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PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

TESTIMONY BY THE PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

BEFORE THE HOUSE FINANCE COMMITTEE

CONCERNING

HOUSE BILL 2443

PRESENTED BY

SHIRL BARNHART
SECRETARY-TREASURER

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Chairman Levdansky and members of the House Finance Committee:

Good evening. My name is Shirl Barnhart, secretary-treasurer for the Pennsylvania State Association of Township Supervisors and a township supervisor in Morgan Township, Greene County. With me today is David Sanko, executive director for the Association. Thank you for the opportunity to appear before you today on behalf of the 1,455 townships in Pennsylvania represented by the Association. We appreciate this opportunity to participate today on this issue that is so important to our members.

Townships comprise 95 percent of the commonwealth's land area and are home to more than 5.4 million Pennsylvanians — nearly 42 percent of the state's population. These townships are very diverse, ranging from rural communities with fewer than 200 residents to more populated communities with populations approaching 70,000 residents.

The Marcellus Shale impacts a major portion of Pennsylvania, from Greene County to Wayne County, and townships throughout this region are facing the impact of natural gas well drilling like never before. While the natural resource in this area has the potential to economically benefit many communities, drilling is not without an impact on townships and their residents.

The Association supports a severance tax on natural gas, provided that at least 25 percent of this tax comes back to the local governments that are affected by the activity. While we believe that House Bill 2443 *(PN 3607)* is a step in the right direction with its inclusion of a local government share of 20 percent, we believe that some improvements need to be made to the bill before it should move forward, particularly concerning how the municipal share is distributed.

Townships are excellent fiscal stewards and are generally among the last to advocate for increasing taxes. We have done more with less for a very long time and pride ourselves in finding efficiencies and economies of scale to benefit our taxpayers. We believe that a natural gas severance tax is not a tax *on* Pennsylvanians, but rather a tax *for* Pennsylvanians that will result in property tax relief. In fact, such a tax would not increase the cost of gas to consumers in Pennsylvania, because we are already paying such taxes on gas imported from other states. Instead, a severance tax would make sure that out-of-state customers are paying the tax to benefit the communities in Pennsylvania where the extraction is taking place. Otherwise, these communities would need to raise property taxes to cover the costs associated with industry impacts.

Over the past several years, we've heard numerous concerns from our members about gas well drilling. It is clearly impacting communities across the Marcellus Shale region, both with economic opportunity, and with the many negative impacts associated with it. Our Association is supportive of economic development and opportunities, provided that drilling activities are conducted in an environmentally responsible manner and that the impacts on the community and the environment are mitigated to the extent possible. Keep in mind that once a healthy environment is damaged, it can take decades, if not centuries, to recover.

In western Pennsylvania in particular, we can see the scars that remain from the extraction or harvesting of our valuable natural resources, from coal to wood. When the industry is gone and our natural resource has been exhausted, the damage that remains will be left to the community and the taxpayers to cleanup, while property values drop in response to end of the resource and departure of the industry. This industry is harvesting a non-renewable resource and as it becomes depleted, many of the economic opportunities that it has brought may leave as well. A severance tax is particularly needed to enable those areas in the commonwealth where this activity is taking place to mitigate the negative impacts of the industry with funds derived from the industry now. Otherwise, taxpayers will need to pay for the clean up long after the industry is gone. We believe a severance tax, properly levied, is simply a responsible way to do business in the commonwealth.

Keep in mind that Pennsylvania is only one of three natural gas producing states, including New York and Iowa, that does not levy a severance or similar impact tax on the industry. New York, which has had a moratorium on natural gas drilling permits due to concerns with the potential negative environmental consequences of the industry, has plans to levy a severance tax, as well as to impose stringent environmental regulations, once the moratorium is lifted. Many natural gas drilling companies currently working in Northern Pennsylvania have plans to move into New York as well once the moratorium is lifted.

HB 2443 would impose a severance tax of 25 cents per thousand cubic feet on producing gas wells, which would be placed into a separate fund in the state treasury and, after administrative expenses are deducted, 45 percent would be deposited into the state's General Fund, 20 percent would be placed into a Local Government Services Fund, and the rest would be deposited into a number of special state accounts.

While we are not experts on severance tax rates, we must ask whether 25 cents per thousand cubic feet of natural gas is sufficient. We understand that this particular model is based on Louisiana. However, West Virginia may be a better model based on similarities in climate, topography, and geology. It is worth noting that New York is considering a 3 percent extraction tax when the moratorium on drilling permits is lifted and that Texas imposes a 7.5 percent oil and gas production tax on the market value of oil and gas that has amounted to billions of dollars in the last several years.

We see that low producing stripper wells would be exempt from the tax under the legislation. We agree with this concept, but question whether the maximum exempt production of 60,000 cubic feet per day is too high and should perhaps be lowered.

Of the monies deposited into the Local Government Services Fund, 30 percent would be allocated to counties with severed wells *(6% of 20%)*; 60 percent to municipalities in counties with severed wells *(12% of 20%)*; and 10 percent to the Pennsylvania Emergency Management Agency for distribution to volunteer fire and ambulance services in counties where natural gas is severed *(2% of 20%.)*

While the bill, we believe, appropriately allocates funding for emergency first responders in the affected counties, we contend that this funding should come out of the state's share of these funds. In addition, eligible volunteer fire companies should be able to use these funds for equipment, training, and the recruitment and retention of volunteers. Volunteer fire companies are the first responders and should have the necessary training to know how to participate in a fire or disaster involving a natural gas well.

However, our primary concern with the bill is the manner in which the municipal share would be divided. Specifically, each municipality in each county where at least one well is severed would receive 1 credit. Each host municipality would receive 2 credits per severed well.

Under this formula, host municipalities would receive a greatly reduced proportional share of the pie because of the need to share with all of the municipalities in every county that has at least one severed well. We don't believe that this formula would be fair to host municipalities. Take, for instance, a county with only one severed well. The host municipality will receive 2 credits while every other municipality in the county would receive one credit, regardless of their location or impact. If a county has 24 municipalities, then the host would receive 2 credits worth of funds while the remaining 23 municipalities would receive one credit each. Therefore, the non-host municipalities would receive, as a group, 11.5 times *more* funds than the host municipality that bears most, if not all, of the impacts associated with the well. We believe this formula needs to be revisited to make sure that the host municipalities are receiving most of the funding, while the affected non-host communities receive some share of this funding that is proportional to their impact.

In addition, each non-host municipality receives one credit *regardless* of whether one or 500 wells are severed in that county. This is going to greatly inflate the funds received by non-host municipalities in the county with only one well, but will decrease what municipalities receive in a county with 500 wells. We believe that the allocation should be made on a per county basis, which would more fairly distribute the funds.

Since this is such a major issue for our members, we have been actively working with the County Commissioners Association of Pennsylvania to draft a severance tax proposal. We offer our proposal as an alternative means of distribution for the local share. Again, we believe that the bulk should be returned to the communities that are directly impacted.

Our proposal is to give 9 percent of the total tax to the host municipalities distributed on a pro rata share based on the number of severed wells; 5 percent of the total tax to all municipalities in each county in which there is at least one severed well on a pro rata basis determined by the number of wells severed in each county, which would then be distributed to the municipalities in each affected county via the liquid fuels formula of 50 percent based on population and 50 percent based on road miles; 8 percent to counties on a pro rata basis determined by the number of wells severed; and 3 percent to the county conservation districts, for a total local share of 25 percent of the total tax. We believe that HB 2443 is fairly close to our total numbers, but that our municipal distribution formula is very different, and more fair to the affected municipalities.

In support of the local share and our proposal for distribution, it is the local communities, and particularly the host municipalities, that bear the brunt of the burden from the industry through destruction of roads and potential environmental disasters. Contamination of local water supplies is a major concern when most of the residents in these rural areas rely on well water. We have already seen a situation in Susquehanna County where the driller was fined by DEP for polluting local wells with methane that escaped from natural gas wells. This is a major issue when these municipalities must now look at the possibility of providing a public water supply to residents because of the disaster. While the drilling company is liable for providing clean water in this situation, ultimately the municipality will bear the responsibility for running a water treatment plan for the affected residents.

These communities also are concerned because modern drilling techniques use very large quantities of water, which is treated with industrial chemicals. This industrial wastewater is difficult to treat and highly toxic to much aquatic life due to its high salinity. In fact, current wastewater treatment capacity for this waste product is insufficient. It is our understanding that few specialized wastewater treatment plants hold the necessary permits to treat millions of gallons of industrial wastewater and that municipal plants cannot process this type of industrial waste. Without treatment, these water withdrawals are not being returned to our water supplies, which raises additional concerns about ensuring an adequate water supply for our residents.

In closing, our Association supports a severance tax as a means of easing future property tax burdens caused by the impacts of this industry and believes that this proposal is a step in the right direction. However, changes need to be made to provide a fair means of distributing these funds to the affected municipalities.

Thank you for the opportunity to comment today on this issue that is of such importance to townships across the state.