

JONATHAN DISMANG

SENATOR  
29TH DISTRICT  
CELL: 501-766-8220

POST OFFICE BOX 475  
BEEBE, ARKANSAS 72012



THE SENATE  
STATE OF ARKANSAS

MEMBER  
JOINT BUDGET  
JOINT AUDIT  
JOINT ENERGY  
JOINT PERFORMANCE REVIEW  
PUBLIC HEALTH, WELFARE & LABOR  
CITY, COUNTY & LOCAL AFFAIRS

January 11, 2012

Arkansas Municipal League  
301 West Second Street  
North Little Rock, Arkansas 72214

Dear Arkansas Municipal League Members and Affiliates:

The purpose of this letter is to inform you that the undersigned Members of the Arkansas General Assembly oppose The Natural Gas Severance Tax Act of 2012 and believe it would be harmful economic policy. If enacted, this Act will result in a loss of jobs, reduce state and local government general revenues, and will discourage expansion and growth by the independent energy producers doing business in our state.

When the development of the Fayetteville Shale was in its infancy in 2005, it was one of only a very few non-conventional shale plays being explored. There are now several existing and emerging natural gas shale fields in the United States, and each field competes for the immense capital outlays required to produce its natural gas. It is important that Arkansas maintain the competitive position we have on natural gas exploration and production so we can protect the jobs that power our local communities. In 2008, the Arkansas General Assembly dramatically increased the severance tax rate to 5% on natural gas, paid by both producers and citizens who own the mineral rights, and provided some short-term incentives. This rate was negotiated and agreed upon, in good faith, between the Governor, the Legislature, and the natural gas industry. The mutually agreed upon tax increase went into effect in 2009, when natural gas prices were around \$9 per unit (mcf). Today, with the increased rate in effect for barely three years, natural gas prices have fallen to around \$3.00 per unit. Obviously, a 2/3 drop in price impacts the producer, the royalty owner, and the state's severance tax collections.

The Natural Gas Severance Tax Act of 2012 would levy a 7% severance tax on the gross sales of natural gas, resulting in one of the highest severance tax rates in the country. A 7% severance tax, with no short-term incentives, makes investing production dollars in other states much more attractive and threatens Arkansas's ability to compete for natural gas drilling capital investments and the resulting jobs and economic impact.

Page Two

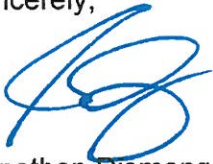
Arkansas Municipal League - January 11, 2012

Senator Jonathan Dismang

There is no debate; the development of the Fayetteville Shale has had a tremendous impact on the Arkansas economy. A University of Arkansas study projected for the period of 2008-2012, operations within the Fayetteville Shale would create 11,000 jobs and have a \$17.9 billion economic impact on our state. As you know, those jobs power local economies and if you visit with those living within the Fayetteville Shale, as well as those in the traditional Arkoma production area of western Arkansas, you will quickly see that the natural gas industry is a valuable economic partner for Arkansas and our local communities. The current 5% natural gas severance tax rate, with our short-term incentive rates, allows Arkansas to be competitive and encourage that capital investment.

Listed below are the names of several members of the Senate and House City, County & Local Affairs Committees who are in agreement with the opposition of any effort to raise the severance tax on natural gas. Therefore, we encourage members of the Arkansas Municipal League to oppose any effort as well. In these tough economic times, protecting Arkansas jobs, and our local economies, should be a priority for all of us. Thank you for your attention to this matter.

Sincerely,



Jonathan Dismang  
State Senator  
District 29

Senator Michael Lamoureux  
Senator Bill Sample  
Senator Jerry Taylor  
Senator Eddie Joe Williams  
Representative Denny Altes  
Representative Nate Bell  
Representative David L. Branscum  
Representative Davy Carter  
Representative Linda Collins-Smith  
Representative Jane English  
Representative Jon S. Eubanks  
Representative Jeremy Gillam  
Representative Kim Hammer  
Representative Josh Johnston  
Representative Andy Mayberry  
Representative Leslee Milam Post  
Representative Tommy Thompson

Cc: Mr. Don A. Zimmerman  
Executive Director  
Arkansas Municipal League  
301 West Second Street  
North Little Rock, Arkansas 72214

The Honorable Frank Fogleman  
President  
Arkansas Municipal League  
301 West Second Street  
North Little Rock, Arkansas 72214

The Honorable Jerry Taylor  
Chairman – Senate City, County & Local Affairs Committee  
1902 Barney Lane  
White Hall, Arkansas 71602

The Honorable Charlotte Wagner  
Chairman – House City, County & Local Affairs Committee  
Post Office Box 909  
Manila, Arkansas 72442