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Impact fee revenues dip in 2019

Summary: The Pennsylvania Public Utility Commission (PUC) recently issued a news release detailing the 2020 distribution of impact fee revenue collected from 2019 activity. While the amounts distributed are less than last year, owing to lower natural gas prices and aging wells, the funds will help the counties and municipalities receiving them.

In Pennsylvania, the impact fee is a tax imposed on unconventional gas wells. Act 13 of 2012 instituted the impact fee, in part, to compensate local governments for the degradation of infrastructure stemming from natural gas extraction and its related activities. The fee is based on the average annual trading price of natural gas and the age of the gas well. Over the past nine years, from 2011 to 2019, a total of $1.9 billion in impact fee revenue has been distributed to local governments throughout the state.

The impact fee revenue totaled $200 million for 2019. The dissemination of the revenue as required by Act 13 is as follows: $109 million has gone to county and municipal governments directly affected by drilling; the Marcellus Shale Legacy Fund received $72 million, which funds environmental, highway, water and sewer projects, rehabilitation of greenways, and other projects throughout Pennsylvania; and state agencies have received $18.3 million as stipulated by Act 13.

The 2019 amount is $42.6 million lower than 2018—the highest year since the impact fee was imposed—due in large part to the decrease in the average price of natural gas. In 2019 the average trading price of natural gas was $2.63 per thousand cubic feet (Mcf) versus 2018's $3.09 per Mcf—a drop of 15 percent.

The age of the well is also a determinant. The fee matrix (*see Policy Brief, Vol. 12, No. 11*) looks at both the natural gas price and age of the wells to set that year's impact fee for each well. Wells are charged the most in the first three years, when they are presumably most productive. That fee then drops by about half for years four through 10 and then by half again for years 11 through 15. While no well has yet reached 11 years of age (the first year is set at 2011), those drilled from 2011 through 2015—8,790 of the 10,155 eligible wells in 2019—are at least four years old and their impact fees have been reduced as per the Act 13 matrix.

All counties receive impact fee money from the Marcellus Shale Legacy Fund. The minimum is $25,000 per county based on the fund balance. Three counties—Fulton, Juniata, and Montour—received only the minimum from the Marcellus Shale Legacy Fund in 2019 and were not entitled to any other impact fee funds.

While Philadelphia County has no wells it still received a total of $1.3 million in 2019 impact fees based on its population.

Among all counties, Washington County received the most revenue from the impact fee. It garnered $6.6 million in 2019 a 21 percent decrease from 2018. In the rest of Pittsburgh's seven-county Metropolitan Statistical Area (MSA), Allegheny County's $1.5 million was down 17 percent from 2018; Armstrong County's $520,478 was down 15 percent; Beaver County's $634,058 was lower by 13 percent; Butler County's $2.1 million was 31 percent lower; Fayette County, at $1 million, was lower by 13 percent and Westmoreland County's $1.1 million was off by 27 percent.

Statewide, the number of impact fee-eligible wells increased by 595, going from 9,560 in 2018 to 10,155 in 2019. Washington County has the highest fee-eligible well count (1,745) in the commonwealth with 90 new wells in 2019. Butler County ranked seventh statewide (533). Every county in the Pittsburgh MSA posted an increase in wells in 2019 except Westmoreland County where the number decreased by six wells to stand at 234.

Allegheny County added 20 wells for a total of 150. Armstrong County raised their count by 14 to total 126 wells. Beaver County added 21 wells to 134. Butler County added 33 to reach 533. Fayette County's number rose by 29 to 253.

The PUC provides guidelines as to how counties and municipalities who receive impact fee money from the Unconventional Gas Well Fund can spend it. The money must be allocated to one or more of 13 designated categories. They include public infrastructure construction; emergency preparedness/public safety, environmental programs; social services and a capital reserve fund. All counties and municipalities that receive impact fees from this fund must submit a report indicating which of the 13 categories funds were spent. There is no requirement that revenues are to be spent in the calendar year received but can be placed in the capital reserve fund to be used in any of the eligible categories at a later date.

Municipalities also receive funds from the impact fee if they have a well within their borders or are in a county with wells. Amwell Township in Washington County stands out in the Pittsburgh MSA because it ranked fourth in the state for highest municipal distribution ($793,670). It also ranked seventh in the state for municipal well counts (175).

Forward Township located in Allegheny County had 63 wells and received the highest distribution ($241,936) in the county. The City of Pittsburgh does not have any wells. Nonetheless, it received an allocation of $47,544 in 2019 impact fees.

The impact fee distributions are beneficial to local governments and this year they will be especially welcomed as an infusion for the government coffers hit by lower tax revenue due to the coronavirus's impact. It is important to emphasize that the economic impact of this industry goes far beyond the payment of the impact fee. It has added direct jobs at the drilling companies themselves as well as jobs created at industries providing support and equipment to the drillers.

Indeed, the state government must avoid any temptation to over-tax the gas industry that is providing so much to the state's economy currently and to its potential for future growth.

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