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House of Representatives
Commonwealth of Pennsylvania
Harrisburg

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COUNCIL:
Deleware Valley Veterans Home

To: All House Members

From: Representatives Thomas Murt and Gene DiGirolamo

Date: September 20, 2011

RE: **Request for Co-Sponsorship: Natural gas severance tax legislation to invest in our economy and environment, assist host communities, and make sure all citizens benefit from deep gas drilling**

We plan to introduce legislation creating a severance tax, or drilling tax as we prefer to call it, on deep gas extraction. The legislation will impose a 4.9 percent tax on the gross value of units of deep gas reserves such as the Marcellus Shale severed at the wellhead. This tax rate is lower than the effective tax rate of neighboring West Virginia, where the industry is thriving.

Pennsylvania is the only major gas-producing state that does not assess a tax or fee on gas extraction. An estimated 97 to 98 percent of the natural gas produced in the U.S. comes from states with a tax or fee. Our citizens are already paying this tax on other states' gas. The drilling companies pay the tax everywhere else and they expect to pay it here. Some of the largest, most profitable corporations on the planet are moving significantly into the Marcellus Shale in Pennsylvania. An estimated 40 percent or more of the cost of natural gas production is from transportation, and Pennsylvania is blessed by its proximity to large northeastern markets.

We welcome this significant investment in the Commonwealth and the jobs that are being created. Natural gas is much cleaner than other fossil fuels, and our legislation will help make Pennsylvania a national leader in the use of gas for transportation and other purposes. Natural gas from the Marcellus Shale builds our energy independence.

But it is time, long past time, that Pennsylvania assess a reasonable tax or fee on deep gas drilling that protects host communities, invests in our environment and economy, and makes sure that all of our citizens benefit. In our view, good drilling tax or impact fee legislation should meet the following criteria:

1. Is it fair and reasonable to the industry? Will it sustain the growth of the industry and be comparable to other states?
2. Does it assist host communities with the economic, social and environmental costs and impacts of drilling?
3. Does it make long-term investments in our natural resources and environmental programs?
4. Does it make long-term investments in our economy and human capital?
5. Does it strengthen the stitching of our Commonwealth's safety net for times of need?

6. Does it make sure that every citizen of the Commonwealth will benefit from the development of the Marcellus Shale and other deep gas reserves?

We strongly believe that we have come up with a tax rate and distribution formula that meets these criteria. Our legislation reflects the input of a variety of groups. We acknowledge the leadership and hard work on this issue by many members on both sides of the aisle

While we think that a tax is the best policy, we also think that it would be appropriate to consider our programs and revenue distribution for an impact fee bill should that be the route taken by the House.

Please find below a discussion of how we plan to distribute the tax revenue and a table with revenue estimates by program and fiscal year.

To co-sponsor this legislation, please contact Jennifer Korac or Pamela Huss in Representative DiGirolamo's office at 717-783-7319 or jkorac@pahousegop.com or phuss@pahousegop.com.

Distribution and use of revenue

<u>Statewide environmental programs</u>

23% to the Environmental Stewardship Fund for fiscal years 2011-12 thru 2014-15; then 15% in 2015-16 and thereafter Our popular and invaluable statewide Growing Greener program is essentially out of money and needs to be renewed. Environmental Stewardship Fund revenues will be distributed to the following agencies and for the following purposes according to Act 45 of 2005:

- 37.4% to the Department of Environmental Protection for purposes including acid mine drainage cleanup, watershed conservation and cleanup, plugging orphan oil and gas wells, and addressing stormwater and agriculture runoff
- 24.1% to the Department of Conservation and Natural Resources for purposes including state parks, state forests, open space, trails, community parks and recreation, river corridors and heritage parks
- 23.7% to PennVEST for stormwater, sewer and water infrastructure projects
- 14.8% to the Department of Agriculture for farmland preservation.

8% to the Hazardous Sites Cleanup Account (HSCA) starting in 2015-16 This allocation corresponds to the phase-out of the Capital Stock and Franchise Tax, a portion of which funds HSCA

2% to the Department of Environmental Protection for Chesapeake Bay Implementation Grants to help our farmers and municipalities clean our streams and meet federal requirements

2% to the Pennsylvania Fish and Boat Commission

<u>Local government programs</u>

25% to local governments that host drilling operations to be used to address problems associated with natural gas drilling This revenue shall be allocated by the following formula. We also note that host governments will benefit from the human services and economic development funding in our bill.

- 35% to counties with producing sites
- 45% to municipalities with producing sites
- 10% to municipalities with no producing sites but in a county with producing sites
- 10% to the Pennsylvania Emergency Management Agency (PEMA) for distribution to fire and ambulance services within producing municipalities

2% for an affordable housing trust fund, principally for counties that host drilling operations,

2% to county conservation districts across the state

<u>Investments benefitting all of the Commonwealth</u>

12% to the Department of Education for accountability block grants to school districts. These funds go to a variety of purposes and programs where research shows real results, including early education (pre-kindergarten, full-day kindergarten, reduced class size for K-3); support for struggling students (tutoring, support for economically disadvantaged students); and enhanced teacher training including math and science.

5% thru 2014-2015, and 7% thereafter to the Department of Community and Economic Development to create the Keystone Economic Development Trust Fund This fund will support economic development partnerships in advanced manufacturing and other industry clusters. The fund would address the immediate need for job creation; help Pennsylvania invest smartly in industry-driven innovation; and provide resources for the Marcellus region to diversify, avoid the boom and bust cycle of other extractive industries, and prosper in the long run. Specifically, the program provides DCED with funds to launch an economic development equivalent of the Industry Partnership program, creates infrastructural and regional investments, and provides targeted assistance to the Marcellus regions for economic diversification and long-term prosperity.

2% to the Department of Labor and Industry for the Industry Partnerships program. Pennsylvania's Industry Partnership program has overwhelming bi-partisan support and from businesses, labor and advocates for low-income families. The program provides competitive grants to groups of businesses in critical Pennsylvania regional industries that have similar skill needs, pay well, and offer career opportunities. Since the program scaled up in 2005, over 80,000 Pennsylvania workers have been trained by over 70 partnerships which engage more than 6,000 businesses. The General Assembly this year placed the program in statute thanks to legislation sponsored by Senator Brubaker and Representative Daley, but provided no funding for the program in the budget.

4% thru 2014-15, then 5% starting in 2015-16, to make Pennsylvania a national leader in the development of natural gas-fueled vehicles and supporting fueling infrastructure
This proposal builds on the ideas advanced by Representatives Saylor, Moul, Watson, Marshall, Denlinger and Pickett. It will create jobs, enhance energy security and help clean our air. The proposal includes:

- Grants for transit agencies to convert bus fleets to compressed natural gas (CNG)
- Grants, loans and tax credits for investments in the infrastructure to support natural gas vehicles—refueling stations along strategic corridors and incentives to convert private vehicle fleets
- Additional money for the Alternative Fuels Incentive Grant (AFIG) program to support gas, thereby preserving existing AFIG monies for biodiesel, electric vehicles and other purposes

1% thru 2014-15 for seed money to help start the Shale Alliance for Energy Research (SAFER). SAFER is a proposed consortium between Penn State University, the University of Pittsburgh, the Gas Technology Institute and other stakeholders. It will focus on research to develop the best technologies and best management practices to develop deep gas reserves in the safest, most effective and environmentally responsible manner

5% to support programs benefitting adults with special needs

6% to support drug and alcohol programs

3% to the Human Services Development Fund The Human Services Development Fund provides funds to counties for programs that assist senior citizens, help allow individuals to remain in their homes, and nurture children, youth and families.

3% for the Behavioral Health Services Initiative

2% to the Homeowners Emergency Mortgage Assistance Program (HEMAP) This program, which had its funding drastically cut in the budget, helps keep citizens in their homes and reduce foreclosures due to unemployment and other unforeseen circumstances.

1% for rape and domestic violence programs

Revenue estimates for programs by fiscal year

The revenue estimates for our bill use the same Marcellus production assumptions used by Senator Scarnati for his legislation. Note that the estimates for the current 2011-12 fiscal year are for just half the year (January through June of 2012). Estimates are in millions rounded to one decimal.

Program	11-12	12-13	13-14	14-15	15-16	16-17
Environmental Stewardship Fund	31.4	83.2	97.6	109.5	78.1	83.9
Hazardous Sites Cleanup (HSCA)	0	0	0	0	41.6	44.8
Chesapeake Bay Implementation	2.7	7.4	8.5	9.5	10.4	11.2
Fish & Boat Commission	2.7	7.4	8.5	9.5	10.4	11.2
Host local governments	34.1	90.5	106.1	119	130.1	139.9
Affordable housing fund	2.7	7.4	8.5	9.5	10.4	11.2
County conservation districts	2.7	7.4	8.5	9.5	10.4	11.2
Education—Accountability block grants	16.4	43.4	50.9	57.1	62.4	67.1
Keystone Economic Development Fund	6.8	18.1	21.2	23.8	36.4	39.2
Industry Partnerships program	2.7	7.4	8.5	9.5	10.4	11.2
Natural gas vehicles and infrastructure	5.5	14.7	17	19	26	28
Shale Alliance for Energy Research	1.4	3.6	4.3	4.8	0	0
Adults with special needs	6.8	18.1	21.2	23.8	26	28
Drug and alcohol programs	8.2	21.7	25.5	28.6	31.2	33.6
Human Services Development Fund	4.1	10.9	12.7	14.3	15.6	16.8
Behavioral Health Services Initiative	4.1	10.9	12.7	14.3	15.6	16.8
HEMAP	2.7	7.4	8.5	9.5	10.4	11.2
Rape and domestic violence programs	1.4	3.6	4.3	4.8	5.2	5.6