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Coal community's transition leaves a hole in its tax base

A Pennsylvania county built by coal mining is being hamstrung by rules limiting its ability to make up for lost revenue.

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A drilling rig is set up to tap gas from the Marcellus Shale gas field in rural Pennsylvania.| Alex Brandon/AP Photo

Coal built Greene County.

The fossil fuel has for more than a century been the economic backbone of this Pennsylvania community, an hour south of Pittsburgh. Greene County still hosts the state's annual Bituminous Coal Queen Pageant, and the county museum sits off of a street called Coal Lick Lane. But for all of coal's centrality to its past, Greene County is facing the need to prepare for a future where the resource is far less important.

The county is transitioning to a more diverse economic model, including natural gas drilling. But the state's different tax rates for gas versus coal aren't making up for coal's decline. Without a way to replace coal's tax base, local officials say, the transition won't be sustainable.

“This is a survival action that’s required; everybody sees the decline of the coal industry,” said Mike Belding (R), chair of the Greene County Board of Commissioners. “I don't really care what that is right now, as far as taking the place of the coal revenue, but we need something and we need it pretty quick.”

There have been efforts to increase natural gas taxes for years. Outgoing Gov. Tom Wolf (D) has proposed a tax on natural gas production, known as a severance tax, every year since taking office, but hasn't gotten traction in the Republican-controlled Legislature amid opposition from natural gas producers.

Gov.-elect Josh Shapiro (D), who is being sworn in Tuesday, will govern with a Republican-led Senate and what's projected, for the first time since 2010, to be a Democrat-controlled House. He didn't respond to a request for comment on his stance on a severance tax, but he ran as a pro-business candidate looking to cut taxes while appealing to labor interests. Nicole Reigelman, a spokesperson for House Democrats, said it’s “premature” to predict whether the party will introduce legislation to implement a severance tax this session.

Pennsylvania is the only major gas-producing state without a severance tax: Texas, Ohio, Alaska and West Virginia all have one.

"It struck me that Pennsylvania, unlike every other state that has this natural gas, was not availing itself of the money that might be able to be used for things like education, infrastructure, flood control, making lives better," Wolf said at a forum last month.

Tax revenue from coal mining has been a major source of revenue for Greene County, population 35,000, since extraction began in the 1890s. The county was responsible for 75 percent of the state's coal production in 2018.

But demand for coal is drying up as coal-fired power plants retire due to age, competition from cheaper natural gas and increasing curbs on pollution. Most coal mines have already shuttered in Pennsylvania, while at least 17 coal plants have been retired since 2009. Coal provided about half of the state's net electricity generation in 2010, but fell to 10 percent by 2020.

Even if coal was still economic, the county would be facing a more-distant revenue crunch: Its coal supply is projected to run out inroughly 28 yearsat the current rate of extraction.

"It's a real puzzle to try to put together a sustainable budget when you have decreasing tax value because of your primary industry, which is the coal companies," said Belding. "If every other state that produces natural gas has a severance tax, and Pennsylvania chose not to, we're probably wrong."

It's an example of the tensions that exist when trying to create a business-friendly environment to attract industry and jobs. That balance is clear in Pennsylvania, which features a brew of purple politics, fossil fuel might and a blue-collar labor legacy. For instance, Wolf signed a bipartisan $2 billion tax credit for natural gas and hydrogen production last year and a$670 million tax credit in 2020 to attract petrochemical industries.

Pennsylvania became the country's second-largest natural gas producer in 2013, behind Texas, and the state produced the most natural gas in a single year in its history in 2021. Greene County is one of the state's top gas producers, with more than 1,500 active wells.

The revenue issue for Pennsylvania is the difference between how the state taxes coal and natural gas. A 2020 MIT report found that because of the tax structure, increases in gas production are unlikely to make up for lost coal revenue in Greene County.

"[A] significant portion of current county, school district and township funding is not sustainable over the long term due to the ongoing and projected contraction of the coal industry," the report says.

While coal companies pay mineral value taxes, natural gas companies are instead taxed on a per-well basis that ends 15 years after a well is drilled. Coal once contributed half of Greene County's taxable assets, a share that has dropped to 30 percent — and nothing has replaced the loss, according to a county report.

Instead of a traditional severance tax based on the extraction and production of natural gas, Pennsylvania requires natural gas companies to pay "impact fees." Those fees have generated about $2.3 billion in revenue since lawmakers approved them in 2012 — 60 percent of which goes to communities with wells — but counties are limited in how they can use the money. Greene County has been using some of the funds to help close a $5 million budget deficit, which isn't one of the uses approved by the Pennsylvania Public Utility Commission.

The natural gas industry defends the impact fee structure, pointing out that the fees hit a record high in Pennsylvania last year at $275 million.

"It empowers local governments to make good decisions on providing fundamental government services to their residents," said David Callahan, the president of the Marcellus Shale Coalition, which represents the state's natural gas industry. "Some of the funds are used to fund programs for environmental improvement across the state as well, and things like water and sewer infrastructure. It works."

Wolf's 2021 severance tax proposal would have generated an estimated $3 billion over 10 years. A 4 percent severance tax on natural gas production would have raised more than $1 billion more than the impact fees between 2014 and 2021, according to the Pennsylvania Budget and Policy Center, a left-leaning think tank.

Some Republicans agree that a production-based tax would be better for local governments.

"The severance tax would have been a better deal," said David Hess, a Republican former secretary of Pennsylvania's Department of Environmental Protection. "The severance tax would be based on production, which would be a huge revenue generator."

Meanwhile, Greene County has had to tighten its belt. In 2021, county commissioners cut staff and increased taxes on residents for the first time since 2010. County officials also expect to use a portion of the money allocated from the American Rescue Plan, about $7 million, to close the budget deficit for fiscal years 2022 and 2023.

Still, a severance tax wouldn't necessarily be a silver bullet for Greene County. Other states vary in how they spend the proceeds. In West Virginia and Colorado, revenue goes back at least in part to counties and municipalities; in Ohioand Texas, the revenue goes into various state-level funds.

Rep. Greg Vitali (D-Delaware County) said he wants a severance tax, but wants the revenue to go to state-level environmental programs — not to local communities through grants. He pointed out that the state is flush with cash and can support struggling counties through other means.

Vitali, the ranking member of the House Environmental Resource and Energy Committee who is in line for the committee chairmanship, said he's "thought about" introducing a severance tax bill this session but is skeptical it would pass. Not all Democrats have supported the proposal in the past: Shapiro has named one opponent, former Rep. Pam Snyder of Greene County, to his transition committee.

"I have been a longtime supporter of it," Vitali said in an interview. "It's fair, and we need the revenue. Do I think it will happen? I've heard no discussion about it. The Republican Senate undoubtedly will remain firmly opposed to it. Josh Shapiro did not campaign on it. The Democratic hold in the House is very tenuous. I would say it remains unlikely."