

In the near future, I plan to introduce legislation that would enact a 3% severance tax – divided between the value and the volume – on the extraction of natural gas in Pennsylvania. This would be in addition to the current 1.9% “impact fee,” bringing Pennsylvania’s effective rate to 4.9%, a reasonable rate that would still be less than most other gas drilling states, including West Virginia’s 5% rate and Texas’ 7.5% rate. *(The 3% effective tax rate will be 2% imposed on the gross value of gas severed at the wellhead, plus 3 cents per unit severed.)*

The purpose of enacting this tax is to provide critical dollars to our general fund that could then be used to protect our natural resources and benefit generations of Pennsylvanians. For example, these dollars could fund our pre-K, K-12, and Higher Education at levels we can be proud of, keeping Pennsylvania competitive and benefiting citizens in a forward looking way. A portion of this funding could also be set aside in a hazard mitigation fund to protect us from potential environmental problems that may not be realized for years or decades.

A little history: As you know, Marcellus Shale refers to “sedimentary rock buried thousands of feet beneath the earth’s surface.” It covers areas of New York, Pennsylvania, West Virginia, and Ohio. Natural gas contained in the shale was created “over millions of years as a byproduct of decomposition and is trapped in tiny spaces and fissures within the rock.”¹ Pennsylvania is rich in natural gas and extraction has increased greatly with the development of new hydraulic fracturing (“fracking”) techniques.

In the words of former Rep. Camille “Bud” George in 2010, “Extraction of any natural resource comes at a cost...Pennsylvanians should not subsidize an industry that is profiting nicely from the estimated 500 trillion cubic feet of gas contained within the shale in Pennsylvania. We also have a responsibility to protect the Commonwealth’s citizens during extraction.”

Currently, the state’s modest impact tax on natural gas wells generates a relatively small amount of revenue from the expanding gas industry. This tax has provided important dollars to municipalities directly affected by drilling for infrastructure repairs, and has also benefited areas where no drilling currently exists. A key issue of the impact tax is that it does not keep pace with increases in production, and this gap will only widen over time.

Article 1 § 27 of the Pennsylvania Constitution Declaration of Rights states:

Natural Resources and the Public Estate

Section 27. The people have a right to clean air, pure water, and to the preservation of the natural, scenic, historic and esthetic values of the environment. Pennsylvania’s public natural resources are the common property of all the people, including generations yet to come. As trustee of these resources, the commonwealth shall conserve and maintain them for the benefit of all people.

This addition to our Declaration of Rights was passed unanimously in this chamber in two consecutive sessions (H.B. 958 of 1969-70, H.B. 31 of 1971-72). And at the time of passage, Representative Franklin Kury, the prime-sponsor of the Joint Resolution said in 1969:

“...the amendment declares and places the responsibility for preserving Pennsylvania’s environment where the responsibility basically belongs – on the state government. The amendment declares that the state government is the trustee of our natural resources, not only for those alive now, but for generations yet to come...”

...the amendment provides a firm, clear policy statement for the guidance of all those branches of government and private parties alike. Considering Pennsylvania's shameful history of a state government too often controlled by the plunderers of our natural resources, this amendment is long overdue. If only it had been enacted a century ago – how different the face of Pennsylvania would look today!

Most important, this amendment will shift the burden of proof in future disputes from those who object to pollution or environmental impairment to those who would pollute or impair.”²

Our Commonwealth has been blessed with this natural resource. The extraction of natural gas from the Marcellus Shale has been enormously profitable for the industry, and through the impact tax, has provided needed dollars to those municipalities and regions directly affected and throughout the state. Nevertheless, we are missing an opportunity and an obligation by not adequately taxing the extraction of this natural gas, which is common property of all Pennsylvanians. Let's learn from the past and enact a total effective tax rate of 4.9%, which will provide critical dollars to Pennsylvania in a forward looking way, and will allow us to protect our environment from any future harm caused by drilling.

For your consideration, here is an estimate showing an additional \$2 billion in revenue over the first five years:

Period	Production (mcf)	Value of Gas	Impact Fee		Severance Tax		Total Eff. Rate	
			Impact Fee (1.9%)	Eff. Rate of Fee	New Adequate Severance Tax (General Fund \$)	Eff. Rate of Tax		
FY14/15	3,750,660,432	\$ 11,251,981,295	\$ 217,000,000	1.9%	\$ 337,559,439	3.0%	4.9%	
FY15/16	4,207,296,143	\$ 12,621,888,428	\$ 237,000,000	1.9%	\$ 378,656,653	3.0%	4.9%	
FY16/17	4,609,134,198	\$ 13,827,402,594	\$ 263,000,000	1.9%	\$ 414,822,078	3.0%	4.9%	
FY17/18	4,936,952,090	\$ 14,810,856,270	\$ 285,000,000	1.9%	\$ 444,325,688	3.0%	4.9%	
FY18/19	5,339,103,182	\$ 16,017,309,546	\$ 314,000,000	2.0%	\$ 480,519,286	3.0%	5.0%	
Total New Revenue						\$ 2,055,883,144		

Please join me in sponsoring this important legislation.

1. <http://stateimpact.npr.org/pennsylvania/tag/marcellus-shale/>
2. Pennsylvania House of Representatives, Legislative Journal, June 2, 1969, pp. 721-725.