

Valuation & Assessment of Gas Producing Property in New York State



A History Lesson

- **1970's to mid-1980's**: Oil and gas exploration and production activity within New York intensified.
- **Early 1980's**: Laws were enacted to promote the development of oil and gas resources in New York and to regulate the activities of the industry.
- Specifically, the new laws added provisions to govern the assessment of oil and gas producing properties.
- The separate assessment of oil and gas economic units for producing wells in New York State was mandated.
- **Early 1990's**: Real Property Tax Law (RPTL) was amended to authorize the Office of Real Property Tax Services to impose an annual charge on oil and gas producers to pay costs incurred in the administration of the oil and gas program.

New York State Provides Uniformity

- **New York State Real Property Tax Law (RPTL) provides a uniform, state-wide method of valuing gas producing properties for real property tax purposes.**
- **It mandates the assessment of gas properties in production separately from all other interests in the property, such as land and buildings.**
- **The reason for assessing mineral rights separately from the land itself recognizes the fact that the ownership sometimes differs.**
- **Before this law, methods of assessing gas producing properties were determined by local assessors and varied throughout the state.**

Overview of Gas Producing Properties

- Gas producing properties are real property for taxation purposes, as are wells, pipes and gas under the land and are assessed separately from all other interests in the property.
- Gas producing properties are assessed as 'economic units' and include all real property associated with the exercise of gas rights including the un-extracted gas, gas rights, any and all wells, equipment, fixtures and pipeline necessary to drill, mine, operate, develop, extract, produce, collect, deliver or sell the gas.
- The "gas rights", not the lease, shall be assessed in the name of the possessor of the rights and stated on the assessment roll without any exemptions.

Who . . . What . . . And Where Is Vestal?

- **New York State Office of Real Property Tax Services (ORPTS) gathers economic profile data from the gas producers for the calculation and determination of unit of production values for each geologic region.**
- **Local assessors gather production data from the gas producers and apply the unit of production values issued by ORPTS to calculate an assessed value for each well.**
- **The Town of Vestal, along with all of Broome County, is located in the Marcellus Shale Medina Region III of New York State.**

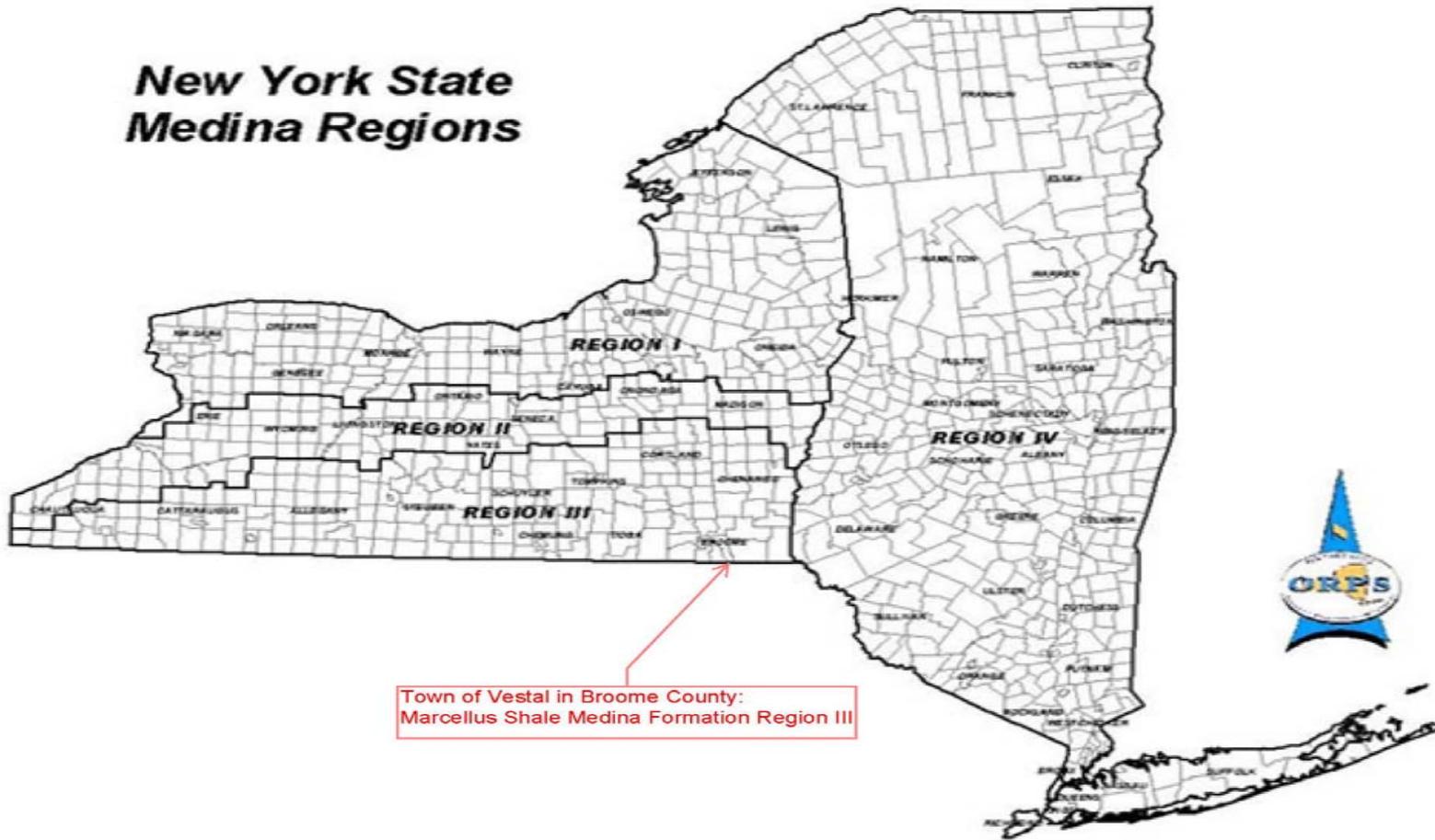
Gas Unit of Production Regions in New York

Gas Unit of Production Value Regions

1. Medina Region No. 1
2. Medina Region No. 2
3. **Medina Region No. 3: All of Broome County**
4. Medina Region No. 4
5. Trenton Black River (Deep Well)
6. Onondaga and Oriskany Formations
7. All Other Formations

Town of Vestal in Medina Formation Regions

New York State Medina Regions



Detailed Responsibilities of New York State

- The New York State Office of Real Property Tax Services (ORPTS) is responsible for annually determining and certifying the appropriate *unit of production value* (UPV) to each assessor for use in the assessment of gas rights.
- ORPTS requests economic profile reports from well owners/operators reflecting average income, expense and operating data for the five calendar years preceding the year in which the UPVs are to be certified.
- To determine *unit of production values*, ORPTS uses a “discounted net cash flow” approach to reflect depreciation, depletion, income, capital investments, royalties and operating expenses plus a Rate of Capitalization that shall not be less than 17.5%.
- The gas unit of production is expressed in dollars per MCF (1,000 cubic feet) produced or dollars per daily average MCF.

Responsibilities of the Assessor

- Local assessors request production data from well owner/operators each year.
- Annually the assessor receives certified *unit of production values* for each geologic region from ORPTS.
- The assessor derives the assessed value for each economic unit by multiplying the selected unit of production value times the annual well production and then times the equalization rate.

The Bottom Line

Unit of Production Value (as determined by NYSORPTS)

X

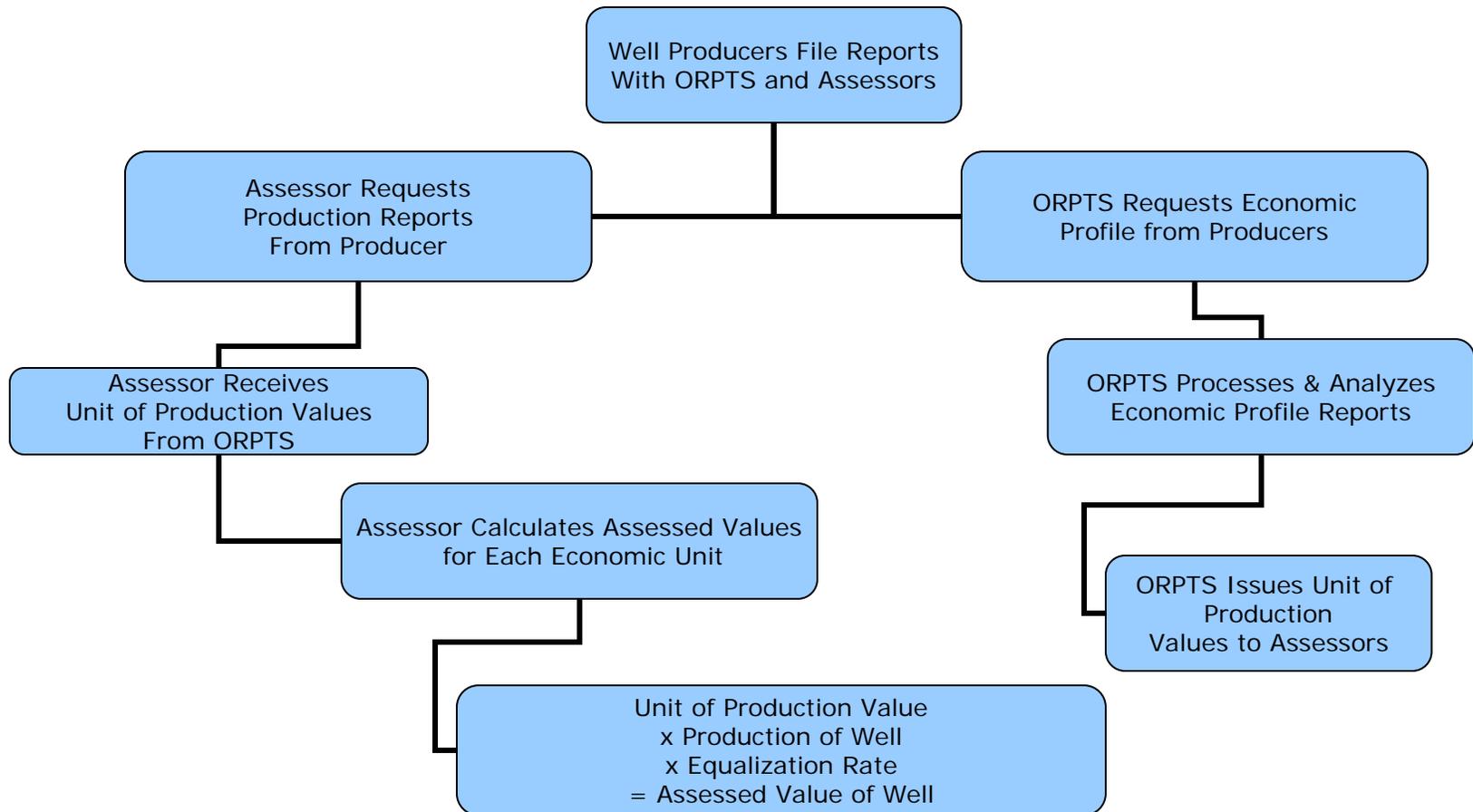
Production of Well (as reported to Assessor)

X

Equalization Rate (as determined by NYSORPTS)

= Assessed Value of Well

Process Flow of Assessment Procedure



In Summary . . .

- **The methodology for the valuation of producing gas properties is as follows:**

- 1. Attain the production decline rate of a field from past operation and the current production for the year of the appraisal to calculate the total production over the economic life of the well.
- 2. Use the price per thousand cubic feet (MCF) of gas and the expense for production of the gas to project the income stream for the economic life of the well.
- 3. Apply the rate of return to the income stream to yield the value of the reserve.

NOTE: The unit of production value, when multiplied by the annual production for the economic unit, yields the full value of the economic unit. This value is the value of the reserve, not the value of the annual production, but a function of the production.