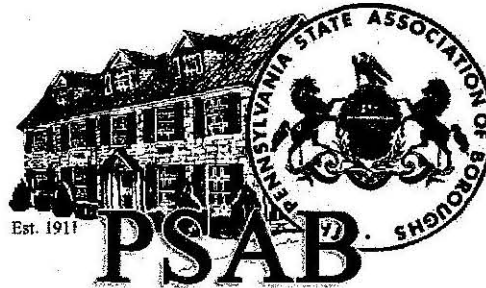


# Pennsylvania State Association of Boroughs



*Testimony on*

*House Bill 10*

*presented before*

*House Finance Committee*

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## PSAB comments on House Bill 10 (PN904)

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Chairman Levdansky, Chairman Rohrer and members of the Finance Committee thank you for the opportunity to offer comments on House Bill 10 sponsored by Rep. DeWeese addressing the assessability of oil and gas leases in the Commonwealth.

Simply put **House Bill 10** amends the fourth through eighth class county assessment law using an income capitalization approach to assessment. This method is similar to the ways Pennsylvania currently taxes coal and limestone and mirrors West Virginia. The mineral or gas rights are *assessed as a separate parcel* than the surface rights as the landowner has essentially “sold” their mineral\gas rights in the form of a lease or deed. As the mineral\gas interests are severable, the purchaser of these rights pays the lease tax, not the surface property owner. This assessment is recalculated annually to account for production\extraction and depletion of the mineral\gas thereby rendering a just and accurate valuation.

This method has provided for well-defined assessments levied on the appropriate property owners. As a matter of fact, this method for assessing the lease value had been sanctioned under Pennsylvania law since 1910. Unfortunately, in 2002 oil and gas interests were able to persuade the PA Supreme Court to declare that counties were unable to assess oil\gas reserves under the General County Assessment law because these reserves did not fall within the term “lands” as used by the Act. This decision, commonly referred to as IOGA, reversed a century old practice of severing oil\gas and mineral reserves from surface lands and assessing them separately.

In the legislation before the committee today, we are looking to restore this proper method of assessment and correct the errors of the 2002 PA Supreme Court decision. Without the proper assessment and taxation of oil and gas interests an undue tax burden is placed on the operations of counties, municipalities and school districts. Equitable taxation of the oil & gas companies’ interests will actually benefit their very operations as levies will be returned to local entities which provide local services such as roads, bridges and water supply.

Furthermore, as the 2002 IOGA decision has acted to promote exploration and expansion of Marcellus shale drilling in the Commonwealth, now is the proper time to protect the Commonwealth from the impacts of that expansion as well. House Bill 10 should be the first step to provide appropriate resources to taxpayers in preservation of their investments in Pennsylvania’s infrastructure and their environmental assets. Secondly, PSAB is on record as supporting a severance\extraction tax on natural gas derived from these reserves. A blend of appropriate lease assessments coupled with severance\extraction taxation will preserve the assets of the Commonwealth and protect its citizenry.

PSAB would also stress to the committee that while House Bill 10 restores appropriate assessments, it primarily serves a geographically limited function. Impacts from the expansion of Marcellus gas well drilling occur on an expanded regional level. A severance tax on natural gas properly distributed to local governments coping with, and preparing for, impacts resulting from expansion should be developed. PSAB has sought to partner with the legislature in enacting such an appropriate severance tax and continues to seek the tax.

In closing, PSAB endorses the passage of House Bill 10 as well as commits to working with the legislature in establishing an equitable extraction\severance tax on natural gas. Overall, borough officials are seeking to be held-harmless of the impacts of expanded natural gas exploration in addition to protecting the investments taxpayers have made in our infrastructure and their environmental resources as well.