

Chairman Levdansky, distinguished members of the House Finance Committee, my name is James T. Kunz Jr. I am the Business Manager of the International Union of Operating Engineers Local 66 representing approximately 7,000 men and women in the construction, pipeline, utility and heavy equipment service industries. I am here today to speak in support of a Pennsylvania Marcellus Shale natural gas severance or gas extraction tax for several reasons.

First, contrary to the claims of those who oppose such a tax, most of the drillers do not pay the state's Corporate Net Income tax, but instead pay the much lower Personal Income Tax rate. In fact, it is estimated that more than 70% of the drillers pay the lower tax rate. As a result, the revenue derived from the current direct tax on the gas will be significantly lower than the claims made by the industry. In addition, of the top 15

natural gas producing states, Pennsylvania is the only one without a severance tax. And we believe that it will be production, not taxes that will determine whether a company drills in Pennsylvania or not.

Second, the Marcellus Shale Coalition claims that the drilling and ancillary industry could bring 110,000 jobs to PA in 2010.

We believe that this number is inflated. In addition, our experience based on actual visits to the drill sites has revealed that most of the current jobs are being filled with transient workers from other states or countries who are rotating in and out of Pennsylvania. When we have spoken to many of the drilling companies on site they tell us they are not hiring because they already have a steady workforce they use and take with them around the country. They have not been telling us that it is because we do not have qualified people. All one

has to do is visit the many job sites and local hotels and count the out-of-state license plates to get an idea of where the work force is actually coming from. The roughneck and drilling crews work 12-15 hours a day, 7 days a week and have little time or opportunity to spend money in the area. As a result, income tax revenue and retail tax revenue for the state will be lower than expected or touted by the Marcellus Shale industry. Most of the money will show up in Texas, Arkansas, Louisiana and other parts of the country and the world. Presently some of the pipeline work and compressor station work is being done by Pennsylvanian contractors using Pennsylvanian labor but we are now beginning to see an influx of out of state contractors who use out of state labor setting up shop in the area because they see opportunity and because the drilling companies are

willing to use them. Some of these out of state contractors use labor from as far away as Mexico and Guatemala.

Third, Pennsylvania will need the revenue to use to remediate the environmental impact of this drilling and to repair the damage to Pennsylvania's aging transportation infrastructure.

The fouling of residential water wells in Susquehanna County, the dumping of FRAC water in several regions, the fish kills, as well as lessons learned from remediation costs borne by Pennsylvania's taxpayers related to coal stripping more than suggests a need to raise revenue now to address these current and future expenses.

Also of concern is the pounding state, county and local roads and bridges take from Marcellus Shale drilling. A Texas study determined that the drilling, fracing, and maintenance of one

Marcellus Shale well requires about 592 one-way truck trips, with some individual trucks weighing between 80,000 to 100,000 pounds when fully loaded. Other studies suggest it can take anywhere from 400 to 1300 truck trips to complete one gas well. The damage is often significant and the cost of repair expensive. Bonding often does not come close to covering the repairs and results in large unbudgeted expenses for the state, county, and local communities. One only has to look a few miles West to Wetzell County, WV to see examples of massive road and bridge failures directly related to Marcellus Shale gas drilling and the expense and disruption to local communities that follows.

For these reasons, the International Union of Operating Engineers Local 66 supports a gas severance tax. We feel that it is important that appropriate shares of the tax go to address

environmental needs and to state and local government for road and bridge repair as we believe over time these issues will have a significant impact on state and local budgets. We believe that House Bill 2443 accomplishes this goal by creating a reliable revenue stream allocated in a responsible manner to meet the needs of all Pennsylvanians. We also believe that a tax credit could be given when Pennsylvanians are hired to work at drill sites, on transmission pipelines or on the compressor stations. Pennsylvania does have the qualified workforce. If the drillers choose to not hire Pennsylvanians, the tax should be high enough to replace the corporate and income taxes lost.

We believe that the Marcellus Shale “economy” should benefit Pennsylvania first.

Thank You