



Pennsylvania School Boards Association

**Testimony on HB 10 – Oil and gas assessment
Presented to the House Finance Committee
February 2, 2010
Daniel Fisher
Superintendent, Bald Eagle School District**

Good morning, Chairmen Levdansky and Rohrer and members of the House Finance Committee. My name is Daniel Fisher, and I am the superintendent at Bald Eagle School District. I'm here today to join to ask your support to reinstate assessability of property interests on oil and natural gas that was barred by the Pennsylvania Supreme Court's decision in *Independent Oil and Gas Association of Pennsylvania vs. Fayette County* in 2002.

Bald Eagle School District is the largest geographically of the four school districts located entirely in Centre County, covering 342.6 square miles with an enrollment of 1,915 in the 2007-2008 school year. Drilling for oil and natural gas has gone on for decades in our district, and because of our location within the Marcellus Shale region, we expect drilling to increase exponentially in the coming years.

According to the Department of Environmental Protection (DEP), in 2008, 69 permits were issued for drilling in Centre County, with just eight of those permits for Marcellus Shale drilling. In 2009, 73 permits were issued in the county, with 42 for Marcellus Shale drilling. This represents a fivefold increase in permits for Marcellus Shale drilling in our county in just one year. As of January 25, DEP reports that drilling has begun at five wells already this year in Centre County, all of which are within the Marcellus Shale and all of which are located in the Bald Eagle School District. Other counties are experiencing significantly greater amounts of drilling.

Historically, oil and gas has been treated as a mineral and therefore subject to real estate assessment – and taxed accordingly – by local governments. In 2001, Burnside Township, located within our district, saw school district tax revenues from gas wells of \$65,000. However, in 2002, the State Supreme Court found that local governments lacked the statutory authority to tax oil and gas, so that by 2006, despite increases in the number of wells that were drilled, Burnside Township had no school district tax revenues from them.

Local revenues account for about twice as much as state aid in school district budgets, with real estate taxes making up about 80 percent of those local revenues.¹ The Supreme Court's decision effectively exacerbated school districts' reliance on property taxes by eliminating a local revenue source, to the tune of an estimated \$100 million in losses annually for Pennsylvania's school districts and local governments. Districts in areas that received significant funds under the standard practice of assessing oil and natural gas as minerals were forced to turn to residential taxpayers to make up the lost dollars, or to eliminate educational programs.

By PSBA's count, 45 of the 50 school districts with the highest aid ratio – which means they have the lowest relative wealth in the state – are within the Marcellus Shale region. Of the 250 districts below the state's median aid ratio, 207 districts are also located in this region. In other words, we're talking about a potential source of additional local revenue that could help some of the poorest school districts in the Commonwealth.

Not only are Pennsylvania's poorer school districts not recognizing local revenue, but also are facing possibly the greatest challenge in absorbing population growth created by the natural gas drilling industry. According to The Institute for Public Policy & Economic Development, counties with increases in natural gas production also experience population growth, in part due to new workers and their families being attracted to the area. According to the Institute's study released in December 2009,ⁱⁱ Arkansas, Oklahoma and other shale drilling states and their population changes increased substantially. Its analysis provides a glimpse of Pennsylvania's future so let me share with you some of the data that the Institute obtained and analyzed from the U.S. Census Bureau.

In Texas's Denton County, the heart of the natural gas development in the Barnett Shale, the population increased a 133% from 1990 to the 2006-2008 time period, while Ellis County experienced a 73% population increase. Second tier shale areas in Texas also experienced population increases with Cook County showing a 24.8% growth, and Wise County showing a 68.7% growth since 1990.

Population levels in three of Arkansas' four shale counties increased between 1990 to 2006/08 with Faulkner County's population increasing 78%, Pope County's population increasing 30%, and White County's population increased 36%. Oklahoma counties, on the other hand, showed population

fluctuations between 1990 and 2000, although both of its shale counties experienced population growth – with an 11% population increase in Pittsburgh County and a 2.5% increase in Garfield County.

Our research also indicates that Sublette County in Wyoming, which is the center of new natural gas development in Wyoming, has seen large increases in young adults, but also significant increases in children (see below). More families equal greater demand for schools and other educational programs.

<u>Sublette County, WY Age Group</u>	<u>Change in Population 2000-2007</u>
0 to 4	47.1%
5 to 9	24.9%
10 to 14	7.2%
15 to 19	18.4%
20 to 24	125.4%
25 to 29	133.2%
30 to 34	53.7%

All of the states with greater natural gas production than Pennsylvania also provide a mechanism for production activities to aid local schools. School districts in other states with natural gas production receive some financial benefit from the industry. School districts in those states typically benefit in one of three ways: receipt of a share of the state’s severance tax; property taxes on oil and gas real property, equipment, or in some cases, reserves; and dedication of a share of royalty payments received by a state for oil and gas extraction.

Rather than scrambling to assemble critical funding to mitigate the impacts of natural gas production on local political subdivisions or causing school districts to downgrade their education services, we urge you to move House Bill 10 out of committee. This bill specifically authorizes school districts to collect real estate taxes on the assessed value of oil and natural gas, thereby restoring funding that has been lost in the previous seven years to school districts. Let me make this clear, the assessability of oil and natural gas would be assessed separately from the surface property assessment. Tax rates would be set so that no taxing body would receive more than a 10% increase in revenues in that first fiscal year. Only after those tax rate has been set would the taxing body be permitted to increase its tax rate by a separate and specific vote. Such a process ensures public transparency and participation.

PSBA believes this issue is critical to hundreds of school districts and, more importantly, hundreds of thousands of Pennsylvania citizens and taxpayers, particularly in this time of economic turmoil. We believe that the re-enactment of valuation and assessability of oil and natural gas rights is an integral part of an overall plan to improve school funding and to provide some measure of property tax relief in this commonwealth. It is not a panacea by any means and there is still much work to be done. But by helping the poorest school districts in the state, we will be taking a major step in the right direction.

Again, thank you for allowing me to provide this testimony today. I would be happy to answer any questions you may have.

ⁱ Augenblick, Palaich and Associates, Inc., Costing Out the Resources Needed to Meet Pennsylvania's Public Education Goals, presented to the State Board of Education (December 2007).

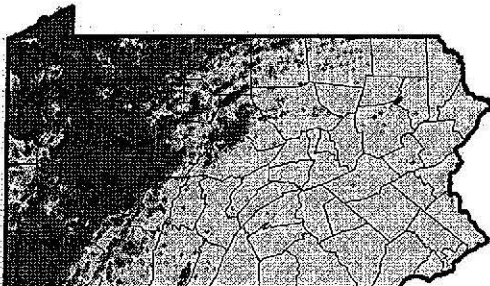
ⁱⁱ Tracewski and Ooms, Economic & Workforce Development Study – Marcellus Shale, The Institute for Public Policy & Economic Development (December 2009).

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House Finance Committee February 2, 2010
Daniel F. Fisher, Superintendent
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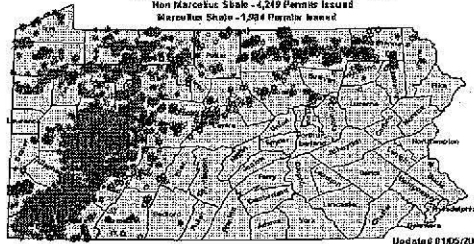
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Marcellus Shale Deposit



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Department of Environmental Protection
Bureau of Oil and Gas Management
Well Permits Issued
Total Permits Issued January thru December 2009 - 6,233
Non Marcellus Shale - 4,249 Permits Issued
Marcellus Shale - 1,984 Permits Issued



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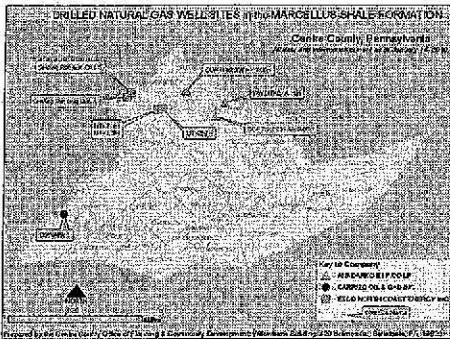
Marcellus Shale Drilling Activity in Centre County by Drilling Company January 4, 2010

Company Name	Wells Drilled	Well Pads Sited	Wells Fractured	Wells Permitted But Not Drilled	Wells in Production	Wells in Planning Phase
Anadarko	3	14	1	20	6	30
Carrizo	1	0	1	0	0	3
EXCO-North Coast	5	5	5	5	4	59
Range Resources	0	0	0	0	0	0
Williams Appalachia	0	0	0	0	0	5
Totals	9	19	7	25	4	97

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4

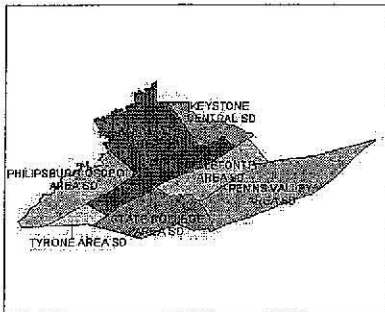


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5

Centre County Schools



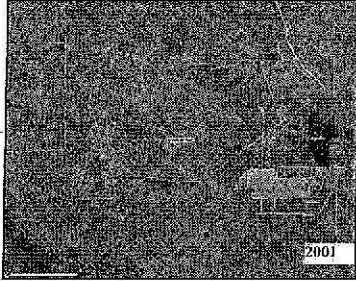
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6

Burnside Township - 2001

School District Tax Revenue from Gas Wells - \$65,000



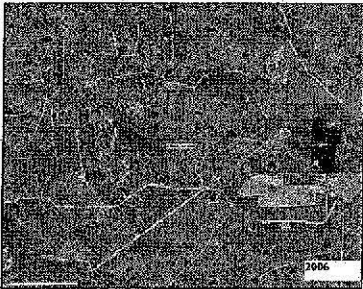



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7

Burnside Township - 2006

School District Tax Revenue from Gas Wells - \$0






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8

Population Demographics for Shale Producing States - Texas

POPULATION: TEXAS SHALE COUNTIES			
	1990	2000	2008
Cooke County	30,777	36,363	38,407
Denton County	273,525	432,976	636,557
Ellis County	85,167	111,360	148,186
Wise County	34,679	48,793	58,506

Source: U.S. Census Bureau




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9

**Population Demographics for
Shale Producing States - Arkansas**

POPULATION: ARKANSAS SHALE COUNTIES			
	1990	2000	2008
Faulkner County	60,006	86,014	106,823
Independence County	31,192	34,233	34,641
Pope County	45,883	54,469	59,952
White County	54,676	67,165	74,845


Source: U.S. Census Bureau


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**Population Demographics for
Shale Producing States - Oklahoma**

POPULATION: OKLAHOMA SHALE COUNTIES			
	1990	2000	2008
Garvin County	26,605	27,210	27,247
Garfield County	56,735	57,813	58,167
Pittsburgh County	40,581	43,953	45,115
Wagoner County	47,883	57,491	68,960

Source: U.S. Census Bureau

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