

Commonwealth Sense

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The Financial Impact of Marcellus Shale

By

Bob Taylor, Senior Vice President, Corporate Banking
Jerad Rosendahl, Wealth Market Leader

It's your money. It's your life. It's your time.

The Landowner Impact of Marcellus Shale

The gas boom as a result of the Marcellus Shale is, and will be for decades to come, a significant part of the Pennsylvania economy. The money that is being pumped into the Western and North Central Pennsylvania economies has brought significant changes to our region and to the clients that we serve. To respond to those needs, First Commonwealth Advisors uses a comprehensive approach, providing clients with in-depth planning-based advice and access to a specialist network that will help them navigate through the various stages of managing their financial windfall.

In 2010, natural gas companies paid more than \$1.6 billion in lease and bonus payments to Pennsylvania landowners. Some of our clients have already received payments, and many of them have questions and concerns about how to handle this financial windfall -- for themselves and future generations. Though a financial windfall is a good "problem" to have, the emotional and financial impacts cannot be underestimated. Having lived a hard life working multiple jobs and living paycheck to paycheck, some are now contemplating life as millionaires. Still others might need advice to ensure the earnings from their mineral rights meet their life goals now and in the future. Although they do not touch on all the complexities of Marcellus wealth, some issues are immediate ones that mineral rights owners should be thinking about,

and there are some smart moves they can make now with the help of First Commonwealth Advisors.

First, it's important to understand certain factors that will impact royalty payments. Income from these payments can be inconsistent, based on well output and gas prices. For example: A landowner who leased 100 acres and is receiving a 15% royalty at current prices could expect an annual payment of about \$74,000. However, since companies drill more than one well from each site that payment might be as high as almost \$600,000! These numbers can vary significantly -- due to fluctuation in gas prices and legislation (i.e. taxes). Another major issue is declining production from gas wells over time. For example, some studies suggest that production from a well could drop in the range of 75% in the first year, 35% in the second year, 25% in the third year, 12.5% in the fourth year, and 10% in year five. There are also differing opinions on the life span of wells with estimates ranging from 7.5 years to 40 years.

All of these variables are important to consider and point to planning for changes in future royalty payments as critical to achieving long-term financial goals and dreams. A financial plan will help smooth the ups and downs of the income produced from mineral rights owners' wells, the tax issues that will arise during life and the potential estate issues that may follow.

Secondly, once wealth is created, it needs to be protected. Of the potential beneficiaries of newfound wealth (family, charities or the government), who does our client want to benefit the most? Most people would like to give less to Uncle Sam and more to their family members.

Remember, wealth that is not protected could be depleted by inflation and taxes, wiping out family earnings that might otherwise be passed on to future generations.

Liability insurance is a tool that could be used to protect our clients' assets from litigation over and above any indemnity in their lease. Through financial planning, First Commonwealth Advisors is able to help our clients in areas such as passing on their financial values, preparing heirs on managing finances, or shielding family wealth from spendthrift beneficiaries. There are also planning strategies that can be used to protect their legacies and reduce what the federal and state governments can take from their estates.

Finally, many of our clients will decide to help the communities in which they live and work. Giving money away to family or the community can help everyone. However, making these financial dreams become reality can be a daunting task in the face of ever-changing tax laws that govern the way gifts must be structured in order to achieve allowable tax benefits. First Commonwealth Advisors can help navigate these financial concerns by advising clients on gifting rules and managing wealth transfers through the advantageous use of trusts or foundations.



The Business Impact of Marcellus Shale

The Marcellus Shale Field (MSF) is the second largest gas field in the world and the largest in the U.S. A second gas field, Utica, lies below Marcellus, and the combination of the two may make this the largest natural gas field in the world. As of July of 2011, Pennsylvania is now self-sufficient in supplying its own natural gas needs and will likely become a major supplier of natural gas to other states. The resulting impact on the regional economy and the business community is nothing short of spectacular.

Employment in Marcellus-related jobs in Pennsylvania (direct, indirect and induced) totaled 139,889 in 2010 and is estimated to expand to 159,695 in 2011 and to 256,000 by 2020. In

addition, nearly \$13 billion in direct spending will have ripple effects throughout the local economy.

The development of the MSF incorporates exploration, drilling and pipe line construction. Each of these activities requires numerous businesses to accomplish this development. Each well site will employ between 30 to 59 contractors covering 150 various jobs utilizing 240 to 450 workers. (See inset for a list of those businesses that supply, contract, or service the Marcellus industry.)

As development in the MSF increases, each of the above business segments will face increased working capital requirements to buy the supplies they need, pay their workers and cover their bills as their businesses grow. First Commonwealth is actively assisting in the profitable growth of these suppliers, contractors and service providers by providing Credit Lines, Equipment Financing,

Commercial Mortgages, Term Loans, Letters of Credit, Employee Benefit Guidance and Support, and Treasury Management Services.

Many of the businesses in these industries may be customers of First Commonwealth already. If any company would like to learn more about how we can help assist with its Marcellus Shale operation, a simple conversation with our business bankers, or a deeper discussion about how their business has been impacted by Marcellus, might reveal opportunities where we can help.

As a business grows, it may also need financing to support this growth, or cash management services to more quickly and efficiently collect receivables, or both. Some businesses need to post letters of credit with local municipalities or the DEP to ensure compliance with local ordinances or expand employee benefits to attract and retain workers. In any of these scenarios, we can help.

First Commonwealth's branch network lies in the heart of the Marcellus Shale Field and we are an active participant in this important economic growth in our region. Our branches are the primary access point to all of our specialized services.

For more information, mineral rights owners may contact First Commonwealth Advisors at 1.855.ASK.4.FCA.

One of our nearby professional advisors would be happy to have a confidential conversation with you about our available tools, resources and experience to help you stay on track through your financial journey. Business owners may contact Senior Corporate Banker Bob Taylor at 412-690-2214 for direct support.



Industry Types Impacted by Marcellus Shale

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| ATVs & UTVs | GIS/Mapping Services |
| Aggregate | Information-Data Services |
| Attorneys & Government Relations | Insurance |
| Cleaning Services | Laboratory Services |
| Communication & Electronics | Land Services |
| Completion | Landscaping |
| Compression | Machine Shop Services |
| Concrete / Aggregate / Paving | Midstream Pipeline |
| Drilling Contractors | Pipe/Equipment Insulation |
| Electrical & Plumbing | Refrigeration Sales, Installation & Service |
| Energy Conservations Services | Real Estate - Commercial |
| Energy Management Services | Safety |
| Engineers | Security |
| Environmental/Regulatory Consultants | Suppliers |
| Equipment Manufacturers | Supply Chain Management |
| Equipment Suppliers | Surveying |
| Excavation/Construction | Title Services |
| Fencing | Trailer Sales and Rentals |
| Frac Sand & Waste Water Transportation | Transportation |
| Fuel | Trucking/Hauling |
| Gas Measurement | Vehicle Repair, Rental, Sales |
| Gas Transmission/Distribution | Waste / Water Treatment |
| Geological & Geophysical Services | Welding & Fabricating |
| | Well Service |

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