

Good afternoon, my name is Tim Allwein and I am the Assistant Executive Director for Governmental and Member Relations for the Pennsylvania School Boards Association.

I'm here today to join to ask your support to reinstate assessability of property interests on oil and natural gas that was barred by the Pennsylvania Supreme Court's decision in *Independent Oil and Gas Association of Pennsylvania vs. Fayette County* in 2002.

Interest in the item has been prompted by the development of new drilling technologies that allow producers access to natural gas deposits in the Marcellus Shale. The Marcellus Shale covers a vast area that includes eastern Ohio, most of West Virginia, western Maryland, northwestern Virginia, western and northern Pennsylvania and southern New York. It is estimated that the area could contain as much as 516 trillion cubic feet of natural gas. Considering that the national current annual production is 30 trillion cubic feet and dropping, the discoveries in the Marcellus Share can be of major importance to the United States.

For decades, the General Assembly has struggled with the role that property taxes should play in funding local governments, most especially school districts. Because public education is a labor-intensive, highly regulated institution, and because it serves students from all backgrounds regardless of any physical or mental limitations, it is expensive. It is not surprising, then that its needs exceed those of other forms of local government. Consequently, the pressure that the needs of public education place on property taxpayers and on the state budget stands out.

Over the last ten years, the General Assembly has debated, on numerous occasions, ways to ease the burden of paying for public education on property and has approved three different measures to do so. All three, Act 50 of 1997, Act 72 of 2004 and Special Session Act 1 of 2006, were based, in part, on the idea of lowering property taxes by increasing Earned Income Taxes or by allowing the establishment of a Personal Income Tax at the local level.

While PSBA believes that replacement of property tax revenue with revenue from another source is the proper course to take, we have always been doubtful that a system that authorizes the revenue replacement by switching to an income-based tax is the right answer for school districts and taxpayers. This kind of tax shifting would doubtless work in areas where incomes are high and the shift would not place too much of an additional burden on taxpayers because it would barely be noticeable by those asked to foot the additional burden.

However, there are hundreds of school districts in the commonwealth where a tax shift from property to income would create an additional burden on families struggling to get by from week to week. These are school districts that are characterized by having weak tax bases, in other words, no major businesses, citizens that earn low to average weekly wages and properties that tend to be lower in value. Taxpayers living in these types of school districts tend to place less value on tax shifting because both the property tax and the income tax are burdensome to them.

Dozens of those school districts now could have the opportunity to take advantage of an alternative source of tax revenue as a result of the increase in drilling operations in their district caused by the presence of natural gas reserves in the Marcellus Shale. By PSBA's count, 45 of the 50 school districts with the highest aid ratios -which means that they have the lowest relative wealth in the state - are within the Marcellus Shale region. Of the 250 districts below the state's median aid ratio, 207 districts are also located in this region. In other words, we're talking about a potential source of additional local revenue that could help some of the poorest school districts in the Commonwealth.

Language developed by PSBA and the County Commissioners Association of Pennsylvania would restore the assessability of mineral leases on those producer's interest not the owner of the surface rights. Let me make this clear, under our proposal, oil and natural gas mineral leases would be assessed separately from the surface property assessment. Tax rates would be set so that no taxing body would receive more than a 10% increase in revenues in any one fiscal year. Once tax rates have been set, the taxing

body may increase its tax rate by a separate and specific vote. This process ensures public transparency and participation.

Valuation of the mineral rights would be developed by the county assessor utilizing the income approach to value based upon the discounted value of such rights, supplemented by the sales comparison data approach as deemed necessary by the county assessor. Non-proprietary information that is reasonably needed, as determined by the assessor, would have to be provided annually by the lessee or lessor on behalf of the lessee. The board of assessment may change the assessed valuation of the mineral rights in the event information becomes available that would significantly affect the valuation, such as commencement of production or depletion of resources.

Based on subsequent discussions with our membership, PSBA would like to tighten up the last provision so that taxes would not be assessed on any lease unless it produces revenue from the extraction of natural gas.

PSBA believes this issue is critical to hundreds of school districts and, more importantly, hundreds of thousands of Pennsylvania citizens and taxpayers, particularly in this time of economic turmoil. We believe that the re-enactment of valuation and assessability of oil and natural gas rights is an integral part of an overall plan to improve school funding and to provide some measure of property tax relief in this commonwealth. It is not a panacea by any means and there is still much work to be done. But by helping the poorest school districts in the state, we will be taking a major step in the right direction.

On a related matter, we believe that any privately held property that produces minerals of any kind such that additional revenue is created should be ineligible from any favorable tax assessment status or tax exempt status otherwise allowed under the various statutes of the Commonwealth. This includes property under any of the various economic development programs in Pennsylvania, such as Tax Increment Financing, LERTA or Keystone Opportunity Zones. IT would also include property enrolled in the Clean and

Green Program, which is based on land usage. We believe that such properties should be returned to the tax rolls and assessed and valued as most other property.

Thank you and I will now answer any questions you may have.