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SAVING OUR COMMUNITIES

REVENUE SHARING-A GRASS ROOTS STIMULUS PACKAGE

A Proposal for the Distribution of Marcellus Shale Natural Gas Tax/Leasing Revenue to All Communities in the State of Pennsylvania

SAVING OUR COMMUNITIES

The Problem

The City of McKeesport is like many other communities throughout the Commonwealth. It has a proud history of economic vigor and vitality. McKeesport has served for decades as the forge of industrial activity due to its unique physical location between two major rivers, access to major rail spurs and a large pool of available labor. Unfortunately, with the decline of the Steel Industry in the Mon Valley, McKeesport has been enduring an ongoing struggle for its very existence. The population of the City has declined along with the median income of the residents which remain. These factors which have contributed to this decline are not unique to McKeesport. Neighboring communities throughout the Mon Valley and the Commonwealth are all facing the same problems as McKeesport.

My administration has developed a pro-active mission statement. The City has attracted new businesses into the City and has strived to provide a high level of service while dealing with decreasing discretionary income. McKeesport currently operates with the minimum public works staff possible to meet staffing requirements to operate the City. The geographical area of the city and its infrastructure that needs to be maintained have stayed constant in the face of a declining population and a stagnant tax base. Our Police and Fire Departments, both among the finest in the Commonwealth, are paid significantly less than other more affluent communities, while still handling a very large caseload.

The City is currently managed under a budget totaling approximately 19 million dollars. The budget is consumed each year with inherent increases in costs, such as, liability insurance premiums, employee (COLA) salaries, mandatory pension contributions subject to market fluctuations, and, of course, employee health care benefits.

Increasing real estate taxes is not the solution. Tax increases in the City have traditionally resulted in lower collection rates and do not generate the revenue projected. Tax increases are also very difficult for our large senior citizen population who rely mostly on fixed incomes. Cities like McKeesport are forced to cut costs and produce one time revenues in an effort to meet our normal financial obligations. Concurrently these communities must take extraordinary measures necessary to reverse these declining trends. Capital expenditures like demolition of blighted structures and repaving of public streets are becoming impossible without grant or other one time revenue sources. These things must occur in order to attract the new businesses, jobs, and residents required to grow the tax base. The actions taken in McKeesport have brought in the revenues needed to survive. Nevertheless, cities must initiate other impacts to move these agendas forward.

Metropolitanism has been espoused as a potential panacea to address the revenue shortfalls emanating from core expenses-i.e. health care, pensions, etc. I agree that services need to be shared among neighboring municipalities and economies of scale must be achieved. Providing service to residents cannot be achieved, however, by removing government further from its citizens. Our local municipalities provide a more responsive government to the everyday needs of our citizens. Communities need to become more efficient, but they cannot allow the unique character of our State to be destroyed along with the rich history that accompanies each local government that makes up Pennsylvania.

McKeesport, like many other municipalities throughout the Commonwealth, still has the unique geographical location and infrastructure required to support industry and jobs. The economic development incentives and tax advantages created by the Commonwealth have underwritten recruitment efforts which attract new businesses. The local revenue being generated by these new businesses, however, cannot equal the inherent increases faced in these challenging economic times. An infusion of unrestricted annual revenue is needed to afford our communities the time needed to reverse these trends.

The Solution

Cities like McKeesport need new sources of income or regular reoccurring revenue that can be programmed into the budget to defray the inherent increases in the cost of doing business. Communities need a new revenue source to ensure they can maintain their current infrastructure and quality of life to service current residents and businesses. While grant funds are essential to the efforts outlined above, they are rarely available to help defray the costs of regular operating and administrative costs.

While there has been much talk that some assistance might be coming in the way of gambling revenue as a result of the legalization of slot machines, and now table games within the Commonwealth, this revenue has been earmarked for specific destinations. It is being directed to those places where the casinos are located. While this revenue provides a large amount of indirect benefits to McKeesport and its residents, it does not help provide new revenue for the general fund. The relief being requested on behalf of our 2,600 local municipalities is not right in front of our faces, but instead well beneath our feet.

It has become clear the potential revenue that could be generated through Marcellus Shale Natural Gas drilling on Commonwealth owned lands as well as via an Extraction Tax on all such drilling could make a significant impact in providing our local governments with some of the needed revenue just described. The Marcellus Shale Coalition reports that the Commonwealth currently imports almost 75 percent of the natural gas used every day. The Marcellus Shale formation holds enough recoverable natural gas reserves to not only serve Pennsylvania's needs, but to turn the State into a significant exporter of energy, thereby, generating equally significant economic benefits.

There are three (3) avenues to raise revenues in relation to the Marcellus Shale Natural Gas resource: the leasing of state owned lands for exploration; royalty payments associated with the production from same and an extraction tax on the value of all gas produced at each well head.

Leasing State Owned Lands

The Department of Conservation and Natural Resources reported in 2009 that of the 2.1 million acres of land the Commonwealth owns; 1.6 million acres sit above the Marcellus Shale formation, or 22% of the total land over the Marcellus Shale formation. While there is much debate about how much land is available or should be exposed to drilling due to wildlife conservation or ownership of mineral rights, DCNR has reported the leasing of 74,023 acres of State Forest Land in North Central Pennsylvania for $200 million dollars with an additional royalty of 16% to be paid on all production. As such, it seems completely plausible that compromises could be reached between these competing interests to explore on enough land to generate revenue that could help create a new revenue stream for all Pennsylvania communities. I realize these figures could be high in light of the volatile pricing in the industry, but the potential exists and time is of the essence.

As an avid outdoorsman, I realize the need to balance the protection of our environment with the need to utilize the natural resources with which we are blessed. Nevertheless, I firmly believe these activities are and can be conducted in such a non-intrusive manner that our current financial needs can be addressed without significant impact to the environment. I would not propose the aforementioned plan if I thought our grandchildren or their grandchildren would be deprived of the opportunity to experience all the bountiful wildlife, forests and game lands that our Commonwealth has to offer.

Marcellus Shale Natural Gas Extraction Tax

The US Census Bureau reports that currently almost half the States have an extraction tax on natural gas wells. West Virginia currently has a tax of 5% of the gross value of gas extracted, assessed at the wellhead. Additionally, there is a tax of 4.7 cents per thousand cubic feet assessed on natural gas ready to be moved to the customer (H.B. 1489/1531). I would propose enacting the exact same taxes on all wells in Pennsylvania. It has been estimated that each well, due to the increased profitability and characteristics of the Marcellus Shale wells, could produce as much as $4 million dollars worth of gas per year at conservative prices of $2.035 per BTU. The Budget and Policy Center estimated that had this tax been in effect on October 1, 2009, it would have brought in $107 million for fiscal year 2009-10. By 2013-2014, they estimated that this tax could bring in $632 million in revenue. (2009, June 29).

Since the Commonwealth currently imports approximately 75% of the natural gas utilized in Pennsylvania and 14 out of the top 15 natural gas producing states have an extraction tax, our residents are paying such a tax on most of the gas so imported. It is interesting to note that Pennsylvania happens to be the only one of the top 15 natural gas producing states that does not have an extraction tax. This makes no sense to local elected officials who are forced to decide which bills to pay on a daily basis to ensure cash flow is sufficient to make payrolls and mandatory bond and pension payments. The 2,600 local municipalities of the Commonwealth cannot afford to ignore any source of revenue, especially one as significant as this.

Distribution of Revenues Generated

There has been much debate in the Legislature on how these revenues should be allocated when the tax is enacted and the state lands explored. I propose earmarking a percentage of these revenues to be distributed directly back to the more than 2,600 local municipalities throughout the Commonwealth. While I recognize that the State budget needs new sources of revenue as well, I feel very strongly that we cannot allow another huge revenue stream to be diverted completely to a select few. At least 50% of the revenue generated from these three sources in the future must be redirected back to all of the 2,600 local municipalities based on a needs analysis for use in their general fund.

Specifically, I propose 50% of all proceeds generated from the enactment of a 5% natural gas extraction tax and 50% of all proceeds from the initial leasing and on-going royalties from the exploration of State owned lands be distributed to a Local Government Economic Relief Fund (LGERF). The other 50% of said proceeds will be retained by the Commonwealth to ameliorate their current budget concerns and to provide for the administration of and collection of said tax. The funds in the LGERF will be distributed back to the 2,600 local municipalities according to a need based formula broadly outlined in appendix A and B – attached.

100% of the revenues accumulated from the prior year in the (LGERF) will be distributed to all 2,600 communities based on need and population to be determined by a weighted formula which include but are not limited to the following factors:

- Distress Status;
- Population;
- Poverty level;
- Percentage of Senior Citizens;
- Age of Housing Stock;
- Unemployment level;

While this formula will result in pro-rata less revenue for the more affluent municipalities, it assures all share in the proceeds of our natural resources and those communities demonstrating the greatest need get the most.

McKeesport is a city comprised of proud hard working people. There are many other municipalities with a similar demographic profile and facing the same economic dilemma. McKeesport has implemented one time fiscal transactions to survive these bleak financial times. The City may have turned the corner on two decades of decline, new homes are being built for the first time in recent memory, and new businesses have expressed an interest in our city and have begun to relocate here. Existing residents who have re-invested in their homes and businesses have tangibly demonstrated a confidence and commitment to the future. The Economic Development Departments of both the State and Allegheny County have helped communities like McKeesport reinvent themselves. Without this partnership of stakeholders none of our communities would have survived. Now is the time to establish a template to harness this new source of revenue for the mutual benefit of each of us in the future.

APPENDIX - A

Position Paper - Taxing/Distribution Marcellus Shale Revenue

- The Commonwealth of Pennsylvania will negotiate one or more agreements for the drilling & production from deep well gas reserves located on State owned land(s).
- The sale/lease for same (per acre) will provide a 'one time' revenue
- The operation/production component will also provide royalties from the output at the drilling site
- This source of funds is a "new" revenue opportunity for both the Commonwealth and all the municipal entities therein
- There needs to be a piece of legislation to establish a pro-forma to equitably distribute these funds to both the State as well as the approximately 2600 municipal units

APPENDIX -B

Criteria for distribution of the funds:

- The commonwealth will be the lead Agent on the sale/lease of State land(s)

1) All revenues derived form the site designation(s) - (leases to providers) will remain with the Commonwealth for programmatic use as delineated by the legislature

2) An accounting for same, net of any/all expenses, will be a bench mark for revenue sharing to be created from the royalties derived from production

3) The successful exploration and production at the well head which establishes the net revenue source that will be the basis for the universe to be distributed between the private partner and the public partners will be allocated in the following manner:

A.. The private partner will keep approx 84% of the net royalties

B. The public sector will receive the remaining 16%

The Royalties derived PLUS the lease amount from producing sites (see calculation #2 above) is distributed as follows:

C. The Commonwealth will keep ½ of the producing site(s) - see item #3B above

D. The remaining 2600 municipal entities will then share in the balance - e.i. 8% PLUS their share of the land lease(s) aforementioned from the calculation in item #3B above

- The local 2600 communities will redistribute their share as follows:

  1) The population of each community will rank all the participants

  2) The distress factor(s) e. i. Act 47, pension indebtedness (shortfall) ,unemployment rate, substandard housing, etc will create benchmarks to rank communities by need

  3) Each community who passes a resolution to participate with the Commonwealth in The receipt of successful exploration royalties will receive a share of the distribution

  4) the matrix is as follows:

     A) ½ of the municipal pool will be distributed equally to all of the participating 2600 communities as stakeholders in State owned property(s)

     B) the remaining funds will be distributed in relation to need factors -

        (1) 1/4 to all active Act 47 community(s)

        (2) 1/4 to all pension distressed municipalities by formula to reduce MMO
           A. 25% to each community < 25% funded
           B. 25% to each community 25% > and <50%
           C. 25% to each community 50% > and < 80%
           D. 15% to each community 80% > and <90%
           E. 10 % to each community 90% and < 100%
        (3) 1/4 to host community - community of record
        (4) 1/4 misc for tax relief for communities hosting "non-profit" Agency/institutional tax payers by pro-rated formula

- The distribution of the TAX REVENUE received as a result of STATE wide drilling will be pro rated as well. __50____ % will go into the Commonwealth general fund to provide for the administration for and collection of said tax

The balance _ __50__ % will be utilized as follows:

1. 20% to communities in excess of 100,000 population
2. 20% to communities in excess of 50,000 population
3. 20% to communities in excess of 25,000 population
4. 20% to communities in excess of 10,000 population
5. 20 % to communities less than 10,000 in population