philly.com
The Philadelphia Inquirer

How to get through the gas boom

Philadelphia Inquirer
By Julia Haggerty
January 6, 2011
http://www.philly.com/inquirer/opinion/20110106_How_to_get_through_the_gas_boom.html

Fossil-fuel booms such as the one surrounding the Marcellus Shale in Pennsylvania raise two pressing fiscal issues for states: how to raise revenue fairly from industry activities, and how to distribute it effectively. But Pennsylvania is the only major natural-gas state without a severance tax, and a loophole in state law also excuses gas developers from local property taxes. The absence of these revenue streams will prevent Pennsylvania from applying the lessons of recent energy booms in the American West.

Headwaters Economics, an independent, nonprofit research group based in Montana, has studied energy and fiscal policy at the county and state levels. Our research shows how Pennsylvania could avoid the mistakes of other states and benefit from its natural-gas supplies.

Without a mechanism in place to capture energy revenue, little to none of the wealth created by the gas industry will remain local. The majority of new jobs and businesses in gas-field services will leave when the buildup phase ends, and the bulk of profits will accrue to multinational corporations and their shareholders.

The only way to assure that local governments and their citizens benefit over the lifetime of natural-gas extraction is to require that a small portion of the wealth created by it goes to local and state governments.

To accomplish that, Pennsylvania should focus not just on severance taxes, but also on property taxes. Our research indicates that the most important form of energy revenue for county governments - which often bear much of the burden of road and other infrastructure impacts - is property taxes.

At the peak of the 2008 natural-gas boom, for example, Wyoming's Sublette County collected $21 in property taxes for every $1 it received in state severance taxes. More than 85 percent of that property-tax revenue was derived from natural-gas production.

It's important to note that taxes do not deter fossil-fuel development. They are only one of many factors affecting companies' decisions about where to focus their activity. While Wyoming taxes gas production more aggressively than Colorado does, the recent recession had energy

companies withdrawing from Colorado's Piceance Basin more quickly than they did from Wyoming's Green River Basin, and they returned to Colorado more slowly.

Furthermore, production and severance taxes are necessary if energy producers are to pay their way. Energy development has significant impacts on municipal and regional infrastructure, for example. Heavy drilling-related truck traffic brought the small town of Parachute, Colo. - with an annual budget of less than $1 million at the start of the boom - to its knees. Only with a grant of $8 million in severance-tax revenue was it able to tackle the problem by building a new highway interchange.

Energy revenue can also promote growth locally or statewide. Garfield County, Colo., for example, boasted a $90 million budget surplus at the end of 2010, even as the state faced a major deficit. Rifle, a small town in Garfield County, has invested state severance-tax revenue in diversifying its economy and making sure it will be an attractive place to live and do business long after the drilling rigs have left.

In the coming years, Pennsylvania will face many challenges created by the natural-gas boom. Until it determines how to raise revenues from this resource, however, it won't be able to offset the impacts caused by energy production, and it will miss an opportunity to diversify and strengthen its economy.

Julia Haggerty is a policy analyst at Headwaters Economics. For more information, see www.headwaterseconomics.org.