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Fracking's Financial Losers: Local Governments.

Localities are forced to deal with much of the problems associated with fracking, while states and the federal government rake in all the revenue.

The shale gas market is an economic boon for the 30-odd states that permit fracking. The severance tax states impose on the process adds up. In 2010, it generated more than $11 billion. The flow of that revenue goes straight into state and federal piggy banks, as does increased corporate income tax revenue from energy companies profiting from fracking.

Localities, however, enjoy no such benefits. Instead, they get stuck with all the fracking problems: noise from blasting, storage of toxic chemicals, degraded water sources and heavy truck traffic, as well as the rising costs of cleaning up the detritus fracking leaves behind. North Dakota counties affected by hydraulic fracturing have reported to the state Department of Mineral Resources' Oil and Gas Division that traffic, air pollution, jobsite and highway accidents, sexual assaults, bar fights, prostitution and drunk driving have all increased.

In addition, fracking, in many cases, negatively impacts property values, which in turn depresses property tax revenue. For property owners who own the rights to the oil and gas on their land, the effects of drilling can be offset by royalty payments. But localities have no revenue offset if properties lose value.

The financial risks posed by fracking have become significant enough to capture the attention of mortgage bankers and insurers, who appear to be adopting guidelines that forbid mortgage loans or insurance coverage on properties affected by drilling. According to a 2013 survey by business researchers at the University of Denver, persons bidding on homes near fracking locations reduced their offers by as much as 25 percent. In North Texas, the Wise County Central Appraisal Review Board reduced the appraised value of a family's home and 10-acre ranchette more than 70 percent. The board agreed to the extraordinary reduction as a result of numerous environmental problems related to fracking just one year after the first drilling rig went up on the property.

While a number of states continue to push to expand fracking, localities have some leverage. They control land use policies, zoning and property rights. Ironically, one of the earliest local-state challenges came from Exxon's CEO. As a homeowner in an upscale community in Bartonville, Texas, the CEO found himself at odds with a local fracking operation.

He filed suit to block construction of a water tower near his home — a tower that would increase fracking in the area — alleging it would create "a noise nuisance and traffic hazards."

The dispute in Texas is only the tip of the derrick, as it were. In New York, the state's highest court upheld the right of two of the Empire State's local governments to establish zoning laws that keep out fracking companies. The court's 5-2 decision was based solely on reaffirming the towns' rights to make their own zoning choices. In its ruling, the majority noted that the towns had engaged in a "reasonable exercise" of their zoning authority, that they had "studied the issue and acted within their home-rule powers in determining that gas drilling would permanently alter and adversely affect the deliberately cultivated small-town character of their communities."

In Colorado, where the cities of Boulder, Broomfield, Fort Collins and Lafayette have adopted antifracking measures, Gov. John Hickenlooper recently announced the appointment of a task force to develop recommendations that would reduce land use conflicts when oil and gas facilities are located near homes, schools, businesses and recreation areas. He would also ask the Colorado Oil & Gas Conservation Commission to dismiss litigation challenging the city of Longmont's ban on hydraulic fracturing and call on all parties to withdraw ballot initiatives on the topic. The task force will make recommendations to the legislature and issue majority and minority opinions.

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