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PANOLA COUNTY

Status Report
February 13, 2017

The Perdue, Brandon delinquent tax calendar runs from July 1st until the following June 30th. Each July 1st, another tax year is turned over to the law firm for collections, and we add the new-year turnover to the pre-existing balance. We have loaded these new accounts in our system, and have already completed two mass mailings of tax notices to your delinquent taxpayers.

Your Delinquent Tax Roll – and Overall Property Tax Delinquency

The most significant issue for discussion – and a potentially negative impact on your tax collection involves “compressor litigation”. There are about 80 separate compressor suits filed across the state of Texas involving the taxable value of compressors. The top two overall delinquent accounts for Panola County involve compressors. These two accounts total \$211,447.51 (up from \$157,788.91 two years ago) in base tax dollars owing to Panola County: ***almost twenty-three percent of your current delinquency.***

The taxpayer compressor companies have filed suit in Panola County, but these suits are “abated” or legally on hold pending resolution of the cases already tried and on appeal. The Legislature did not adopt any legislation clarifying the law in the last session so we are “back to the Courts”. On the plus side, the taxpayer has not made a payment – so if they prevail in litigation, no refund will be due on these top two accounts; and of course if we prevail in the litigation, they will owe the taxes. The downside is that you have budgeted collection of these taxes for operations of the County, and if the taxpayer prevails, the property accounts will not be paid.

The first case on appeal was heard with oral argument in October in the El Paso Court of Appeals; a second was heard in Tyler involving a case out of Gregg County. With millions of dollars in taxable value at issue state wide, the issue has now been

appealed to the Texas Supreme Court. We should expect this issue to be resolved sometime this calendar year (2017).

One final observation regarding our tax collection efforts and “the economy”: delinquent taxpayers that used to pay in a couple of months are now taking longer payouts. Law Firm wide, we are seeing a significant increase in bankruptcy filings: most are companies organized in the last 20 years, and have very little equity capital.

Most of the Panola County collection effort is conducted out of our Longview satellite office; we have two legal assistants that work exclusively on collecting your taxes. They have online access to our software, can enter remarks or comments about specific accounts, issue letters, negotiate installment payment agreements and initiate litigation when necessary.

Authority Activity Analysis Report (all amounts are County only; base tax)

The top section of the AA report shows accounts by category, or “status”. The only red flags or cause for concern in this section of the report is the “uncollectible” category, which is the compressor litigation: we cannot collect those taxes until the valuation litigation is resolved.

The middle section of the AA report shows over **38,000** accounts with a base tax amount below \$100.00 – representing 96% of your accounts. Significantly, this also represents 20.37% of your total dollars that are delinquent (this is high for a County). In the \$5,000 and up category ranges you have some accounts, but two of these involve compressors, and two involve bankruptcies: one dating back to 2009 that is still pending, and one a 2016 case.

The lower part of the AA report shows taxes by year – the unusually high amount in 2009 is attributable to the bankruptcy case. You have taxes going back to tax year 1980 due to properties that were taken to Sheriff’s Sale, and no one bought the property at the tax sale – pursuant to Texas law, they have been “struck off” and the taxes remain due until someone buys the property. With the exception of the 2009 bankruptcy, this listing is otherwise “as expected” as you should expect the largest dollar delinquency in tax year 2015, and a declining balance on a year by year basis as we go further back in time. There may be minor variations year to year but for purposes of reporting to the County, I am not sounding the alarm of financial concern on a “year by year” basis. The compressor suits would be a greater concern for me – both the always present risk of litigation, and the time delay in getting our money even when we prevail.

Separately, we are seeing a higher level of corporate bankruptcy filings in the oil and gas related companies. A fracking company is your number two 2015 delinquency, and they are in bankruptcy.

Separately, we file “tax warrants” for Panola County involving delinquent taxes on various royalty interests owing by taxpayers. We obtain a Tax Warrant from the Court authorizing the seizure of royalty payments to satisfy the tax delinquency, contact the operator (company that disburses the royalties) and they re-direct the royalty interest payments to us until the taxes are paid in full; then the Warrant is dissolved and the

royalty payments resume to the property owner. NOTE: We are not selling the taxpayer's ownership of the minerals, we are seizing the cash flow in the way of royalty payments, and again, once the taxes are paid, the property owner is restored their royalty payments. Some of these are "repeat customers".

We also personally contact your taxpayers – to find out about problems and make arrangements for payment of the taxes (not to harass them).

Discussion of Specific Accounts – “2015 Current Year” Report

Archrock Partners Leasing, LLC **PBF 13282** **\$46,062.41**

This is one of the compressor cases, and is your single largest delinquent account. The amount shown is for County only (with "Special") and is base tax only. Compare this \$46,000 amount to what you pay in taxes on your home for perspective.

Circle Z Pressure Pumping, LLC **PBF 24550** **\$33,209.05**

This company filed bankruptcy in 2016. They are involved in the fracking business, and the downturn in the oil and gas market has pretty much killed their business for the short term. We have taken steps to protect your taxes in their bankruptcy filing.

Archrock Services Leasing, LLC **PBF 13281** **\$7,596.19**

This is another compressor company – simply with a variation in the name from the company at the top of the list.

Henry Howard Services LLC **PBF 18897** **\$6,421.08**

We have contacted the property owner, and have been unable to negotiate an acceptable payment agreement. Litigation remains the only alternative.

Red River Compression Services LLC **PBF 21665** **\$10,305.82**

We have contacted the property owner, and have been receiving partial payments of \$8,000.00 per month – we are seeking \$10,000.00 per month simply to retire the delinquency.

Susan Anthony Stough (p.1) **PBF 22440** **\$3,073.09**

Susan Anthony Stough (p.2) **PBF 20895** **\$1,580.97**

This taxpayer owes taxes on both real estate, and minerals. We have obtained a Tax Warrant on the mineral properties and are retiring that delinquency through money royalty checks. There are no arrangements for the real estate taxes and we may have to file a delinquent tax suit – we are competing with the IRS for collection of money.

“All Years” Roll -- \$10,000 and up in base tax dollars

| | | |
|---------------------------------------|------------------|---------------------|
| Archrock Partners Leasing, LLC | PBF 13282 | \$161,847.90 |
| Archrock Services Leasing LLC | PBF 13281 | \$ 49,599.61 |

These accounts are the compressor cases. To put the dollars in perspective, note that the top two accounts for Archrock entities combined involve more money than every other account on this report.

| | | |
|---------------------------------------|------------------|--------------------|
| Circle Z Pressure Pumping, LLC | PBF 24550 | \$33,209.05 |
|---------------------------------------|------------------|--------------------|

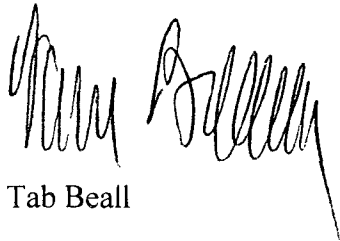
This is the account mentioned above. Of note, the 2016 taxes are now legally delinquent (and we have included them in our bankruptcy filings).

| | | |
|---|------------------|--------------------|
| Car-Tex Consolidated, Ltd | PBF 2134 | \$16,515.97 |
| Richey Oilfield Construction (not shown) | PBF 13409 | \$ 2,250.76 |

These are the two related bankruptcy accounts from tax year 2009. It is unusual that a bankruptcy case lasts this long, but our claims have been filed with the Bankruptcy Court and we are awaiting payment from the bankruptcy Trustee. The claims have not been denied by the Court, and no objections have been filed by the Trustee.

Thank you for the opportunity to discuss these accounts.

Respectfully submitted,



Tab Beall

Perdue Brandon Fielder Collins & Mott LLP

ATTORNEYS AT LAW

AUTHORITY ACTIVITY ANALYSIS

PANOLA COUNTY, SPECIAL As Of 2/7/2017, Last Tax Year Included 2015

| Description | # Properties | Pct Of Total | Base Tax Amount | Pct Of Total |
|------------------|---------------|----------------|---------------------|----------------|
| In Bankruptcy | 175 | .44% | \$59,933.91 | 6.34% |
| In Trust | 7 | .02% | \$1,874.12 | .20% |
| In Deferral | 17 | .04% | \$14,727.04 | 1.56% |
| In Litigation | 2,687 | 6.70% | \$112,715.72 | 11.93% |
| In Partial Pay | 670 | 1.67% | \$31,672.70 | 3.35% |
| In Uncollectable | 162 | .40% | \$215,071.20 | 22.76% |
| In Bad Address | 17,308 | 43.15% | \$170,825.82 | 18.07% |
| Action Pending | 19,081 | 47.58% | \$338,294.07 | 35.79% |
| Totals | 40,107 | 100.00% | \$945,114.58 | 100.00% |

| Dollar-Range | # Properties | Pct Of Total | Base Tax Amount | Pct Of Total |
|-------------------------|---------------|----------------|---------------------|----------------|
| \$0.01 - \$100.00 | 38,042 | 96.32% | \$192,520.75 | 20.37% |
| \$100.01 - \$250.00 | 723 | 1.83% | \$116,296.03 | 12.30% |
| \$250.01 - \$500.00 | 358 | .91% | \$123,238.34 | 13.04% |
| \$500.01 - \$1000.00 | 220 | .56% | \$150,827.36 | 15.96% |
| \$1000.01 - \$2500.00 | 118 | .30% | \$170,311.21 | 18.02% |
| \$2500.01 - \$5000.00 | 25 | .06% | \$92,616.51 | 9.80% |
| \$5000.01 - \$10,000.00 | 9 | .02% | \$56,237.72 | 5.95% |
| \$10,000.01 - Up | 2 | .01% | \$43,066.66 | 4.56% |
| Totals | 39,497 | 100.00% | \$945,114.58 | 100.00% |

| Year | # Transaction | Pct Of Total | Base Tax Amount | Pct Of Total |
|------|---------------|--------------|-----------------|--------------|
| 1980 | 4 | .00% | \$3.85 | 00% |
| 1981 | 8 | .00% | \$3.85 | .00% |
| 1982 | 10 | .00% | \$26.56 | 00% |
| 1983 | 17 | .01% | \$22.35 | .00% |
| 1984 | 20 | .01% | \$39.96 | 00% |
| 1985 | 27 | .01% | \$229.38 | .02% |
| 1986 | 44 | .02% | \$277.20 | .03% |
| 1987 | 39 | .02% | \$403.62 | .04% |
| 1988 | 47 | .02% | \$820.44 | .09% |
| 1989 | 67 | .03% | \$721.48 | 08% |
| 1990 | 69 | .03% | \$856.90 | .09% |
| 1991 | 86 | .03% | \$870.38 | .09% |
| 1992 | 92 | .04% | \$850.81 | 09% |
| 1993 | 103 | .04% | \$1,119.91 | .12% |
| 1994 | 115 | .05% | \$1,124.97 | 12% |
| 1995 | 135 | .05% | \$1,487.84 | .16% |
| 1996 | 1,510 | 61% | \$4,001.65 | 42% |

| | | | | |
|---------------|----------------|----------------|---------------------|----------------|
| 1997 | 2,177 | .88% | \$4,095.35 | .43% |
| 1998 | 2,436 | .98% | \$3,242.30 | .34% |
| 1999 | 2,307 | .93% | \$4,670.12 | .49% |
| 2000 | 2,595 | 1.05% | \$4,779.72 | .51% |
| 2001 | 4,140 | 1.67% | \$4,498.91 | .48% |
| 2002 | 5,044 | 2.04% | \$6,123.71 | .65% |
| 2003 | 5,014 | 2.03% | \$8,720.81 | .92% |
| 2004 | 6,332 | 2.56% | \$8,533.53 | .90% |
| 2005 | 8,381 | 3.39% | \$8,308.68 | .88% |
| 2006 | 11,176 | 4.52% | \$14,480.12 | 1.53% |
| 2007 | 12,663 | 5.12% | \$17,801.63 | 1.88% |
| 2008 | 16,920 | 6.84% | \$21,853.31 | 2.31% |
| 2009 | 18,146 | 7.33% | \$45,759.06 | 4.84% |
| 2010 | 19,059 | 7.70% | \$33,825.77 | 3.58% |
| 2011 | 19,534 | 7.89% | \$45,630.14 | 4.83% |
| 2012 | 19,995 | 8.08% | \$113,923.15 | 12.05% |
| 2013 | 21,264 | 8.59% | \$125,418.15 | 13.27% |
| 2014 | 27,379 | 11.06% | \$159,532.40 | 16.88% |
| 2015 | 40,506 | 16.37% | \$301,056.57 | 31.85% |
| Totals | 247,461 | 100.00% | \$945,114.58 | 100.00% |

****Number of properties may differ in the first two sections because a property may reside in more than one category in the first section.**

Descending Tax Roll - Client

PANOLA COUNTY, SPECIAL
 For Years 2015 Through 2015
 For Amounts \$1,000.00 To \$999,999.99

| Taxpayer # | Taxpayer name | Year Span | Status Indicators | Base Tax Cause # | Jdg Date | OOS | L | B | P | D |
|------------|--------------------------------|-----------|-------------------|------------------|----------|-----|---|---|---|---|
| 13282 | ARCHROCK PARTNERS LEASING LLC | 2015 | - | \$46,062.41 | | | | | | |
| 24550 | CIRCLE Z PRESSURE PUMPING LLC | 2015 | BKR | \$33,209.05 | | | | | | B |
| 13281 | ARCHROCK SERVICES LEASING LLC | 2015 | - | \$7,596.19 | | | | | | |
| 18897 | HENRY HOWARD SERVICES LLC | 2015 | SUIT | \$6,421.08 | | | | | | L |
| 22247 | RED RIVER COMPRESSION SERV LLC | 2015 | - | \$5,823.73 | | | | | | |
| 22440 | ANTHONY SUSAN STOUGH | 2015 | - | \$3,073.09 | | | | | | |
| 24843 | CLARENT ENERGY SERVICES INC | 2015 | SUIT | \$1,881.59 | | | | | | L |
| 25370 | HKR EQUIPMENT LEASING LLC | 2015 | - | \$1,794.41 | | | | | | |

| Taxpayer # | Taxpayer name | Year Span | Status Indicators | Base Tax Cause # | Jdg Date | OOS | L | B | P | D |
|------------|-------------------------|-----------|-------------------|------------------|----------|-----|---|---|---|---|
| 21805 | 248 DISPOSAL (SWD) | 2015 | - | \$1,765.51 | | | | | | |
| 20895 | ANTHONY SUSAN E STOUGH | 2015 | SUIT | \$1,580.97 2768 | | | | | | L |
| 357 | WILSON HAROLD JR | 2015 | - | \$1,461.24 | | | | | | |
| 22321 | METCALF WESLEY A | 2015 | - | \$1,370.46 | | | | | | |
| 14371 | PORTER DEBORAH LIFE EST | 2015 | SUIT | \$1,262.57 2749 | | | | | | L |
| 235 | YOUNG JUDY HARRIS | 2015 | - | \$1,069.75 | | | | | | |
| 14 | Taxpayers | | | \$114,372.05 | | | | | | |

Descending Tax Roll - Client

PANOLA COUNTY, SPECIAL
 For Years 1968 Through 2015
 For Amounts \$2,500 00 To \$999,999,999 99

| Taxpayer # | Taxpayer name | Year Span | Status Indicators | Base Tax Cause # | Jdgm Date | OOS | L | B | P | D |
|------------|--------------------------------|--|-------------------|------------------|------------|-----|---|---|---|--------------|
| 13282 | ARCHROCK PARTNERS LEASING LLC | 2012-2015 | - | \$161,847.90 | | | | | | |
| 13281 | ARCHROCK SERVICES LEASING LLC | 2012-2015 | - | \$49,599.61 | | | | | | |
| 24550 | CIRCLE Z PRESSURE PUMPING LLC | 2015 | BKR | \$33,209.05 | | | | | | B |
| 22194 | CAR-TEX CONSOLIDATED LTD | 2009 | BKR | \$16,515.97 | | | | | | B |
| 18897 | HENRY HOWARD SERVICES LLC | 2014-2015 | SUIT | \$12,063.98 | | | | | | L |
| 22247 | RED RIVER COMPRESSION SERV LLC | 2015 | - | \$5,823.73 | | | | | | |
| 10662 | CAPITAL ASSOCIATES INTRNTL | 2011-2012 | - | \$5,762.71 | | | | | | |
| 1052 | BROADUS ELMER ROY | 1987-1988, 1993, 1995-2004, 2006-2015 | - , SUIT | \$5,329.27 | 1995-A-145 | | | | | 4/17/1998 LD |

| Taxpayer # | Taxpayer name | Year Span | Status Indicators | Base Tax Cause # | Jdg Date |
|------------|-------------------------------|-----------|-------------------|-----------------------|---------------|
| 14981 | J & L SERVICE CO | 2006-2012 | SUIT | \$4,415 79 2009-357 | OOS L B P D L |
| 15219 | XTO ENERGY INC | 2012 | | \$3,910 09 | |
| 266 | HUTCHISON LANSFORD BEST | 1991-2015 | SUIT | \$3,880.42 2003-A-111 | L |
| 14971 | MCDANIEL AMOS EDWARD | 2006-2011 | SUIT | \$3,350.00 2010-469 | L |
| 19368 | ROYALTIES INCOME HOLDINGS LLC | 2013-2015 | , SUIT | \$3,240 32 2447 | L |
| 1636 | MCLEMORE DAVID ESTATE | 2012-2015 | | \$3,183 28 | |
| 1157 | GRAVES CONSTRUCTION | 2003-2015 | | \$3,154 81 | |
| 742 | FLAKE MORNING EST | 2012-2015 | | \$3,094 04 | |
| 22440 | ANTHONY SUSAN STOUGH | 2015 | | \$3,073 09 | |
| 1730 | ELIM INVESTMENTS INC | 2008-2015 | | \$2,974 83 | |

| Taxpayer # | Taxpayer name | Year Span | Status Indicators | Base Tax Cause # | Jdg Date | OOS | L | B | P | D |
|------------|-------------------------|-----------|-------------------|-----------------------|----------|-----|---|---|---|---|
| 777 | JONES CREALURE | 1997-2015 | SUIT | \$2,763 50 2003-A-016 | | | | | | |
| 14380 | SUN RIVER OPERATING INC | 2011-2015 | - | \$2,589 35 | | | | | | |
| 20 | Taxpayers | | | \$329,781 74 | | | | | | |