2017/18
BUDGET BRIEFING
Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)
JOE MARKOSEK, DEMOCRATIC CHAIRMAN
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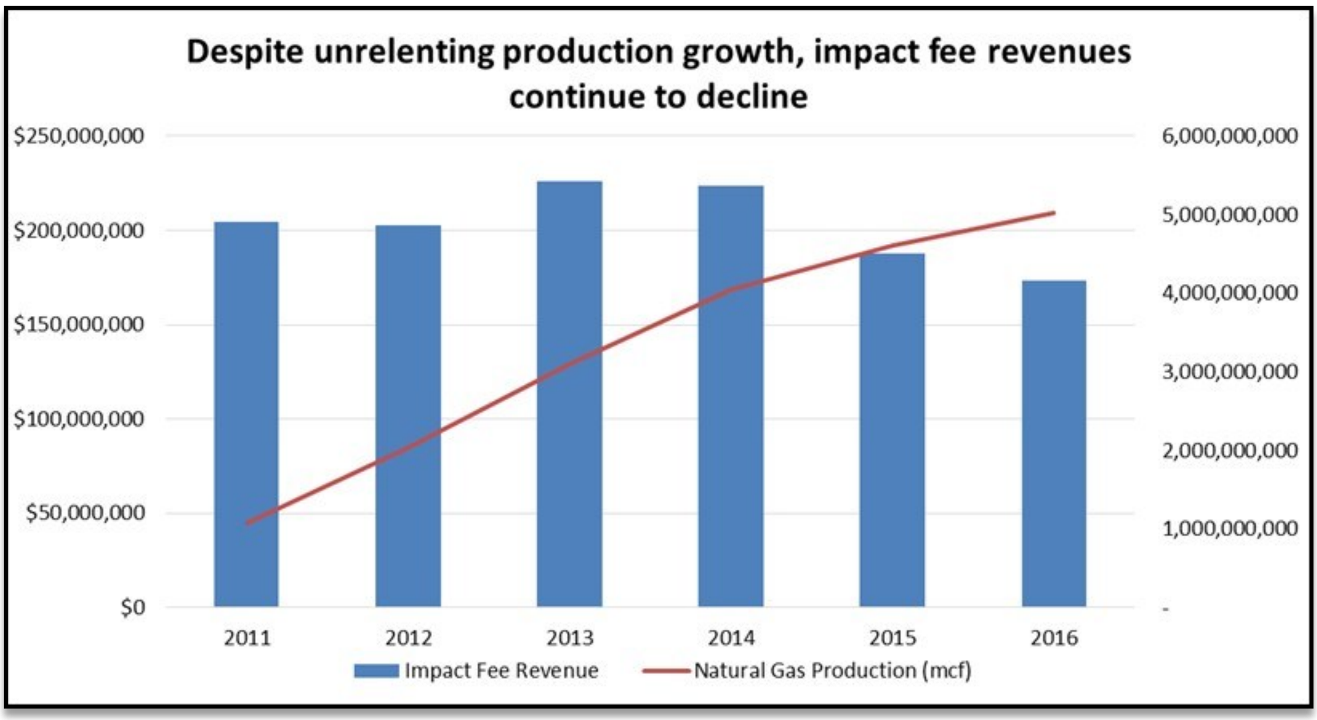
Natural Gas Impact Fee Revenues Continue to Fall



The Pennsylvania Public Utility Commission (PUC) announced last week the **natural gas impact fee generated $173.2 million based on drilling activity in calendar year 2016 – which is $14.4 million, or 8 percent, less than the previous year.** This amount represents an effective tax rate of about 2 percent. A drawdown of natural gas supply and pending pipeline projects have helped lift the gross value of the commodity to $7.59 billion in 2016, a 7-percent increase over the previous year.

Earlier this year, Gov. Wolf proposed a new severance tax on natural gas within the commonwealth. The 6.5-percent tax on the value of natural gas would also allow impact fees to be used as a credit against the severance tax. The current impact fee collection and disbursement would remain in place. At the time, the administration estimated $293.8 million in new revenue for 2017/18 from the severance tax. In its analysis of the administration's April revenue proposal, the Independent Fiscal Office estimated the governor's severance tax proposal could bring in $349 million in 2017/18.

Since Act 13 of 2012, the impact fee has generated $1.2 billion for tax years 2011 to 2016. Had Pennsylvania enacted a severance tax comparable to West Virginia in 2011 (5 percent of the value, plus $0.047 per thousand cubic feet), the commonwealth would have collected $2.88 billion to date. This missed opportunity cost the commonwealth $1.6 billion in revenue.

Natural gas production continues to rise in Pennsylvania, with over 5 trillion cubic feet of gas produced in 2016. According to the Energy Information Agency[i], Pennsylvania and Ohio had the largest annual natural gas production increases from 2015 to 2016, surpassing Texas. The Marcellus and Utica shale plays account for 85 percent of U.S. shale gas production growth since 2012.

Pennsylvania is the only major gas producing state to not levy a severance tax on natural gas. As the market continues to rebound and pipeline infrastructure comes online, the commonwealth should seize the opportunity to enact a fair severance tax that raises revenue to address the critical needs of Pennsylvania.

[i] https://www.eia.gov/todayinenergy/detail.php?id=30932#

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Miriam A. Fox, Executive Director | Michael Passiment, Budget Analyst | Mark Shade, Communications Director