



## Severance Tax Fact Sheet

Based on a yearlong study and consensus regarding natural gas extraction from Marcellus Shale, the League of Women Voters of Pennsylvania adopted a position. This position specifically addresses a severance tax. The League supports:

creation of a severance tax on natural gas as a revenue source primarily designated for

- preservation and enhancement of natural resources
- monitoring and protection of public health
- an escrow fund for supporting community adjustment as the industry grows and declines
- research on the effects of natural gas extraction from Marcellus Shale on the economy, environment, and public health of Pennsylvanians.

This is not a new tax. Consumers of natural gas in the Commonwealth already pay a severance tax to other states that produce the gas they use. Twenty-seven of the thirty-two states that produce natural gas charge a severance tax for its production. Of the fifteen top natural gas producing states, all but Pennsylvania levy a severance tax.

Given tough economic times, the Commonwealth needs revenue. Without a severance tax, the Budget and Policy Center estimated that Pennsylvania lost \$107 million in the 2009-2010 fiscal year. With the continuing growth of natural gas production, this same group anticipates that, by 2013-2014, a severance tax could account for \$632 million in revenue. However, taxes from a finite resource, such as natural gas, should not be allocated to pay ongoing expenses in the General Fund for years to come.

The development of natural gas extraction from Marcellus Shale will not be hampered by a severance tax. Oil and gas industries in the top producing states have paid such a tax for years without impacting growth. Development is dependent on potential well production rather than the presence or absence of a severance tax.

Natural gas extraction comes at a cost. To prevent these costs from being passed on to state and local government, they must be funded through the allocation of this severance tax. Natural resource conservation, enhancement, and restoration should logically receive a significant portion of these funds. Protecting our water resources is paramount. In addition to environmental degradation, the industrialization of rural lands generates public health and social costs. Local communities need funds for new infrastructure and expanded maintenance. Money must also be saved to support local governments when the industry declines. Taxpayers can ill afford to pay additional costs and unanticipated ramifications created by natural gas extraction when they still bear the burden of the coal and timber industries.

Decision-making requires data. Science, rather than spin, should direct policy makers. Funds from a severance tax are needed to provide research on economic, health and environmental impacts. Risk assessments are required so that permitting, regulation, monitoring, and emergency contingency plans can be crafted to help the energy industry “do it right.”

The League of Women Voters supports transparency in legislation and regulation. The structure of a severance tax is important, and simplicity is crucial. A set base for gas prices, such as the Henry Hub figures, promotes a predictable revenue stream. Administrative costs should be minimized through considering quarterly rather than monthly payments. A severance tax must be levied on all wells, regardless of production, to maximize revenue over time.

For details, see “Taxing Natural Gas Extraction from Marcellus Shale”, Study Guide IV in *Marcellus Shale Natural Gas Extraction Study* available at [www.palwv.org](http://www.palwv.org).