

THOMAS P. MURT, MEMBER
152ND LEGISLATIVE DISTRICT

DISTRICT OFFICE:

19 South York Road
Hatboro, PA 19040
Phone: (215) 674-3755
Fax: (215) 674-3021

HARRISBURG OFFICE:

PO Box 202152
Harrisburg, PA 17120-2152
Phone: (717) 787-6886
Fax: (717) 260-6500



House of Representatives

Commonwealth of Pennsylvania
Harrisburg

COMMITTEES:

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Veterans Affairs and
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COUNCIL:

Deleware Valley Veterans Home

To: All House Members

From: Representatives Thomas Murt and Gene DiGirolamo

Date: September 20, 2011

RE: **Request for Co-Sponsorship: Natural gas severance tax legislation to invest in our economy and environment, assist host communities, and make sure all citizens benefit from deep gas drilling**

We plan to introduce legislation creating a severance tax, or drilling tax as we prefer to call it, on deep gas extraction. The legislation will impose a 4.9 percent tax on the gross value of units of deep gas reserves such as the Marcellus Shale severed at the wellhead. This tax rate is lower than the effective tax rate of neighboring West Virginia, where the industry is thriving.

Pennsylvania is the only major gas-producing state that does not assess a tax or fee on gas extraction. An estimated 97 to 98 percent of the natural gas produced in the U.S. comes from states with a tax or fee. Our citizens are already paying this tax on other states' gas. The drilling companies pay the tax everywhere else and they expect to pay it here. Some of the largest, most profitable corporations on the planet are moving significantly into the Marcellus Shale in Pennsylvania. An estimated 40 percent or more of the cost of natural gas production is from transportation, and Pennsylvania is blessed by its proximity to large northeastern markets.

We welcome this significant investment in the Commonwealth and the jobs that are being created. Natural gas is much cleaner than other fossil fuels, and our legislation will help make Pennsylvania a national leader in the use of gas for transportation and other purposes. Natural gas from the Marcellus Shale builds our energy independence.

But it is time, long past time, that Pennsylvania assess a reasonable tax or fee on deep gas drilling that protects host communities, invests in our environment and economy, and makes sure that all of our citizens benefit. In our view, good drilling tax or impact fee legislation should meet the following criteria:

1. Is it fair and reasonable to the industry? Will it sustain the growth of the industry and be comparable to other states?
2. Does it assist host communities with the economic, social and environmental costs and impacts of drilling?
3. Does it make long-term investments in our natural resources and environmental programs?
4. Does it make long-term investments in our economy and human capital?
5. Does it strengthen the stitching of our Commonwealth's safety net for times of need?

6. Does it make sure that every citizen of the Commonwealth will benefit from the development of the Marcellus Shale and other deep gas reserves?

We strongly believe that we have come up with a tax rate and distribution formula that meets these criteria. Our legislation reflects the input of a variety of groups. We acknowledge the leadership and hard work on this issue by many members on both sides of the aisle

While we think that a tax is the best policy, we also think that it would be appropriate to consider our programs and revenue distribution for an impact fee bill should that be the route taken by the House.

Please find below a discussion of how we plan to distribute the tax revenue and a table with revenue estimates by program and fiscal year.

To co-sponsor this legislation, please contact Jennifer Korac or Pamela Huss in Representative DiGirolamo's office at 717-783-7319 or jkorac@pahousegop.com or phuss@pahousegop.com.