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What's Included:

FACT SHEET
About the Impact Fee

FACT SHEET
Myth VS Fact
Severance Tax

FACT SHEET
Fast Facts About Responsible Shale Development

TALKING POINTS
Higher Energy Taxes Threaten Local Shale Benefits

SAMPLE LETTER
Letter to Elected Official

POWER POINT SLIDES
Presentation on Severance Tax

Pennsylvania's Impact Fee

Benefiting Communities All Across the Commonwealth

What is the Impact Fee?

In 2012, the Pennsylvania General Assembly enacted Act 13, which included comprehensive and significant enhancements to Pennsylvania's environmental laws overseeing shale gas development. The Act also provided local uniformity across Pennsylvania and authorized county governments to impose an Impact Fee paid annually by unconventional natural gas producers for each well they spud, or start to drill, each calendar year.

Why is Pennsylvania's Impact Fee Unique?

Pennsylvania is the only state in the nation that levies an Impact Fee on unconventional natural gas operators.

The Pennsylvania legislature chose a unique path in assessing their version of a severance tax that allocates revenue to every county in the Commonwealth, particularly to counties and municipalities where unconventional natural gas development is occurring.

Communities are able to use Impact Fee revenues for any of the 13 approved uses outlined in Act 13. Examples include: public infrastructure improvements, emergency preparedness and response, environmental protection, social services, records management and tax reduction.

How Much Revenue Has the Impact Fee Generated for Pennsylvania Communities?

Since 2012, the Impact Fee has generated nearly $1.5 billion in new revenue, above and beyond the $2.1 billion in other tax revenues generated by oil and gas-related activities over the past eight years.

Year Distributed	Amount
2012	$204.2 M
2013	$202.5 M
2014	$225.8 M
2015	$223.5 M
2016	$187.7 M
2017	$173.3 M
2018	$209.6 M
TOTAL	**$1.427 B**

Who Administers the Impact Fee?

The Pennsylvania Public Utility Commission (PA PUC) is charged by law with assessing, collecting and distributing the Impact Fee. Information regarding the collection, distribution and use of the Impact Fee can be found on the PA PUC Act 13 Impact Fee website.

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How is the Impact Fee Assessed on Operators?

The Impact Fee is assessed annually. The exact amount of the Impact Fee is based on two factors: the average natural gas sales price as determined each January by the PA PUC and the age of the well. Each unconventional natural gas well is subject to an impact fee for a period of 15 years. The Impact Fee can range from $60,000 in the well's first year to $5,000 in the well's 15th year. An average unconventional natural gas well will pay an average of $310,000 in Impact Fees over 15 years.

Natural Gas Price Average

Year of Well Life

Year (Well)	$0-2.25	$2.26-2.99	$3.00-4.99	$5-5.99	$6 or higher
1	$40,000	$45,000	$50,000	$55,000	$60,000
2	$30,000	$35,000	$40,000	$45,000	$55,000
3	$25,000	$30,000	$30,000	$40,000	$50,000
4	$10,000	$15,000	$20,000	$20,000	$20,000
5	$10,000	$15,000	$20,000	$20,000	$20,000
6	$10,000	$15,000	$20,000	$20,000	$20,000
7	$10,000	$15,000	$20,000	$20,000	$20,000
8	$10,000	$15,000	$20,000	$20,000	$20,000
9	$10,000	$15,000	$20,000	$20,000	$20,000
10	$10,000	$15,000	$20,000	$20,000	$20,000
11	$5,000	$5,000	$10,000	$10,000	$10,000
12	$5,000	$5,000	$10,000	$10,000	$10,000
13	$5,000	$5,000	$10,000	$10,000	$10,000
14	$5,000	$5,000	$10,000	$10,000	$10,000
15	$5,000	$5,000	$10,000	$10,000	$10,000

When is the Money Collected and Distributed?

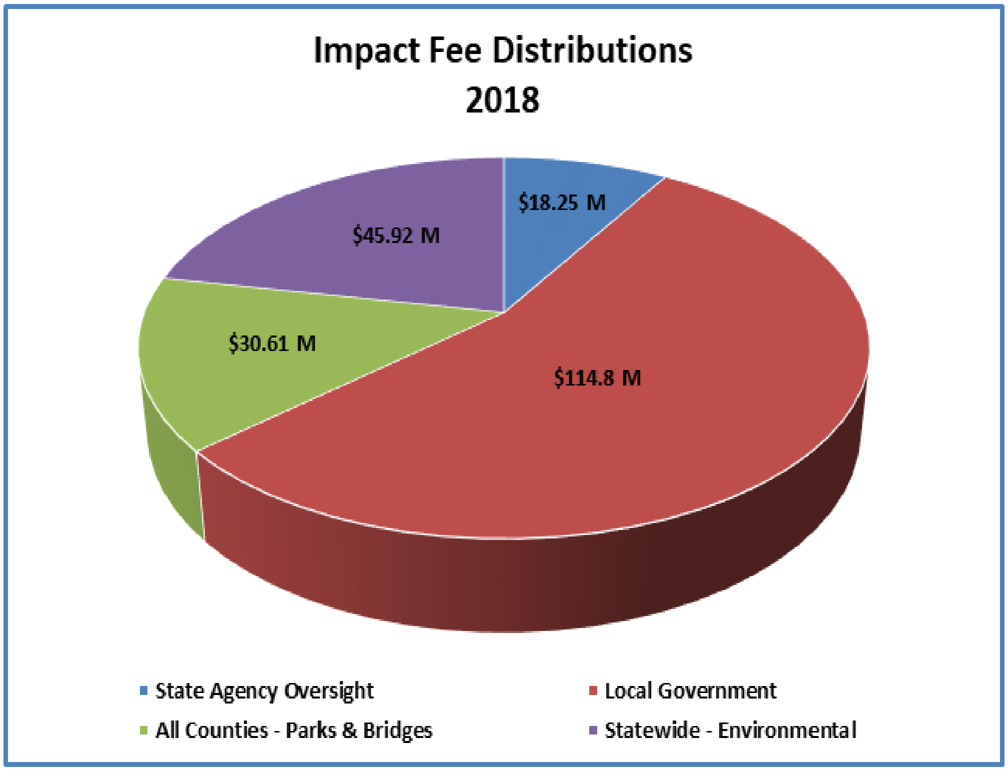
Operators must pay their Impact Fee assessment no later than April 1 of each year. The revenue collected is then distributed to local communities and state agencies no later than July 1 of each year based on the formula outlined in Act 13.

How is the Money Spent?

Revenues are broadly distributed in four main categories:

- County and municipal governments where shale gas development occurs.
- State agencies, such as the Pennsylvania Department of Environmental Protection (PA DEP), PA PUC, Fish & Boat Commission, Pennsylvania Emergency Management Agency (PEMA) and the Office of State Fire Commissioner which serve a role in overseeing shale gas development.
- All 67 counties for conservation, recreation and bridge repairs, including county soil and water conservation districts.
- Statewide environmental grant programs, such as Growing Greener, the Marcellus Legacy Fund and water and sewer infrastructure.

The pie chart below shows how funds were allocated in calendar year 2018 from revenues collected for drilling activity in calendar year 2017:



What Other Taxes do Pennsylvania's Natural Gas Companies Pay?

Natural gas operators in Pennsylvania pay every other tax that is levied on other businesses, including:

- Corporate or personal income
- Capital stock and franchise
- Sales and use
- Liquid fuels
- Other business taxes

According to the Pennsylvania Department of Revenue, these taxes have generated more than $2.1 billion in revenue for the Commonwealth of Pennsylvania over the last eight years, in addition to the $1.427 billion generated by the Impact Fee.

SEVERANCE TAX FACT SHEET
MYTH VS FACT

MYTH: The natural gas industry should and can afford to pay taxes like they do in other states.
FACT: Shale development in the Commonwealth generates enormous amounts of revenue; in fact, Pa. is the only state that has a special per well tax called an impact fee.

- ***$1.427 billion Local impact fees distributed to all of Pa.'s 67 counties since 2012.***
- ***$2.1 billion: Generated by the industry through various state and local taxes.***
- ***More than $1 billion: Royalties and lease bonuses paid from taxpayer-owned Pa. DCNR leases.***

MYTH: The impact fee isn't a real revenue generating tax.
FACT: Pa.'s impact fee was designed to boost local funding and enhance environmental programs – and this tax is working as designed.

- ***The impact fee provides local governments with much-needed flexibility and budgeting security.***
- ***In addition to boosting local government budgets, impact fees provide essential funding for key state agencies as well as other environmental and conservation programs.***
- ***However, proposed higher energy taxes being considered will redirect revenues to Pa.'s general fund, jeopardizing the impact fee funds that go directly to local governments.***
- ***Perhaps most importantly, the impact fee has maintained Pa.'s economic competitiveness while also generating significant revenue managed by local governments in all 67 counties***

MYTH: The gas isn't going anywhere and other states have energy taxes too. In fact, higher energy taxes will enhance Pennsylvania's future.
FACT: Pa.'s world-class resource base is in fierce competition with other shale basins – capital investment and jobs move unemotionally to the most competitive market. Pa.'s challenge is to grow markets, expand jobs and increase its manufacturing competitiveness which in turn will generate significant revenue for the Commonwealth.

- ***At a time when capital reductions and sizable cutbacks across the energy sector are widespread, Pa. is in fierce competition with other shale plays around the country—and the world—for investment.***
- ***However, policies that encourage growth will help Pa. to realize the full, broad-based economic impact of shale – especially for locally-based small businesses, regional labor unions, our manufacturing base as well as consumers benefitting from lower and more stable energy prices.***
- ***Expanded investments in pipeline and processing infrastructure are critical to boosting local small- and medium-sized business growth as well as creating new markets. However, investments will diminish if higher energy taxes are enacted.***
- ***This is especially true as it relates to the historic opportunity to revitalize our manufacturing base, including efforts to invest and grow secondary petrochemical industries in southwestern and eastern Pa.***
- ***Across the chemical manufacturing industry alone, the economics of shale gas have not only created a competitive advantage for the U.S., but have also led to heightened national investment and a significant reshoring of capital that continues to be a catalyst for sustained job growth.***
- ***And increased production and use of natural gas – especially from and across our region – has led to dramatic air quality enhancements; in fact, according to federal data, carbon emissions are at their lowest levels since 1994.***

SEVERANCE TAX FACT SHEET
MYTH VS FACT

MYTH: Other states have a severance tax so Pa. should as well.
FACT: Enacting a severance tax in Pa., given these harsh economic realities, would place the Commonwealth in a race to the bottom. Key energy-producing states – including North Dakota, Oklahoma, Ohio and West Virginia – are taking action to freeze or lower their severance tax rates in an effort to not cause further harm to job creators across the natural gas industry and supply chain.

- ***From Moody's: In Oklahoma, oil and natural gas production severance taxes are down 51 percent from March 2015 to March 2016 while oil taxes earmarked for the state's general revenue fund are down 98 percent through the first nine months of the fiscal year, according to the report. Besides production taxes, the oil and natural gas industry slowdown also has hurt the state by contributing to lower sales tax collections. State sales taxes are down 7 percent year to date. The oil and natural gas industry downturn also is hurting local governments throughout the state, both through reduced sales tax collects and through cuts in state contributions. "Local governments will be tested in their ability to adapt to cuts at the state level, especially with the economy squeezing revenue generation," the report stated. "Funding cuts are especially credit negative for school districts that rely on state aid. We expect oil prices to remain depressed in the near future, causing further weakness in the energy industry and affect income and sales taxes."***
- ***From Charleston Gazette-Mail: Standards and Poor downgraded West Virginia's bond rating from AA to AA - and leaders have been told to brace for 'worst-case scenario.' Gov. Earl Ray Tomblin said in a statement that he was disappointed, but not surprised, by the downgrade in the bond ratings, saying other states heavily dependent on the energy sector have already been downgraded. "This is not a typical downturn." Tomblin said the downgrade is evidence that West Virginia needs to continue to diversify its economy, and the Legislature needs to pass a "responsible, structurally sound budget."***
- ***From The Vindicator: Ohio's legislative leaders said they won't increase taxes on oil and gas produced via horizontal hydraulic fracturing, of fracking, while oil prices remain low. "Until market conditions improve, it's something we should stay away from," said House Speaker Cliff Rosenberger, R-Clarksville, paraphrasing as study released by lawmakers last year on the subject. "I'll just be pointed: North Dakota and Oklahoma are two great states to point out. I've talked to legislative leaders in both states. North Dakota's decreasing their severance tax… And Oklahoma is having huge issues with the fact that they've tied their severance tax to [the state general revenue fund], and now [they're] facing a structural imbalance."***
- ***The competition for increasingly less capital has perhaps never been fiercer. Higher energy taxes will undercut Pa.'s ability to attract investment, which is necessary to maintain natural gas production and drilling activities. In the simplest of terms, lower drilling activity levels translates into fewer jobs., especially for locally based supply chain businesses and for our region's union building trades, as well as even less overall revenue.***

MYTH: Governor Wolf's 8.5 percent severance tax proposal is fair.
FACT: This proposal is the highest effective severance tax rate in the nation and would not generate the necessary revenue to help Pa. solve its fiscal woes.

- ***The most recent Independent Fiscal Office (IFO) report analysis outlined that Governor Wolf's energy tax increase proposal would make Pa. the highest natural gas taxed state in the country at 8.5 percent.***
- ***In fact, Governor Wolf's tax rate proposal is 54 percent higher than top gas producing states – Texas and Louisiana and is 36 percent higher than the next highest state Oklahoma.***
- ***As the IFO analysis points out, this burden would lead to less overall energy production as well as higher energy costs for consumers, working families, small businesses and manufacturers.***
- ***Additionally the IFO's estimated market prices, Pa. producers receive only 61 percent of what their competitors are receiving in other basins across the country. This comes at a time when national natural gas market prices are at a 20-year low.***

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FAST FACTS

ABOUT RESPONSIBLE SHALE DEVELOPMENT

$1,200	***Shale production increased U.S. household incomes through energy savings by an average of $1,200 in 2012.*** *(IHS)*
$2.1B	***In tax revenue has been generated in Pa. by responsible shale development.*** *(Pa. Dept. of Revenue)*
$700M	***Energy development on public lands has generated more than $700 million in royalties and lease bonuses for Pennsylvania.*** *(DCNR)*
96%	***Of new industry hires were from the Appalachian Basin.*** *(MSC study)*
#1	***The U.S. has surpassed Russia as the world's largest oil and natural gas producer.*** *(USA Today)*
45,000	***New building trade jobs have been created in the Appalachian Basin as a result of shale development.*** *(CBS Pittsburgh)*
$856M	***Distributed to local communities and environmental programs in shale impact fee since 2012.*** *(Pa. Public Utility Commission)*
930,000	***Continued shale gas activity in the U.S. will translate into new manufacturing jobs growth, contributing 930,000 shale gas-driven jobs by 2030.*** *(PricewaterhouseCoopers)*
$1B+	***Has been invested by Pa.'s shale industry in road and infrastructure improvements since 2008.*** *(MSC study)*

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TALKING POINTS
Higher Energy Taxes Threaten Local Shale Benefits

- ***More than 90 percent of Pennsylvanians believe that natural gas is important to Pennsylvania's economy. However, more than 71 percent of Pennsylvanians are unaware that the natural gas industry already pays a tax called the impact fee.***

- ***Since 2012, the natural gas impact fee – a special drilling tax that is paid in addition to all other Pennsylvania business taxes – has generated nearly $1.5 billion in new revenue for communities all across the Commonwealth.***

- ***Pennsylvania's special drilling tax helps fund roads, bridges and infrastructure projects, community parks, first-responders, as well as important environmental, conservation and housing initiatives all decided by local governments and communities.***

- ***Unlike a severance tax that would go to the Harrisburg general fund for the tax-and-spend whims of politicians, the impact fee goes to local governments in all 67 counties in the Commonwealth to ensure local needs and priorities are met.***

- ***Combined, natural gas development has generated more than $4.5 billion in new taxes, royalties and bonus fees for Pennsylvania.***

- ***Despite the economic freedoms advanced by natural gas development, Governor Wolf continues to push for additional and even higher energy taxes that will be shouldered by working Pennsylvania families and threatens local energy jobs, especially in our building and construction trade unions.***

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SAMPLE LETTER
Letter to Elected Official

Dear Senator/State Representative:

I am writing to encourage you to stand with me publicly and vocally support Pennsylvania's unique drilling tax - the Impact Fee. This special tax, which the natural gas industry pays on top of every other business tax, has brought revenue into our local community without driving this important job-creating sector out of Pennsylvania. Proposals for higher energy taxes will only cost jobs and raise energy bills for your constituents, like me. The Impact Fee is working, and we need lawmakers who are willing to convey its importance in their districts, and to their constituents.

Therefore, I ask that you help me in messaging the following:

- *Pennsylvania, like other states, does tax natural gas – we just call it an Impact Fee.*
- *The Impact Fee has generated more than $1.4 billion in new revenues – benefiting communities in every county across the Commonwealth.*
- *The Impact Fee infuses much-needed revenue into statewide environmental initiatives by more than $50 Million to Growing Greener.*

Pennsylvania is leading the U.S. toward an energy secure future as well as setting global benchmarks for a cleaner environment thanks to this game-changing resource – and we are doing it while growing economic opportunity and driving down energy costs for PA consumers and small businesses. Your public support for the current drilling tax which is working – the Impact Fee – is essential to continuing on this path and creating more revenue and job opportunities right here in <INSERT YOUR LOCATION>.

I hope to see you leading the charge in support of the Impact Fee in your social media, your newsletter and as you meet with constituents.

Thank you for your consideration.

Sincerely,

<<YOUR NAME>>