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Marcellus Impact Fee Benefits for Western PA Counties

Act 13 of 2012 set an impact fee on drillers for each unconventional well started (spud) into the Marcellus Shale formation within the Commonwealth's borders. Act 13 sets the parameters and ranges for the fee which is determined by a formula using the average selling price of natural gas on the market and the age of the well itself. A description of how the rate is set can be found in *Policy Brief Volume 12, Number 11*.

Each year the Public Utility Commission (PUC) sets the fee for that year, collects payments from the drillers, and then distributes the funds to state agencies, counties, and municipalities across the state.

Act 13 also specifies how the impact fee is to be returned to these governmental entities. The purpose of this *Brief* is to report the impact fee revenue received by the seven counties that make up the Pittsburgh metropolitan statistical area (MSA) (Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland) after the first three years of disbursements.

There are two sections of Act 13 pertaining to the distribution of revenues to the counties. The first section, 2314(d), allocates money to counties based on the number of unconventional wells in the county as a proportion of the number of such wells in the Commonwealth. Funds distributed through this section can be spent only on specified areas. These categories range from public infrastructure to tax reductions to social and judicial services. The following table shows the amount each county in the MSA received from this section of Act 13 over the first three years.

County	2011	2012	2013
Allegeheny	$ 79,430	$ 145,016	$ 201,308
Armstrong	$ 511,885	$ 533,923	$ 597,430
Beaver	$ 52,954	$ 151,608	$ 207,802
Butler	$ 741,351	$ 1,001,930	$ 1,571,501
Fayette	$ 1,332,667	$ 1,232,628	$ 1,331,230
Washington	$ 4,253,943	$ 4,521,869	$ 5,915,858
Westmoreland	$ 1,412,097	$ 1,272,188	$ 1,357,206

Act 13 mandates that counties receiving funds from section 2314(d) submit a report to the PUC on how the money was spent. According to these reports, Allegheny County spent its 2011 and 2012 distribution on the category of emergency preparedness/public safety. Armstrong County also spent its entire 2011 allocation on this area, but divided its 2012 allocation between this category and on environmental programs. The PUC did not have either county's 2013 expenditure report available as of this writing. The PUC also did not have an expenditure report available for either 2011 or 2013 for Beaver County, but did show 2012's distribution to have been spent on a capital reserve fund.

Butler County was more diverse in spending this portion of its impact fee money. In 2011 it spent money on social services, emergency preparedness/public safety, its capital reserve fund, environmental programs, and on judicial services. For 2012 they spread the money even further to include public infrastructure construction, storm water/sewer systems, and on information technology in addition to repeating the same categories from 2011. 2013's expenditure report is not yet available.

Fayette County's 2011 report consisted of expenditures on emergency preparedness/public safety, information technology, a capital reserve fund, and planning initiatives. In 2012 they split the money between emergency preparedness/public safety, and the capital reserve fund. The 2013 report is not yet available.

Washington County, which has the most unconventional wells in the Pittsburgh MSA, has received the most money from this part of Act 13. The 2011 expenditure report for Washington County shows the most money spent on public infrastructure construction followed by their capital reserve fund, information technology, social services, and emergency preparedness/public safety. In 2012 the list was not as extensive as they spent money on emergency preparedness/public safety, information technology, the capital reserve fund, and social services. In 2013 the list of expenditures included the capital reserve fund, information technology, public infrastructure construction, emergency preparedness/public safety, social services, and judicial services.

Finally, Westmoreland County in 2011 put its money toward capital reserves and social services. In 2012 the money was spent mostly on emergency preparedness/public safety with only a very small fraction being used for environmental programs. 2013's report is not yet available.

Act 13 also sets up the Marcellus Legacy Fund to deal specifically with environmental issues. Section 2315(a.1)(5), distributes money to counties from this fund. All counties, regardless of whether or not they host an unconventional well, receive revenues from this section. This money is allocated based on population of the county as a proportion of the statewide population. There is a minimum of $25,000 allotted for the smallest of counties and of course the allocation depends on available funds. The following table shows how each county fared under this section of Act 13.

County	2011	2012	2013
Allegeheny	$ 1,037,889	$ 1,027,541	$ 1,178,031
Armstrong	$ 58,490	$ 57,419	$ 65,554
Beaver	$ 144,685	$ 142,704	$ 163,140
Butler	$ 155,989	$ 154,791	$ 177,250
Fayette	$ 115,897	$ 113,967	$ 129,998
Washington	$ 176,315	$ 174,415	$ 200,005
Westmoreland	$ 309,810	$ 305,207	$ 348,229

As mentioned above these funds are restricted to environmental purposes, but they do not have to be reported to the state. The areas for which this money can be spent include the development, rehabilitation, and repair of greenways, recreational trails, water resource management, and community and beautification projects. It can also be used for land damaged or prone to drainage by storms or flooding.

Thus counties in the Pittsburgh MSA have been the direct beneficiary of the Marcellus Shale natural gas boom. Over the first three years of impact fee distributions, counties in the MSA have received a total of $10.38 million, $10.84 million, and $13.44 million respectively. Of course while these funds have been restricted in their usage from the specific sections of Act 13, it does free up money from their general fund budget for use elsewhere. How much money they will receive going forward remains to be seen. The impact fee, and thus the amount received by these counties, is affected by variables such as the price of natural gas, age of wells, and number of wells not only within each county, but across the Commonwealth as a whole.

Across Pennsylvania as a whole, the total amount of impact fee revenues distributed to counties and municipalities reached $632.4 million by 2013 with another significant allocation coming from the 2014 collections. *The Governor's plan to impose a severance tax and flat per thousand cubic foot fee would require the elimination of the impact fee, setting up substantial resistance from local governments who are benefitting from the impact fee revenues*. Likely this will mean that if the severance tax bill is to have any chance at all of being passed, there will have to be a provision that will essentially replace the dollars lost by the local governments. Not to mention the impact fee revenue that is allocated to state programs. What will happen to them?

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