

PITTSBURGH TRIBUNE-REVIEW

Legislative leaders see passage of gas severance tax by Oct. 1

By Brad Bumsted
TRIBUNE-REVIEW
Monday, July 19, 2010

HARRISBURG — House and Senate leaders say they're confident the General Assembly by Oct. 1 will pass a severance tax on natural gas extracted from the Marcellus shale formation, despite unresolved issues.

Lawmakers recessed for summer this month without reaching agreement on how to tax companies drilling in the deep natural gas reserve, a formation spanning several states including Pennsylvania. Senate Republicans agreed to do so by the fall date as part of a budget deal, in which House Democrats agreed in concept to create an independent budget board that Republicans sought.

The unresolved details are numerous, however, including the tax rate and how to divvy up the revenue among the state and municipal governments in areas where wells are drilled, plus environmental initiatives. The discussion is expected to include how much power local governments would have to regulate drilling-related matters; how companies deal with landowners reluctant to sell drilling rights; and standards for companies cleaning up water used in deep-well drilling.

"Our caucus feels strongly local governments and environmental issues must each receive a fair share," said Erik Arneson, communications and policy director for Senate Republicans.

"The House Democratic Caucus has been committed to this (severance tax) issue for two years," said Brett Marcy, spokesman for Majority Leader Todd Eachus of Hazleton. "We believe big oil and natural gas should pay their fair share of taxes in Pennsylvania and that an extraction tax will help hold these companies accountable so that our communities and environment are protected."

There's no requirement that the House and Senate agree by Oct. 1. The tax vote could occur a little more than a month before lawmakers stand for re-election.

"You can't force people to vote for it," said G. Terry Madonna, political science professor at Franklin & Marshall College. "If they miss the deadline, what happens? Nothing."

One incentive is the state's \$5 billion budget deficit in 2011 and the fact the

severance tax revenue would grow as the industry develops. A complication is that Republican gubernatorial candidate Tom Corbett, the state's attorney general who is leading in the polls, has sworn off new taxes. Allegheny County Executive Dan Onorato, the Democratic nominee, supports a limited Marcellus shale tax with money for local governments and the environment.

It will require a "four-caucus deal" — Democrats and Republicans in the House and Senate — to push the tax through, said Rep. Tim Solobay, D-Washington County. Without that kind of universal deal, "we could debate this to death," Solobay said.

"The polls show people think this is only fair," he said. If no tax is levied, people would ask "why is this (gas) being given away free?"

Thomas Baldino, political science professor at Wilkes University in Wilkes-Barre, agrees that lawmakers could approve a tax before an election without repercussion.

"This is one of the few taxes ... where more people support it than are against it," Baldino said.

Legislators in districts where heavy drilling is under way could face arguments that heavier taxes could curtail jobs, Baldino said.

Sen. Lisa Baker, R-Dallas, remains undecided. "I am open to a severance tax with several substantial conditions — that the bulk of the revenue generated is dedicated to environmental and community protection, that the plan is not filled with industry sweeteners ... and that the tax rate is not punitive or non-competitive," Baker said.

Sen. Mary Jo White, R-Clarion County, is concerned about regulation of wastewater from wells, her aide Patrick Henderson said. Although open to a tax, she won't support a high rate, he said.

House Appropriations Chairman Dwight Evans, D-Philadelphia, sponsor of the severance tax bill, is "hopeful and optimistic" lawmakers will reach agreement, given public debate that has occurred on the issue, his spokeswoman Johnna Pro said.

Brad Bumsted can be reached at bbumsted@tribweb.com or 717-787-1405.