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It’s a Natural Gas Giant vs. School Kids in Arkansas Tax Fight.

- **Southwestern Energy is contesting how it’s taxed in the state**
- **Amid dispute, local school hasn’t enough money for books**

A $2.7 billion company is contesting its local tax bills in Arkansas. Seven hundred students in the tiny town of Pangburn are paying the price.

Houston-based Southwestern Energy Co. has filed lawsuits in six Arkansas counties disputing the way its taxes are calculated and isn’t paying some as the cases are decided. That’s left the Pangburn School District, which counts on Southwestern as its largest taxpayer, without enough money for library books, computer lab upgrades, or new teachers.

The district’s troubles show what happens when a locality relies too much on a single company or industry. That’s what sent Detroit spiraling into bankruptcy as auto-industry jobs disappeared, and it forced New Jersey to rescue junk-rated Atlantic City as casinos shuttered. Now it’s Arkansas’s turn as declining natural gas prices and production threaten a key source of revenue for some municipalities.

“It’s just filtered through our whole system,” said Stacy Hopkins, business manager for the school district, which is located 64 miles (103 kilometers) from Little Rock. “At the end of the day, our main objective is to educate these kids. We’re doing our best to cut in other areas that don’t affect our students.”

In Dispute

Southwestern was the first company to pull natural gas from the Fayetteville Shale in 2004, and went on to become a top producer in the state. Now, production out of Arkansas, after growing rapidly between 2007 and 2010, has plummeted. Southwestern said earlier this year that it would sell its Fayetteville exploration and production business to focus on “higher margin” assets in other regions of the country.

In court, Southwestern is arguing the counties calculate taxes using an industry metric of natural gas prices that is averaged over three years, which has resulted in the company paying levies based on higher prices than what it earns in the market. The company is also arguing that the amount it is allowed to deduct in lease operating expenses, or what it costs to get gas out of the ground, is too low, which drives up the tax bill.

In Cleburne County, Southwestern has been overcharged by about $2 million a year, company spokeswoman Christina Fowler said.

“Southwestern Energy recognizes the uncertainty that this tax issue is creating for local school districts and county governments,” Fowler in an emailed statement. “That is why we have been working with the state regulatory authority and county governments to find an equitable resolution.”

Natural gas futures have since popped to multi-year highs in November.

If the fiscal problems at some of the districts worsen, the state may need to step in since it guarantees debt issued by school districts.

“It’s like a perfect storm,” said Mark Whitmore, a lawyer representing Conway County, one of the counties that Southwestern has sued. “The fact that they’re not paying has left these schools in duress.”

The lawsuits add to the pressure communities in the Fayetteville Shale face. The lower prices and falling production has caused dramatic drops in assessed property value, which is what determines property taxes they can collect, the Arkansas Assessment Coordination Department said in a report.

In Van Buren County, the assessed value has plummeted 25 percent since 2014 to $145 million in 2016, according to the report. That’s a hard hit to rural areas in a state that has already seen half its mining and logging jobs disappear in the last decade, according to the U.S. Bureau of Labor Statistics.

In Pangburn, Hopkins said she’s concerned that if Southwestern wins, it will spur other companies and individuals to contest their tax bills too.

“It’s not just an oil and gas issue — any company can do this,” she said. “Any taxpayer can do this if they’ve got the money.”

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