commonwealth were appointed to serve on the task forces in addition to representatives from the Local Government Commission, the Pennsylvania School Boards Association, the Assessors' Association (AAP) and the County Commissioners Association (CCAP). Randy Waggoner and Charles "JR" Hardester were appointed to the task forces on behalf of AAP and Jim Hercik and I were appointed on behalf of CCAP.

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Article submissions are welcome.
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Gas article continued from page 1

The development of shale-gas drilling and production technology has liberated vast quantities of gas throughout the nation. We have gone from a deficit of gas, requiring imports, to a surplus of gas, driving the price down. Prices for "dry" gas in February and March of 2012 have been as low as $2.35 per mcf. When adjusted for inflation, this is lower than the price has been in decades. At these prices, it is difficult to justify the cost of continued development of the dry gas area of the state. The only real rationale for immediate dry gas development is to continue drilling to hold leases. Many companies are doing exactly that – drilling to hold leases in the dry gas areas of the state.

Conversely, there is now a rush to develop and produce gas and natural gas liquids in the western or wet gas region of Pennsylvania and Ohio. These potential zones include not only the Marcellus shale but also the deeper Utica Shale, as well as shales shallower than the Marcellus like the Burkett and Rhinestreet. Eastern Ohio is experiencing the leasing and land boom that a short time ago affected Pennsylvania.

Unlike methane, the NGL's are priced in a global marketplace. They are globally transportable and are derived for the most part from oil, a globally priced commodity. Given the high prices and with producible quantities assured, various companies are constructing NGL processing plants, chemical facilities, and plastic manufacturing plants in the wet gas region. This market is driving more drilling, more pipeline, and more mainstream construction to the wet gas area. In time, this will result in a drawing down of development assets in the dry gas region. Why would a driller continue to drill wells and lay pipes where the well will not yield a profit?

What can change the volatility? Simply put, only higher demand for natural gas will drive up the price. Conversion of source fuel for electric generation from coal to natural gas, the development of new demands such as natural gas based automotive fuels, or development of a gas export market. The gas isn't going anywhere - it's been where it is for hundreds of millions of years. Its development and use, the corresponding land uses and activities, as well as regional and local values, are all related to the national gas market – they will rise and fall as the demand for gas changes.

Written by Jeff Kern, President, Resource Technologies Corporation, State College





CHAPTER NEWS

Laurel Mountain Chapter

The Laurel Mountain Chapter will meet Friday, April 27 at the Oakhurst Tea Room. James Hercik, CPE, Chief Assessor, Fayette County will be presenting a three hour seminar entitled "Reassessment: From a Chief Assessors Perspective." For more details on the class, check with AAP website at *www.paassessors.org*.

South Central Chapter

The South Central Chapter meets quarterly. Meetings are quarterly - March, June, September and December, beginning with a business meetings at 9 a.m. with seminars beginning immediately after the meeting and are held at the Adams County Agricultural and Natural Resources Center, 670 Old Harrisburg Road, Gettysburg, PA 17325.

The Chapter's 2012 officers are:
President – **John Mavrides**, Lancaster County
President Elect – **Tanya Kipp**, Lebanon County
Vice President – **Paul Kreiser**, Dauphin County of Adams
Treasurer – **Jodi Martin**, Franklin County
Secretary – **Wendy Gockley**, Lancaster County

North East Chapter

The Chapter has a few new retirees this issue - **Daniel Barnett**, Wayne County **Darlene Beers**, Monroe County, and **Helene O'Connor**, Assistant Chief Assessor, Schuylkill County.

Jolaine Herman from Carbon County welcomed a new granddaughter.

Congratulations to everyone!

COUNTY NEWS

Indiana County

After 41 years in the world of tax assessment, **Martin Medvetz** has retired as Chief Assessor in Indiana County. Marty wanted to take this opportunity to thank all of his friends in the AAP for your guidance, professionalism, encouragement, and support over the years. Frank Sisko was formally appointed to the position of Chief Assessor on March 28th. We will miss you, Marty!

Lawrence County

Chuck Masters from Lawrence County passed his CPE Exam on January 14th, 2012. Congratulations, Chuck!

Luzerne County

John Anstett, CPE, Luzerne County Chief Assessor, and currently Wilkes-Barre City Assessor has retired as a part-time instructor from King's College McGowan School of Business where he has taught real estate for the past 28 years.

Contact us with your chapter or county news!

Don't forget to send your important news for the next *AAP Journal*. Our next deadline is June 6.

Please send all your news to Terry Cochran at *tcochran@pacounties.org*.

Position only:
See new artwork

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Charles "JR" Hardester
Chief Assessor
Lawrence County

Name: Charles "JR" Hardester

Position: Chief Assessor

Year in assessment field: 12

County: Lawrence

Marital status and family: Married with one son and one child on the way

What irritates me most in the assessment business: Mobile Homes

Most people would be surprised to know: I held a school record for the 1600 meter run.

Biggest challenge as an assessor: Trying to get the general public to understand the role of the assessment office

First Job: Stock boy for Joseph's Supermarket

If I couldn't be an assessor, I'd be: College Professor

If I won millions in the lottery, I would: Pay off my debt and those of my family then build a large sports complex for children or a golf course

Favorite food and drink: Italian food and homemade wine

Favorite vacation: My honeymoon in Punta Cana with my wife

Favorite movie: My wife would say our wedding video, however, I would say "The Rookie"

Three people living or dead that I would invite to dinner: My grandfather Raymond, Robert De Niro and Jerry Rice

The hardest lesson I ever learned as an assessor was the time: I went to appeal hearings unprepared.

If I could live in the past for one day, I would change: . . . NOTHING

My best friend: My wife Rachael

AAP
ASSESSORS' ASSOCIATION OF PENNSYLVANIA

MEMBERABILIA

Legislative Update continued from page 3

Representatives from the State Tax Equalization Board (STEB), and the Department of Revenue were also part of the task force appointed under House Resolution 2011-344 (see below).

The task forces have met jointly because so many of the issues are interrelated. Our first meeting took place on November 9, 2011 and we have met on three other dates. Although reports by each task force were due by the end of December of 2011, the drafts were held for further discussion. We recently met on February 16, 2012 to discuss the draft reports in the hope that they could be finalized for release. Outlined below are the preliminary recommendations by each task force and the charges, if any, for action by AAP and CCAP. In each case, AAP has formed a work group to focus on the issues identified as they affect our associations.

House Resolution 2011-343 created a Task Force to review Pennsylvania's system of property assessments, develop uniform standards for county assessment contracting, to develop standards for public disclosure of the county's system of assessment and make recommendations to the General Assembly to improve the real property assessment system. The AAP work group established to carry out the task force recommendations and directives is chaired by Randy Waggoner and Jim Hercik.
Charges to AAP and CCAP :

- Develop a "model contract" for use by counties preparing for reassessment that includes standard provisions for the unbundling of hardware and software; conflict of interest prohibitions; and public disclosure requirements.

- Establish a list of "best practices" for counties to follow in conducting a reassessment that includes qualification and training for data collectors.

House Resolution 2011-344 created a Task Force to develop procedures for data submission by counties to STEB and procedures for data collection at the local level to serve the county assessment process. The AAP work group established to carry out the task force recommendations and directives is chaired by Charles "JR" Hardester and Joan Righter Price.

Findings and Recommendations:

- STEB or another Commonwealth agency should adopt an operations manual that sets forth standard operating procedures including procedures to be used to validate sales including, but not limited to, a uniform list of definitions for rejection codes. [The STEB work group recently completed a list of codes and definitions and provided it to STEB for its approval.]

- Develop a sale disclosure/ verification form that would be attached to every recorded deed. Standardized electronic database to be used by all counties for submission of sales data. [The STEB work group recently drafted a sale verification form for this purpose.]

As of the writing of this article, the draft reports were being revised and it is expected that there will be another task force meeting to approve the reports before their release. Check back in June for the next Solicitor's Column where I hope to have more information to report.

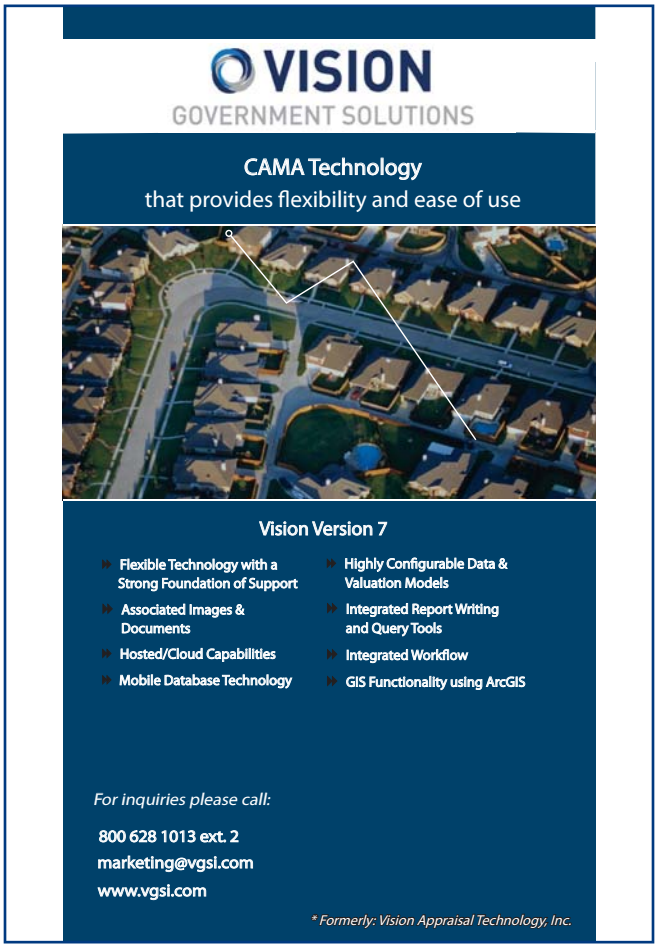
As of March 9, 2012, STEB is unable to enter 2011 sales data into their computer system. For this reason, the members of the Legislative Task Forces urge every Chief Assessor to maintain a separate record of every sale reported to STEB and be prepared to check for accuracy any CLR published by STEB. We will provide updates on STEB as they are available.

Don't forget to register for the AAP Annual Conference!

May 9 to 11, 2012
Seven Springs Mountain Resort

All class and hotel registration information is available on the AAP website, *www.paassessors.org*. Register today!

2012 Fall Conference
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