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Budget and Policy Center

How Does the Quinn Drilling Fee Stack Up?

A Brief Look at HB 1700 (Quinn) Compared to HB 33 (Vitali) and SB 1100 (Scarnati)

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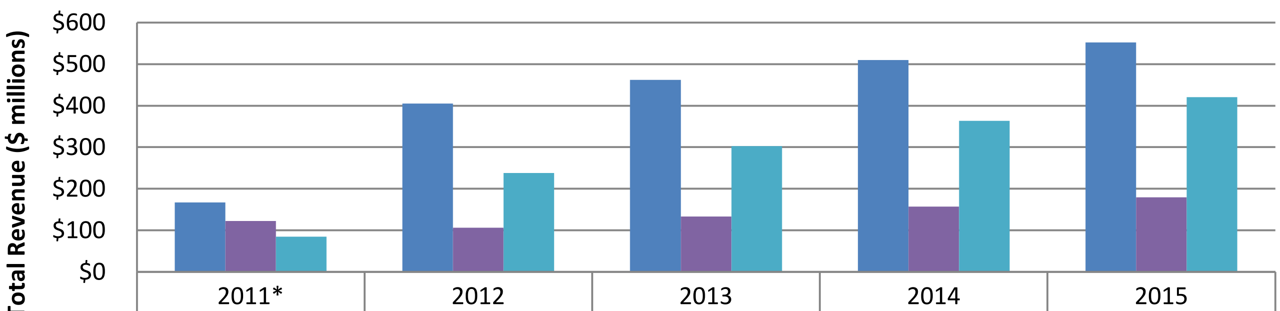
On June 15, State Representative Marguerite Quinn (R-Bucks) introduced legislation creating a Marcellus Shale impact fee.[1] The SIMPLE Act assesses a fixed per well fee, which declines over time, much like Senator Joseph Scarnati's plan (SB 1100). Unlike that bill, the Quinn plan would fund statewide environmental programs and transportation as well as assigning revenue to local governments coping with active well development.

The Quinn plan would assess on each active well a fee of $50,000 per year for the first two years of production, which would drop by $5,000 every two years until year 15. During years 15 through 20, the fee would be $15,000, and from year 20 until well production dropped to 90 thousand cubic feet (MCF) per day the fee would be fixed at $10,000 per well.

The effective rate of the Quinn plan on a typical Marcellus Shale well (3.8 billion cubic feet of production over 40 years) would be 4.4%.[2] This falls between the effective rates of Representative Greg Vitali's plan (5.9%) and the Scarnati plan (3.1%).

Beginning in 2012, the Quinn plan would raise significantly more total revenue than the Scarnati plan but less than the Vitali plan (see below).

Comparison of Marcellus Shale Tax/Fee Proposals by Calendar Year Using Scarnati Methodology



	2011*	2012	2013	2014	2015
Vitali	$167	$405	$462	$510	$552
Scarnati	$123	$106	$133	$157	$180
Quinn	$85	$238	$303	$363	$420

Note. In calendar year 2011, the Scarnati fee proceeds represent collections from activity in 2010 and 2011. The Vitali and Quinn plans are effective for six months (beginning 7/1/11).

[1] http://repquinn.net/NewsItem.aspx?NewsID=11596.

[2] These figures were calculated using the same assumptions that were used for estimating the fiscal impact of the Scarnati plan (regarding price of natural gas, number of new Marcellus Shale wells per year, and the size of a typical well).

Distribution of Funds

The Quinn plan splits fee revenues between host communities, environmental impacts and roads. No funds from the Quinn plan would go into the state's General Fund.

Host communities, defined as counties and municipalities that have producing wells, receive half of the funds under the Quinn plan. This bill differs from the Vitali and Scarnati plans, which also provide funding for municipalities that are located in gas-producing counties but have no active wells. The local revenue in the Quinn plan would be split evenly between counties and municipalities.

One-fifth of revenue would be allocated to a Transportation Impact Fund, administered by the Pennsylvania Department of Transportation, which would support road and bridge construction projects, identified as high priority, throughout the Commonwealth.

The remainder of the funding would be used for environmental purposes. In fiscal year 2011-12 through 2014-15, the Environmental Stewardship Fund would receive 25% of the fee proceeds. This percentage drops to 15% beginning in 2015-16, when the Hazardous Sites Cleanup Fund begins to receive 10% of the total fee proceeds. County conservation districts receive the final 5% of the yearly proceeds.

2012 Distribution of Proceeds ($ millions)	**Vitali HB 33**	**Scarnati SB 1100**	**Quinn HB 1700**
General Fund	$ 129.6	$ -	$ -
Commonwealth Finance Authority	-	31.6	-
Environmental Stewardship Fund	119.9	-	59.5
Local Government Services	129.6	59.2	119.1
Counties with producing MS wells	$ 38.9	$ 21.3	$ 59.5
Municipalities with producing MS wells	58.3	21.9	59.5
Municipalities in MS counties without MS wells	19.4	16.0	-
PEMA grants to fire/ambulance companies in MS counties	13.0	-	-
LIHEAP	5.3	-	-
Hazardous Sites Cleanup Fund	6.5	3.9	-
Conservation Districts	5.3	7.5	11.9
Fish and Boat Commission	5.7	-	-
DEP Dam Removal	3.2	-	-
Motor License Fund	-	3.9	47.6
Total Distribution	**$ 404.9**	**$ 106.2**	**$ 238.2**

Conclusion

The Vitali plan is the only one of the three that would allocate a portion of drilling tax revenue to the General Fund to restore cuts to health care, education or children's programs. Both the Quinn and Scarnati plans allocate most revenue to the drilling communities, although Scarnati allocates a sizeable share to municipalities that have no active wells.

Both the Quinn plan and the Vitali plan specifically allocate funding to the Environmental Stewardship Fund to support Growing Greener and other statewide conservation efforts. Scarnati would allocate 30% to the environment but sidesteps the Stewardship Fund, instead designating the Commonwealth Finance Authority to administer a statewide water, sewer and conservation grant program.

The Quinn rate seems an acceptable compromise between the higher Vitali rate and the Scarnati rate. Most importantly, it continues to assess fees through much of the life of the well.