

Wayne County Oil and Gas Task Force
August 24, 2011 - Public Meeting Summary

On August 24, 2011, the Wayne County Oil and Gas Task Force and the Penn State Cooperative Extension co-hosted a public presentation, entitled “Economic and Community Impacts of Marcellus Shale”. The event, which was held at the Wayne County Park Street Complex, had approximately 32 people in attendance.

The program began with a welcome introduction from Edward Coar, Chairman of the Task Force. Mr. Coar gave a brief visual tour of the Wayne County Oil and Gas Task Force website, which was recently revised and is available at www.wcpaailandgastaskforce.info. The updated website includes information on recent news and events, natural gas exploration activity in Wayne County and links to numerous websites.

Following the presentation on the Task Force website, Dave Messersmith of the Penn State Cooperative Extension and Chairman of the Wayne County Oil and Gas Task Force Outreach sub-committee, introduced Timothy W. Kelsey, PhD., State Program Leader, Economic & Community Development, Penn State University. Dr. Kelsey began his presentation with some background information on the Marcellus Shale. The main background points were:

- The Marcellus is the second largest natural gas field in the world (USGS)
- There is 1.46 trillion dollars of recoverable gas in PA
- The approximate ‘landowner’ share per well is 2 million dollars

Dr. Kelsey stated that this is a resource based economic development and when it’s gone, it’s gone. He pointed out that that it is important to make the right decisions now to ensure the community will at least be as well off when the play’s lifespan is over. Dr. Kelsey pointed out that this is very much dependent on how many dollars stay local. This includes both money paid out to local landowners and local businesses.

There are three distinct phases of natural gas development, according to Dr. Kelsey.

Development: This phase consists of the well siting and construction, drilling, fracturing and some reclamation of disturbance. This phase is short lived and very labor intensive.

Production: This phase consists of the time period when the wells are active and producing. There is a small steady labor force associated with this phase.

Reclamation: This phase involves the reclamation of the well sites when they are no longer active.

Dr. Kelsey pointed out that we do not know how long the production phase of development will last. We don't have a long enough experience with shale gas in Pennsylvania to determine this. He again stressed the point that the key to economic development is dependent on how many dollars stay local and are invested in the community.

The spatial nature of development must also be considered. Natural gas development involves much more than just the well pads themselves according to Dr. Kelsey. There are broad community wide impacts. There are support locations, water withdrawal sites and storage areas. There will be many different companies and workers involved. The transportation patterns in the local community may change. The main point here, as stated by Dr. Kelsey, is that there is much more to consider in terms of potential community impacts than just the well pads themselves. There is an opportunity here for zoning to manage some of these impacts, but within the limits as allowed by the Pennsylvania Municipalities Planning Code and the Pennsylvania Oil and Gas Act.

Another consideration is where do the dollars go when the workforce is operating in the local community. Approximately 70% of the workforce is a Pennsylvania worker. This number has been increasing over time as more and more residents receive training, according to Dr. Kelsey. What is not clear at this time is the share of Pennsylvania business in terms of revenue, compared to businesses outside of the State. A study recently completed determined that about 50% of the land area is owned by County based residents. This means that much of the lease and royalty money will remain in the County that is experiencing the drilling.

Dr. Kelsey spoke about the lessons that can be learned from other states that have experienced drilling booms. There is a large amount of research literature available on energy boomtowns. During the energy boom communities can experience an influence on population, housing and local culture changes. There have also been observances of increases in social problems.

Studies suggested that some communities were better off after the boom than they were before the boom, but not all. Of the communities that were better off they displayed some common characteristics. They were:

- Have strong local leadership and community involvement
- Entrepreneurial support systems to allow adaptation
- Actively monitor and respond to issues

In terms of Pennsylvania's economic experience, most local municipalities reported no change with respect to revenue and spending. For those that did report changes, more stated their spending was higher and revenue was lower. Dr. Kelsey next pointed out that in Counties with Marcellus activity there is more hiring, lower unemployment and higher average wages. Tourist destination businesses reported there was either no change in activity or, in some cases; there was an increase in activity reported. There were higher state tax collections (sales tax, income tax) in counties with Marcellus activity. In a separate graph, Dr. Kelsey illustrated that in counties with 150 or more wells the average change in state tax collections was up 11.36%. This is in contrast to counties with fewer than 150 wells or no wells at all, which experienced declines in collections consistent with current economic problems. Sales tax collections are important because they are generally a marker for retail sales activity, according to Dr. Kelsey. This is an indication that there is more money circulating in those counties with a large amount of Marcellus drilling activity. In terms of total compensation of wages, Dr. Kelsey also showed a chart, which illustrated that in counties with 90 or more wells, the total compensation increased for all sectors of the economy. In a separate study of Bradford and Washington Counties, 28 % of business owners reported an increase in their annual sales. Dr. Kelsey reported that there are fears of the impact on tourism destinations in counties with a lot of Marcellus activity. However, there are no reports of decreases in sales with respect to the tourism destination businesses as a result of gas drilling activity, and actually 1/3 reported increases in sales.

Dr. Kelsey urged the local business leaders to think not only about the direct support business opportunities, but also the businesses that can utilize the gas after it comes out of the ground. There is an opportunity to create economic opportunities and employment in those types of businesses and industries that will utilize the gas in their processes. Some recent proposals were mentioned including a proposed natural gas fired power plant in Bradford County. Dr. Kelsey

next pointed out some of the positive impacts of royalty income. Among these were local spending, local investment in the community and charitable giving.

Among the challenges that communities can experience are the loss of workers to the gas industry. Dr. Kelsey cited the example that driver's with CDL licenses are very much in demand by the gas industry, which has resulted in challenges to non-Marcellus businesses that also require these drivers. Another challenge being experienced is a higher cost of living due to higher inflation rates and rent increases. Dr. Kelsey also presented a graph from PennDOT, which illustrated the increases in both truck and overall traffic in Bradford County by comparing the 2010 totals to a 5-year average. Both categories increased substantially.

In closing, Dr. Kelsey offered a few summary points from the presentation:

- “Focus needs to be on future after the boom, *not just the present*”
- “Focus needs to be on development in its entirety, not just well sites”
- “View Marcellus as a potential means to improve economy, social organization, human capital, physical infrastructure – *it is not an end in itself*”
- “Need public engagement, social networks, collaboration, and communication to address the long run, and how Marcellus fits”

Following the presentation by Dr. Kelsey, the floor was opened up for questions from the audience:

1) A question was made regarding the figures presented on the amount of gas. Revised USGS estimates were released today and the question was in regard to how this would impact the estimates for length of the play and future plans for natural gas as a transportation fuel.

- Dr. Kelsey noted that the 1.46 trillion noted in the presentation was from an earlier estimate and he has not had time to update that figure. It is a valid question in regard to the amount of recoverable gas and how much time it will take to recover the gas. There are only so many drill rigs available. There are also risks with investments in infrastructure. No one knows for sure how long the play will last. Since this data was only released earlier in the day, Dr. Kelsey cautioned use of this information until it is reviewed and understood what the basis of the study involved.

2) An audience member questioned what the implications would be if farmers stopped farming after they received monetary compensation from leases and royalties. She also mentioned the possibilities of reduction in the number of jobs and revenue associated with the fishing industry. The audience member felt that these jobs and revenue would simply be replaced by the jobs and revenue associated with the gas industry and there would be no real net gain.

- Dr. Kelsey noted that he has not seen the studies but he has heard the Director of the PA Fish and Boat Commission (PFBC) speak on this topic. He noted that the studies of the PFBC on employment are not solely the direct jobs associated with the fishing industry, but they also contain a multiplier effect for all of the other dollars spent by fisherman. Dr. Kelsey stated the figures on the gas industry are solely for that industry and the two are not directly comparable. He further indicated that he has not seen any evidence that would prevent the two industries from co-existing. In regard to the farming question, he mentioned that a study was done a few years ago on farmers who received money for purchase of their development rights. That study indicated that dairy farmers were more likely to stop farming once they received the money. He stated that if the farmers are making that conscious choice not to farm once they receive the money, it is not a problem. It would not affect the access to food since much of the food Pennsylvanians consume already comes from other areas.

3) Another audience member touched on reports from Western Pennsylvania in regard to how the gas companies are now deducting transportation costs from royalty payments and the payments are, therefore, being reduced. Has this been figured into the calculations?

- Dr. Kelsey indicated that it would not affect anything since there were no set dollar estimates of what the royalties would be. The point to be made is that most of the royalties made will be initially and there is a gradual drop-off in payments made and that is the point he was trying to make in regard to royalties.

4) This same audience member questioned what are the economic effects sustained from negative environmental impacts and whether or not the effects were represented here.

- Dr. Kelsey noted that there were incidents, but the effects would need to be widespread to be quantified and there isn't any good data available at this time. He explained there would need to be larger and more widespread occurrences for such impacts to be quantifiable.

5) An audience member questioned how much of the cost increases for local municipalities that were represented in the presentation are due to the overall economy in general and the loss of tax revenue and not simply the development of the Marcellus Shale?

- Dr. Kelsey noted that the survey study questions were specifically related to the Marcellus. Local officials have been able to identify specific activities that have resulted in increased costs from Marcellus development. There are overall effects from the economy but the goal was to isolate the Marcellus activity.

6) An audience member referred to a comment made earlier in the presentation that a gas industry job could be stressful on a family as such employment required long and unusual schedules. The audience member made the point that the most stressful impact to a family is being unemployed and unemployment can cause sociological problems.

7) An audience member raised the point about the USGS estimates being reduced compared to the previous study that was released 9 years earlier.

- Mr. Coar noted that the decrease that was mentioned was a comparison to an estimate of another governmental agency. He cautioned, that we need to be sure of the information that is being compared. Is the comparison between the USGS estimates from two different time periods and/or is the comparison of the figures from two different sources or entities? Since this information was only released earlier in the day, it seemed no one really knew enough about the study to speak on it at this evening's meeting.

8) An audience member questioned an earlier slide from the presentation in which the point was made that an increase in population correlated to a vibrant economy. The member expressed his opinion that the population growth in the Upper Delaware region was more a product of the real estate and tax costs compared to the more urban markets to the east and this does not necessarily represent a vibrant economy.

- Dr. Kelsey acknowledged that the population growth phenomenon in the southeast of PA is due to the economics. He agrees that the population growth in northeastern Pennsylvania is more due to proximity to New York City and northern New Jersey. The focus however should be on the loss of population experienced in western Pennsylvania due to the loss of manufacturing jobs there.

9) An audience member noted that although there is opportunity to disagree on some of the statistics and figures presented, the most important point to be taken from this is the presentation provides a very good basis for advance planning and discussion.

10) An audience member questioned how future economic planning is impacted by some financial institutions that are reluctant to lend money for housing in places where extensive drilling is taking place.

- Another audience member who works in the construction industry noted that the financial institutions are lending money for construction projects related to Marcellus. He noted that the loans are coming a lot easier and the construction jobs are supporting 250 employees with his company.

In closing, Commissioner Brian Smith noted that there are many issues that County and local officials will need to deal with going forward. He stated, as a community we need to take advantage of the positives and protect against the negatives. He commended the people who took time to attend the meeting, as we all need to learn both side of the issue through education and taking advantage of listening to speakers such as Dr. Kelsey.

In a reference to an earlier statement that eventually the natural gas will be gone, he reminded those present of the history of Wayne County and its past industries, which eventually disappeared or are not the major industry as they once were. These industries included the logging, tanneries and dairy industries, all of which were a major contributor to the economy and the work force at one time. But as time evolved, these industries evolved and new opportunities presented themselves. But the key to economic success is to embrace those changes and as a community to take advantage of the positives and protect against the negatives. Commissioner Smith explained how he and his fellow commissioners are keeping abreast of the many issues surrounding this new industry on a daily basis. He again complimented and thanked the people who came to the meeting.