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Natural gas extraction tax dead for rest of year

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TRIBUNE-REVIEW

Friday, October 22, 2010

HARRISBURG -- Lawmakers won't consider taxing natural gas extracted from Marcellus shale before the 2009-10 session ends next month, but supporters and opponents predict it will become an issue when the next governor and Legislature take office in January.

Democratic Gov. Ed Rendell, who pushed for the tax, on Thursday declared it dead for the rest of this year. The Republican-controlled Senate won't return to vote on bills after the Nov. 2 election, leaders say.

Whether the idea gains momentum next year depends in large part on which political party controls the House and whom voters choose to replace Rendell; Republican candidate Tom Corbett opposes a tax and Democrat Dan Onorato supports one.

"I don't think there's any such thing in state government as a tax that's over for good," said Lou D'Amico, president and executive director of the Pennsylvania Independent Oil and Gas Association, which opposed the tax. "It's over for this session and this governor's administration, but depending on who's elected, it could rear its head again."

"This was a missed opportunity for the commonwealth," said Matt Pitzarella, spokesman for Range Resources, a leader in Marcellus shale gas extraction which lobbied for a tax. Pitzarella said lawmakers and the new governor should work on a tax proposal "as soon as possible."

Legislative leaders agreed when negotiating a budget to adopt such a tax by Oct. 1 but did not -- and negotiations between the political caucuses stalled after the deadline.

Without a gas tax, the Marcellus shale industry should continue to grow rapidly across the state and generate other sorts of taxes, said Kathryn Klaber, president of the Marcellus Shale Coalition, an industry trade group.

"The real fees and investments being made far outstrip any individual new tax," Klaber said. "All the different contributions through those business activities are not going to change next year."

Rep. Sam Smith, R-Punxsutawney, cited a Penn State University study showing the industry paid \$389 million in state and local taxes in 2009.

Johnna Pro, spokeswoman for Rep. Dwight Evans, D-Philadelphia, said: "The

industry and Senate Republicans successfully vaporized this tax at the expense of Pennsylvania residents."

The money won't exist to adequately fix environmental mishaps or repair damage to infrastructure caused by drilling, or to shore up the state budget, Pro said.

Pennsylvania's estimated budget deficit next year could be \$4 billion to \$5 billion, according to Auditor General Jack Wagner.

Unresolved issues surrounding Marcellus shale drilling remain, such as whether to require certain distances between coal mines and gas wells, the fiscal impact on communities where drilling takes place, and forced pooling to require property owners to go along with a gas lease if an overwhelming majority of their neighbors want it.

"Regardless of who gets elected governor, these issues are still going to be important to the people of Pennsylvania," Klaber said.

Senate GOP spokesman Erik Arneson said Republicans are willing to negotiate, despite Rendell's "unilateral" decision to halt negotiations.

Corbett, the Republican attorney general from Shaler, opposes the tax and signed a pledge not to raise any taxes.

Onorato, the Allegheny County executive from Brighton Heights, supports a tax based on the average of rates imposed by other states. The Democrat said during a recent debate that rate would be 4 percent to 5 percent.

"If Tom Corbett is elected, we'll never see a tax," Pro said.

Jerry Shuster, a professor of political communications at the University of Pittsburgh, isn't so sure. The budget situation is so dire, he said, that Corbett might have to reconsider, if he's elected. To do so, he could "finesse" it as an impact or licensing fee, Shuster said.

That's not the case, said Corbett spokesman Kevin Harley. Rendell's declaration that the tax is dead made this "a good day for the people of Pennsylvania," Harley said. "It will mean more jobs, more businesses, which will produce more tax revenue for Pennsylvania."

Pennsylvania remains the only state with significant drilling that does not impose a severance tax. However, the corporate net income tax of 9.9 percent, which some companies doing business in Pennsylvania are required to pay, is the "highest flat rate on the planet," said David Taylor, executive director of the Pennsylvania Manufacturers' Association.

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