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Budget Primer

Impact Fee Revenue in Pennsylvania

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New wells and a Supreme Court decision helped to push Act 13 natural gas impact fee revenue to **$251.8 million** in calendar year 2018, which is **$42.3 million,** or **20.2 percent,** more than 2017.

New Wells – Statutorily, fee collections from new spud wells are highest in a well's first operating year and reduce as the wells age. Due to a number of new spud wells, the net positive impact was **$26.5 million** in 2018.

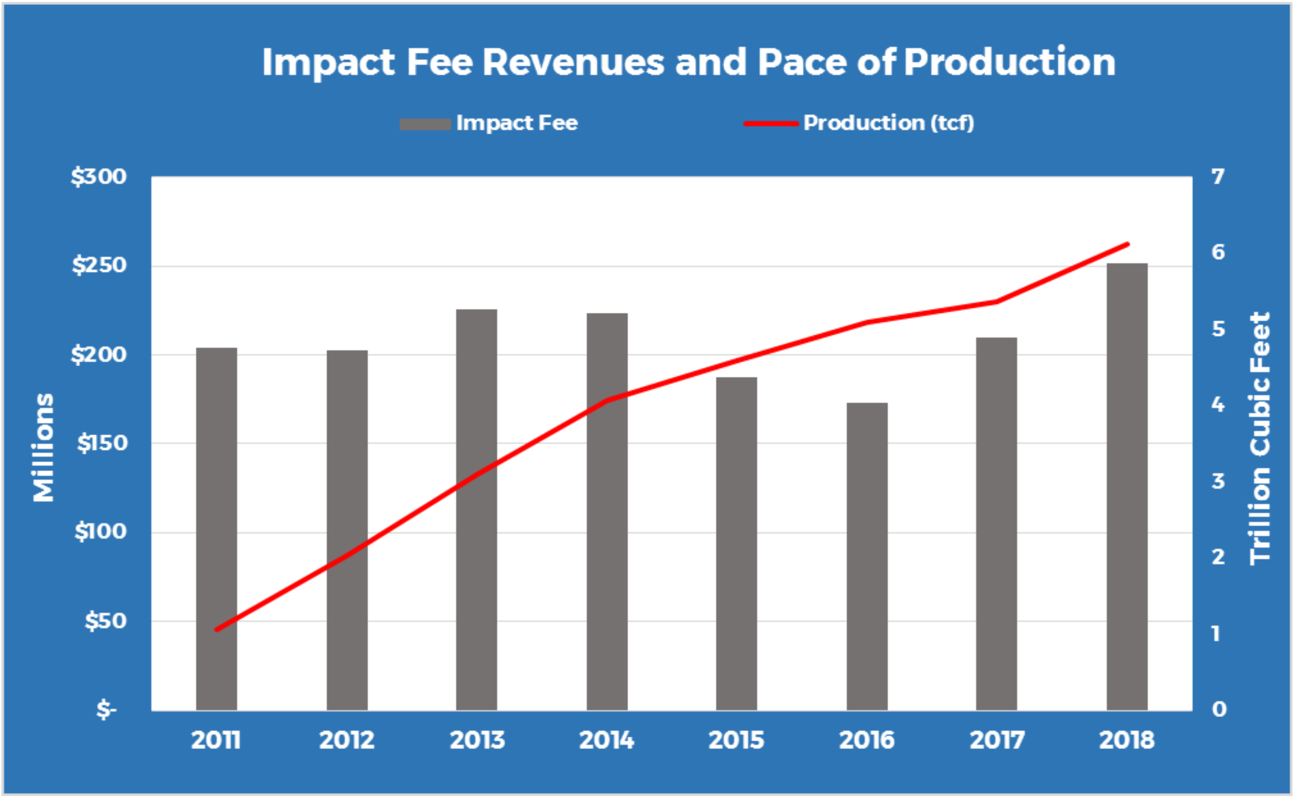
Stripper Well Decision – In December 2018, the Pennsylvania Supreme Court decided *Pennsylvania Independent Oil & Gas Association and Snyder Brother's Inc. vs Pennsylvania Utility Commission* (PUC) and said the narrower definition of the word "any" was the correct way for the commonwealth to collect stripper well impact fees. As defined in §2301 of Act 13, an unconventional gas well incapable of producing more than 90,000 cubic feet of gas per day during ***any*** calendar month, including production from all zones and multilateral well bores at a single well, without regard to whether the production is separately metered, is considered a *"stripper well."* In its decision, the Supreme Court sided with a narrower definition of "any," favored by the PUC. As a result, collections from previously disputed wells and outstanding payments increased **$15.8 million**.

The "burden" of impact fee collections can be evaluated by an analysis of production levels and impact fee collections per calendar year, or by an analysis of impact fee collections and a calculation of the effective tax rate (ETR).

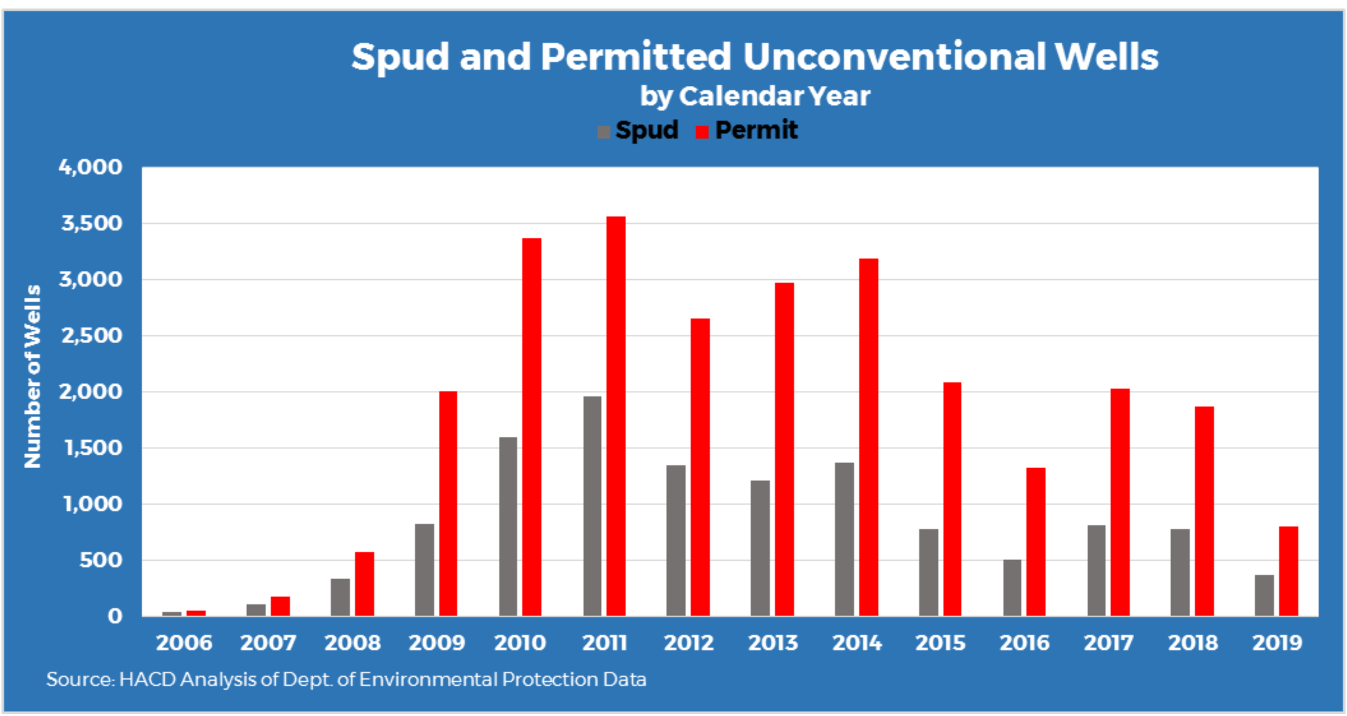
In evaluating production levels and collections, production increase has outpaced collections, every year since 2011. In comparing the difference in terms of percentage increase, the large discrepancy supports the notion of a lessening fiscal "burden" on producers and ongoing calls for enacting a severance tax.

CY 2011 - 2018 Pennsylavania Nat'l Gas Production									
Well	**CY**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Type	**Period**	**Mcf**	**Mcf**	**Mcf**	**Mcf**	**Mcf**	**Mcf**	**Mcf**	**Mcf**
Unconventional	Jan - Jun	430,078,817	896,283,117	1,405,402,601	1,940,335,837	2,247,692,612	2,553,151,135	2,636,282,109	2,901,402,730
Unconventional	Jul - Dec	635,745,229	1,147,077,587	1,697,487,706	2,130,002,338	2,353,212,841	2,542,940,940	2,727,557,603	3,221,992,886
Conventional	Jan - Dec	239,619,949	217,807,206	162,434,281	176,466,316	163,393,934	112,138,738	101,304,091	101,203,298
Combined	**Total**	**1,305,443,995**	**2,261,167,910**	**3,265,324,588**	**4,246,804,491**	**4,764,299,388**	**5,208,230,813**	**5,465,143,802**	**6,224,598,914**
Unconventional	**Total**	**1,065,824,046**	**2,043,360,704**	**3,102,890,307**	**4,070,338,175**	**4,600,905,454**	**5,096,092,075**	**5,363,839,711**	**6,123,395,616**
Impact Fee		**$ 204,210,000**	**$ 202,472,000**	**$ 225,752,000**	**$ 223,500,000**	**$ 187,711,700**	**$ 173,258,900**	**$ 209,557,300**	**$ 251,830,900**

Year	**Unconventional Production** (bcf)	**Impact Fee** (millions)
2011	1,066	$ 204
2012	2,043	$ 202
2013	3,103	$ 226
2014	4,070	$ 224
2015	4,601	$ 188
2016	5,096	$ 173
2017	5,364	$ 210
2018	6,123	$ 252
Increase	**475%**	**23%**



Act 13 of 2012, defines ***spud,*** as the process of *beginning* to drill an unconventional well. The start of drilling may not commence until Drill & Operate permit is granted for the unconventional well. Put differently, every spud well is a permitted well, however not every permitted well is a spud well. The following graphic highlights the evolution of spud and permitted wells in Pennsylvania.



The effective tax rate (ETR) for the impact fee shows that for 2018 the industry had its lowest "burden". A graphic illustration of ETR, emphasizes the evolution of unconventional wells in Pennsylvania and the respective ETR as calculated by the House Democratic Appropriations Committee.

Impact Fee History				
CY	**Impact Fee[1]**	**Production[2] (mcf)**	**Market Value**	**ETR[3]**
2011	$ 204,210,000	1,065,824,046	$ 4,538,151,847	4.50%
2012	$ 202,472,000	2,043,360,704	$ 5,838,597,436	3.47%
2013	$ 225,752,000	3,102,890,307	$ 11,266,209,483	2.00%
2014	$ 223,500,000	4,070,390,209	$ 14,167,431,796	1.58%
2015	$ 187,711,700	4,600,905,454	$ 7,076,806,042	2.65%
2016	$ 173,258,900	5,096,092,075	$ 7,928,042,207	2.19%
2017	$ 209,557,300	5,363,470,514	$ 11,809,316,198	1.77%
2018	$ 251,830,900	6,123,395,616	$ 16,848,328,224	1.49%

Notes:

(1) Impact Fee Data: PUC website, July 2019
(2) Production Data: DEP website, July 2019
(3) Effective Tax Rate (ETR) is determined by dividing Market Value (as determined by HACD) by Impact Fee collections

The impact fee's ETR has been declining and is now at its lowest point as shown in the ETR table. For this reason, advocates would argue that now would be a good time to consider enacting Gov. Wolf's **Restore PA** proposal. If enacted, Restore PA is intended to drive new, sustainable revenue to the commonwealth through the monetization of a volumetric severance tax, while current impact fee collections and disbursements would remain the same. Under the proposal, the severance tax could levy one of four rates based on a sliding scale. HACD's analysis of the proposal shows that the combined ETR, which includes an impact fee and severance tax, would be between 4.5 percent and 5.1 percent from 2019 until 2023.

Who would bear the cost of such a tax? Critics contend the enactment of Restore PA would hurt job growth due to its additional tax burden on commonwealth businesses. However, as even the IFO maintains, 80 percent of Pennsylvania's natural gas production would be exported to other states, so 80 percent of the tax burden would be paid by out-of-state consumers.