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

MARVIN METEER
EXECUTIVE BOARD MEMBER

MAY 12, 2010

WILLIAMSPORT, PA

4855 Woodland Drive ▮ Enola, PA 17025-1291 ▮ Internet: www.psats.org

PSATS ▮ Pennsylvania Township News ▮ Telephone: (717) 763-0930 ▮ Fax: (717) 763-9732

Trustees Insurance Fund ▮ Unemployment Compensation Group Trust ▮ Telephone: (800) 382-1268 ▮ Fax: (717) 730-0209

Chairman Levdansky and members of the House Finance Committee:

Good afternoon. My name is Marvin Meteer, an executive board member for the Pennsylvania State Association of Township Supervisors and a township supervisor in Wyalusing Township, Bradford County. With me today is Elam Herr, assistant 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 natural 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 affecting communities across the Marcellus Shale region, both with economic opportunity, and with the 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 our local roads are mitigated to the extent possible.

In support of the local share, 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. In fact, truck transport related to Marcellus Shale development has had, and will continue to have for years to come, a major impact on municipalities within the Commonwealth of Pennsylvania. The truck transport affects not only those municipalities hosting well sites, but also those that serve as an access route to the well drilling site. Truck traffic and the damages it inflicts on local roads is the number one concern for township officials affected by drilling in the Marcellus Shale region and we have not even begun to see the impact from trucks needed for pipeline operations.

Gas well drilling requires transporting significantly overweight and oversized equipment and materials, including hundreds of water-filled tanker trucks for fracking, stone trucks for site development, and pipe trucks for the actual drilling and that doesn't even include pipeline construction. Most of the drilling is taking place in mountainous and rural areas with access via low-volume roads. These roads were not designed to withstand the punishment from the overweight and oversize vehicles now frequenting them. In most cases, these rural roads – both local and state – are significantly damaged, if not destroyed, in the course of well drilling.

When these roads are damaged, it is not simply surface damage. Instead, the very foundations of the road are damaged and total reconstruction is frequently required. In many cases, gas well companies are working with the municipality, as well as the state, to promptly rebuild these damaged or completely destroyed roads. However, there are reports that, in some cases, non-state certified materials are being used and it remains to be seen how these materials will wear.

PSATS encourages its members to post and bond its roads. Doing so ensures that the entity damaging the roads pays for the damage, particularly if an excess maintenance agreement is used as the permit instrument. However, if the well driller or hauler fails to make repairs to the road, the township must pull the bond, which is limited by state law to a maximum of $12,500 for a paved road, while the cost to reconstruct a mile of road can easily approach $100,000. While some haulers are more generous and have been working with the townships, residents can be left to foot a significant part of the cost to repair the damage.

While many haulers are now working with their communities to voluntarily provide additional funding for road repair, we urge the state Department of Transportation to increase the bonding amounts now to bring these figures into line with current costs for road and bridge repair and reconstruction. It is worth noting that the drilling companies do have an incentive to work with the municipalities to rebuild roads at this time: they need the roads to be in good condition so that supplies can be delivered and drilling can continue. However, what will our roads look like in the future once drilling is complete and the companies no longer need our roads to be in good condition?

Pennsylvania is the only major fossil fuel producing state that does not levy a mineral extraction or severance tax. 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 once the moratorium is lifted. New York is also currently working on regulations to reduce the impact of drilling on the environment and its transportation infrastructure. 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 tax on the market value of oil and gas that has amounted to billions of dollars in the last several years.

Of the monies deposited into the Local Government Services Fund, 30 percent would be allocated to counties with severed wells *(6% of total tax)*; 60 percent to municipalities in counties with severed wells *(12% of total tax)*; 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 total tax.)* Although we support funding for emergency first responders in the affected counties, we contend that this funding should come out of the state's share of the tax.

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 the county. 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 13 municipalities, then the host would receive 2 credits worth of funds while the remaining 12 municipalities would receive one credit each. Therefore, the non-host municipalities would receive, as a group, 6.5 times *more* funds than the host municipality that bears most of the impacts associated with the well. We believe this formula needs to be

revisited to make sure that the affected municipalities are receiving a share of the funding that is proportional to the impact that they are experiencing.

In addition, each non-host municipality receives one credit *regardless* of whether one or 300 wells are severed in that county. This is going to greatly inflate the funds received by municipalities in the county with only one well, but will decrease what municipalities receive in a county with 300 wells. Instead, we contend that this allocation should be made on a county, not a statewide, basis.

Because the severance tax is such a major issue for our members, we have actively worked with the County Commissioners Association of Pennsylvania to draft a severance tax proposal. We offer our distribution formula as an alternative to HB 2443.

Our proposal would distribute 9 percent of the total tax to host municipalities proportionately based on the number of severed wells statewide. In addition, 5 percent of the total tax would be allocated to municipalities that are located in a county in which at least one well has been severed. This pot would first be divided proportionately by county based on the number of wells severed statewide and then distributed to all of the municipalities in each respective county through the liquid fuels formula, which is 50 percent based on population and 50 percent based on road miles. In addition, 8 percent would be allocated to counties on a pro rata basis determined by the number of wells severed and 3 percent of the total tax would be distributed to the county conservation districts, for a total local share of 25 percent of the total tax. While the local share in HB 2443 is close to our proposal, our municipal distribution formula is very different from the bill.

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.