MARCELLUS SHALE
IMPACT FEE
Implementing Act 13

Investing in the Future
What is Act 13?

- Act 13 provides for the imposition of an unconventional gas well fee.
- Law mandates that fees collected get disbursed to local and state entities for purposes outlined in Act 13.
- Fee based on impact of natural gas development on local & state resources and infrastructure.

Signed into law 14 Feb 2012
Amends Title 58 (Oil & Gas) of PA Consolidated Statutes
What Act 13 is NOT

- Act 13 is NOT a severance tax.
- Act 13 does NOT give relief on requirement to fix damages to bonded-roads etc
- Act 13 costs are NOT to be imposed on the land owners receiving royalty payments
Who Shaped Act 13?

- Governor’s Office
- State House
- State Senate
- PA State Assoc Twp Supervisors
- PA State Assoc Twp Commissioners
- PA League of Cities
- County Commissioners Association PA
- PA Boroughs Association
- Gas Industry
- Environmentalists
- Housing Coalitions
It’s a Local Decision

- Counties **may adopt** “implementing ordinance” by April 16th (within 60 days of Act 13’s passage)

- Municipalities can “override by “resolution” (must be passed within 120 days of Act 13’s passage)

- **No ordinance enacted—no funds received!**

- Lycoming County Commissioners
  - Notified PUC of intent to adopt ordinance
  - Scheduled adoption of ordinance for April 5th
“Unconventional Wells”

- Drilled into Unconventional Formations like Marcellus or Utica Shale
- Vertical & Horizontal Drilling
- Stimulated by Fracking
Impact Fee Implementation

Wells Subject to Impact Fee

- **Spud** Wells
  - Spud: *actual start of drilling of unconventional wells*
  - Unconventional Wells (100%)
  - Vertical Wells (20%)
- **Capped** Wells
- **Re-stimulated** Wells

Basis of Fee Application

- Annual fee based on preceding year’s gas price
- Levied on wells for 15 years (beginning in 2012)
- Adjusted annually for inflation (CPI)

Stripper Well: *Not in count—yield less than 90,000cf/day*
## Impact Fee Structure

<table>
<thead>
<tr>
<th>Year Spud</th>
<th>Average Annual Price of Natural Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0 - 2.25</td>
</tr>
<tr>
<td>1</td>
<td>40,000</td>
</tr>
<tr>
<td>2</td>
<td>30,000</td>
</tr>
<tr>
<td>3</td>
<td>25,000</td>
</tr>
<tr>
<td>4</td>
<td>10,000</td>
</tr>
<tr>
<td>5</td>
<td>10,000</td>
</tr>
<tr>
<td>6</td>
<td>10,000</td>
</tr>
<tr>
<td>7</td>
<td>10,000</td>
</tr>
<tr>
<td>8</td>
<td>10,000</td>
</tr>
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<td>9</td>
<td>10,000</td>
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<tr>
<td>10</td>
<td>10,000</td>
</tr>
<tr>
<td>11</td>
<td>5,000</td>
</tr>
<tr>
<td>12</td>
<td>5,000</td>
</tr>
<tr>
<td>13</td>
<td>5,000</td>
</tr>
<tr>
<td>14</td>
<td>5,000</td>
</tr>
<tr>
<td>15</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$190K</strong></td>
</tr>
</tbody>
</table>
**Impact Fee Enactment Timeline**

2/14/2012
Act 13 passage

4/16/2012
Counties have 60 days from passage of Act 13 to enact the legislation

8/12/2012
Review and amendment of a previously enacted zoning ordinance shall be completed

2/27/2012
DEP provides PUC with a list of spud unconventional wells in the Commonwealth

6/13/2012
Municipalities in Counties that did not enact the legislation can compel the imposition of a fee
Impact Fee Enactment Timeline

9/1/2012
Fee on initial wells (spud before 1/1/2012) due to PUC from well operators

12/1/2012
Counties and municipalities will receive funds—individual checks to each jurisdiction

4/1/2013
Fee due from well operators on wells spud after 1/1/2012. Fees due each April 1st thereafter

7/1/2013
Counties and municipalities will receive funds. Funds distributed by July 1 thereafter
Impact Fee Distribution

$23M OFF THE TOP

40% TO STATE

60% TO LOCAL

ACT 13
# State Allocation—“Off The Top”

## The Unconventional Gas Well Fund

<table>
<thead>
<tr>
<th>Program / Department</th>
<th>Year 1 Estimated Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Conservation Districts</td>
<td>$2,500,000+</td>
</tr>
<tr>
<td>Pennsylvania Fish &amp; Boat Commission</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Public Utility Commission (PUC)</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Dept. of Environmental Protection (DEP)</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>PA Emergency Management Agency (PEMA)</td>
<td>$750,000</td>
</tr>
<tr>
<td>Office of State Fire Commissioners</td>
<td>$750,000</td>
</tr>
<tr>
<td>PA Dept. of Transportation (PennDOT)</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Natural Gas Energy Development (DEP)</td>
<td>$10,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$23,000,000</strong></td>
</tr>
</tbody>
</table>
State Share—40% of Remainder

<table>
<thead>
<tr>
<th>Program / Department</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Financing Authority (CFA)</td>
<td>20%</td>
</tr>
<tr>
<td>Environmental Stewardship Fund</td>
<td>10%</td>
</tr>
<tr>
<td>Highway Bridge Improvement Fund</td>
<td>25%</td>
</tr>
<tr>
<td>PennVEST and H₂O program (CFA)</td>
<td>25%</td>
</tr>
<tr>
<td>Environmental Initiatives</td>
<td>15%</td>
</tr>
<tr>
<td>Dept. Community &amp; Economic Development</td>
<td>5%</td>
</tr>
</tbody>
</table>
Locals Benefit from State Share

- **Highway Bridge Improvement Restricted Account**
  - Replace/repair local “at risk deteriorated bridges”
  - Funds allocated statewide to counties—based on pop
  - Min to a county $40K—Lycoming expects $180-220K

- **Environmental Initiatives**
  - Greenways/trails/heritage parks
  - Funds allocated statewideto counties—based on pop
  - Min to a county $25K—Lycoming expects $110-135K

- **Counties can apply for grants:** CFA & PennVEST
Local Share—60% of Remainder

- **$23M OFF THE TOP**
  - 40% TO STATE
  - 60% TO LOCAL

- **$2.5M OFF THE TOP**
  - 36% to COUNTIES WITH WELLS
  - 37% TO MUNICIPALITIES WITH WELLS
  - 27% TO ALL MUNICIPALITIES
Funding to PHFA

- PHFA receives $2.5M “Off the Top”

- Funds Housing Affordability & Rehab Enhancement
  - Covers affordable (low-moderate income) housing projects
  - Covers rental assistance to LMI persons/families

- Applies only to counties hosting active, unconventional wells
Local Share—60% of Remainder

- $23M OFF THE TOP
  - 40% TO STATE
  - 60% TO LOCAL

- $2.5M OFF THE TOP
  - 36% to COUNTIES WITH WELLS
  - 37% to MUNICIPALITIES WITH WELLS
  - 27% to ALL MUNICIPALITIES

ACT 13
4,927 “Spud Wells” in PA*

On 12-31-2011
Getting the Count RIGHT

- By Feb 28th DEP reported to PUC number of Spud Wells issued a Drilling Permit

- Lycoming County is reviewing Data for Accuracy

- Any Discrepancies will be brought to DEP for Resolution
County Impact Fee Allocation

- Lycoming County Estimated Allocation (36%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated County Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$3,776,240</td>
</tr>
<tr>
<td>2</td>
<td>$3,200,000</td>
</tr>
<tr>
<td>3</td>
<td>$2,800,000</td>
</tr>
</tbody>
</table>

- Key Components of County’s Allocation
  - Allocation based on proportion of spud wells physically located within Lycoming County
  - Year 2 and 3 are conservative estimates

**Calculations based on DEP well count**
Spud Wells in Lycoming County

- **County and municipal impact fee distributions**
  - Allocations based on total number of local spud wells *
  - 471 -- Spud Wells in Lycoming County by 31 Dec 2011 (Year #1)
  - 48 – More Spud Wells in 2012 (Year #2)

- **Lycoming County Municipalities with spud wells (37%)**
  - Anthony Township
  - Cascade Township
  - Cogan House Township
  - Cummings Township
  - Franklin Township
  - Gamble Township
  - Jackson Township
  - Jordan Township
  - Lewis Township
  - Lycoming Twp
  - McHenry Township
  - McIntyre Township
  - McNett Township
  - Mifflin Township
  - Moreland Township
  - Penn Township
  - Pine Township
  - Shrewsbury Township
  - Upper Fairfield Township
  - Watson Township

* Spud well totals accessed from PA Department of Environmental Protection
Where are they drilling?
(As of 31 Dec 2011)

- Municipality with drilled wells
- Contiguous Municipality
- Non-Contiguous Municipality

Scale: 0 to 20 Miles
The Final Slice (27%)

27% TO ALL MUNICIPALITIES

50% Distributed to ALL Municipalities in a County with Spud Unconventional Gas Wells

50% Distributed to SOME Municipalities in a County with Spud Unconventional Gas Wells
First Half of the Final Slice

- **First Half** goes to **Every** municipality

- $\frac{1}{2}$ is distributed based on the population of the municipality vs. total population of the county

- $\frac{1}{2}$ is distributed based on the highway mileage of the municipality vs. total highway mileage of county
Second Half of the Final Slice

- **Second Half** goes to **Some** municipalities
  - Those that have a Spud Well
  - Those that are contiguous with municipalities having Spud Well
  - Those that are within 5 linear miles of a Spud Well

- ½ is distributed based on the **population** of the municipality vs. total population of the county

- ½ is distributed based on the **highway mileage** of the municipality vs. total highway mileage of county
Municipal Impact Fee Allocation

Estimated Municipal Allocation in Lycoming County

<table>
<thead>
<tr>
<th></th>
<th>Year 1 *</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well-Host Municipal Allocation</td>
<td>$3,881,136</td>
<td>$3,300,000</td>
<td>$2,900,000</td>
</tr>
<tr>
<td>Eligible Municipalities and All</td>
<td>$2,832,180</td>
<td>$2,400,000</td>
<td>$2,200,000</td>
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<tr>
<td>Municipalities Allocation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal Total</td>
<td>$6,713,316</td>
<td>$5,700,000</td>
<td>$5,100,000</td>
</tr>
</tbody>
</table>

Key Components of Municipal Allocation

- All municipalities receive an allocation
- Well host municipalities receive an additional allocation
- Estimates for years 2 & 3 are conservative

*Calculations based on DEP well count
## Estimated Municipal Allocation (Yr 1)

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Impact Fee Allocation (estimated)</th>
<th>Municipality</th>
<th>Impact Fee Allocation (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anthony Township</td>
<td>$71,200</td>
<td>Gamble Township</td>
<td>$229,300</td>
</tr>
<tr>
<td>Armstrong Township</td>
<td>$18,200</td>
<td>Hepburn Township</td>
<td>$77,300</td>
</tr>
<tr>
<td>Bastress Township</td>
<td>$6,100</td>
<td>Hughesville Borough</td>
<td>$39,500</td>
</tr>
<tr>
<td>Brady Township</td>
<td>$5,600</td>
<td>Jackson Township</td>
<td>$53,800</td>
</tr>
<tr>
<td>Brown Township</td>
<td>$10,500</td>
<td>Jersey Shore Borough</td>
<td>$79,900</td>
</tr>
<tr>
<td>Cascade Township</td>
<td>$193,300</td>
<td>Jordan Township</td>
<td>$66,700</td>
</tr>
<tr>
<td>Clinton Township</td>
<td>$71,900</td>
<td>Lewis Township</td>
<td>$91,000</td>
</tr>
<tr>
<td>Cogan House Township</td>
<td>$618,600</td>
<td>Limestone Township</td>
<td>$27,700</td>
</tr>
<tr>
<td>Cummings Township</td>
<td>$1,348,400</td>
<td>Loyalsock Township</td>
<td>$234,600</td>
</tr>
<tr>
<td>Duboistown Borough</td>
<td>$9,400</td>
<td>Lycoming Township</td>
<td>$99,200</td>
</tr>
<tr>
<td>Eldred Township</td>
<td>$58,500</td>
<td>McHenry Township</td>
<td>$293,800</td>
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<tr>
<td>Fairfield Township</td>
<td>$71,200</td>
<td>McIntyre Township</td>
<td>$122,100</td>
</tr>
<tr>
<td>Franklin Township</td>
<td>$222,600</td>
<td>McNett Township</td>
<td>$68,400</td>
</tr>
</tbody>
</table>

*Actual allocations may change based on municipal budget requirements.

**Calculations based on DEP well counts
## Estimated Municipal Allocation (Yr 1)

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Impact Fee Allocation (estimated)</th>
<th>Municipality</th>
<th>Impact Fee Allocation (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mifflin Township</td>
<td>$115,400</td>
<td>Pine Township</td>
<td>$71,200</td>
</tr>
<tr>
<td>Mill Creek Township</td>
<td>$34,900</td>
<td>Plunketts Creek Township</td>
<td>$27,500</td>
</tr>
<tr>
<td>Montgomery Borough</td>
<td>$13,200</td>
<td>Porter Township</td>
<td>$41,400</td>
</tr>
<tr>
<td>Montoursville Borough</td>
<td>$94,100</td>
<td>Salladasburg Borough</td>
<td>$4,100</td>
</tr>
<tr>
<td>Moreland Township</td>
<td>$135,300</td>
<td>Shrewsbury Township</td>
<td>$55,500</td>
</tr>
<tr>
<td>Muncy Borough</td>
<td>$20,700</td>
<td>South Williamsport Borough</td>
<td>$53,900</td>
</tr>
<tr>
<td>Muncy Township</td>
<td>$37,600</td>
<td>Susquehanna Township</td>
<td>$9,200</td>
</tr>
<tr>
<td>Muncy Creek Township</td>
<td>$88,500</td>
<td>Upper Fairfield Township</td>
<td>$63,700</td>
</tr>
<tr>
<td>Nippenose Township</td>
<td>$21,800</td>
<td>Washington Township</td>
<td>$27,900</td>
</tr>
<tr>
<td>Old Lycoming Township</td>
<td>$115,100</td>
<td>Watson Township</td>
<td>$267,500</td>
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<tr>
<td>Penn Township</td>
<td>$494,300</td>
<td>Williamsport City (5)</td>
<td>$538,100</td>
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<tr>
<td>Piatt Township</td>
<td>$37,900</td>
<td>Wolf Township</td>
<td>$85,300</td>
</tr>
<tr>
<td>Picture Rocks Borough</td>
<td>$16,000</td>
<td>Woodward Township</td>
<td>$52,000</td>
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</tbody>
</table>

*Actual allocations may change based on municipal budget requirements.

**Calculations based on DEP well counts**
There’s a Municipal Cap

The Greater of:
50% of the previous years budget
- or -
$500,000

All remaining funds are allocated to State PHFA

Maximum Municipal Share
Additional Funding to PHFA

- PHFA receives $2.5M “Off the Top”

- Funds Housing Affordability & Rehab Enhancement
  - Covers affordable (low-moderate income) housing projects
  - Covers rental assistance to LMI persons/families

- Applies only to counties hosting active, unconventional wells

- Funds exceeding Municipal Caps allocated to PHFA for local housing funds – to be used in impacted counties
Eligible Uses

- Roadways, bridges & public infrastructure
- Water, storm water and sewer systems
- Surface & subsurface waters and water supplies
- Capital reserve fund
- Emergency preparedness & public safety
- Environmental programs
- Tax reductions
- Records management, GIS & information technology
- Social services
- Judicial services
- Career & technical centers for training of workers
- Local or regional planning initiatives
- Affordable Housing
Needs & Resources

PA Act 13 Implementation

Lycoming County's Marcellus Shale Local Impact Study

Lycoming County's Infrastructure Assessment
Looking Across the County

**Infrastructure Assessment**
- Collection of infrastructure projects in growth area communities
- Database of projects for future funding opportunities
- Infrastructure Council to provide regular input

**Local Impact Study**
- Quantitative assessment of Marcellus Shale industry impacts
  - Housing
  - Water/Sewer
  - Transportation
  - Emergency, Health & Human Services
- Complete in Summer 2012
Unprecedented Opportunity

- Collaboration and Leveraging all funding sources:
  - State
  - County
  - Municipal
  - Developers
  - Private Partners
  - Federal Sources

- Municipalities may select to use their funding to support key infrastructure projects

- County may be able to assist with such projects
**Transportation Project Illustration**

- **Project:** Bridge Connecting Two Municipalities
- **Estimated Cost:** $4.25 million

<table>
<thead>
<tr>
<th>Annual Debt Service for Bridge Repair / Replacement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Fee Funds for Municipality #1</td>
<td>$112,500</td>
</tr>
<tr>
<td>Impact Fee Funds for Municipality #2</td>
<td>$112,500</td>
</tr>
<tr>
<td>County Contribution</td>
<td>$225,000</td>
</tr>
<tr>
<td>PennDOT Contribution</td>
<td>$14,000</td>
</tr>
<tr>
<td><strong>Total Annual Contribution</strong></td>
<td><strong>$464,000</strong></td>
</tr>
</tbody>
</table>

- Annual contribution for 10 years can secure $4.25 million in debt using PA Infrastructure Bank at a rate of 1.625%
County and municipalities are required to submit Annual Reports to PA Public Utility Commission (PUC)

“Usage Report” form being developed by PUC

Annual report will include:
- **Amount of funds received**
- **Use of funds for eligible projects**

Results published on municipal web site
Land Use/Zoning
Requirements of Act 13
Local governments can adopt zoning ordinances to regulate gas operations but must allow for reasonable development of gas resources.

Act 13 preserves local government authority granted under PA MPC and the Flood Plain Management Act:
- Prohibits drilling in floodplain with open-loop systems
- Waivers may be issued by DEP

Act 13 pre-empts local ordinances related to the development of gas operations.
Land Use Planning—Timelines

- Counties and municipalities must amend zoning ordinances by August 12th
- Lycoming County zoning ordinance update in progress
  - If discrepancy arises, County ordinance will recognize the pre-eminence of Act 13
- PUC to review previously enacted ordinances for compliance with Act 13 (120 days to review)
- Ordinances found to be in violation of Act 13 will make municipality or county ineligible for funding
Local governments shall allow or permit oil and gas well site locations in every zoning district.

**Definition of Gas Operations**

- **Well location including:**
  - Site prep
  - Construction
  - Drilling
  - Fracking

- **Impoundment and fluid storage areas**

- **Construction & installation of:**
  - Oil and gas pipelines
  - Compressor stations
  - Processing plants

- **Equipment associated with the above**
Important Restrictions

- May not impose local conditions or limitations on setbacks, heights, screening, fencing, lighting, or noise more stringent than those imposed on other industrial uses or developments in the zoning district.

- May not restrict hours of operation for compressor stations, processing plants, or drilling operations.

- May not unnecessarily delay—max review periods:
  - 30 days for permitted uses
  - 120 days for conditional uses
Land Use & Zoning

- May prohibit or permit as a “conditional use” wells in residential districts if well site can’t be placed so wellhead is at least 500 feet from an existing building.

- In residential districts, outer edge of well pad must be at least 300 feet from an existing building.
Land Use & Zoning

Must authorize **compressor stations** as a *permitted use* in agricultural and industrial zoning districts and as a *conditional use* in all other zoning districts, if:

- Station is at least 750ft to nearest building or 200 ft from nearest lot line—whichever is greater
- Noise doesn’t exceed lesser of 60dBA at property line or fed standard
Land Use & Zoning

- Must allow **impoundment areas** as a **permitted use** in all zoning districts provided edge is at least 300 feet from an existing building

- Must authorize **processing plant** as a **permitted use** in an industrial zoning district and as a **conditional use** in an agricultural zoning district, subject to certain distance and noise requirements
PA DEP Safeguards

Effective April 16th

- Municipal inputs on “local conditions” considered during permit review process
- Water Management Plan for H₂O withdrawal or use in fracking required
- Enhanced reporting requirements on well data
- More transparent hydraulic fracturing disclosure
- Increase set back distances to streams & wetlands
- Well restoration 9 months after drilling “complete”
- Restore/replace public/private water supply if affected
- Containment plans for drilling & fracking required
Next Steps

- April 5th – Lycoming County to adopt an ordinance to implement Act 13

- Continue to work with PUC on the 22 Marcellus Shale Impact Fee policy recommendations & questions

- Coordinate with municipalities to identify partnering and leveraging opportunities for projects
Q & A Period