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Hydrofracking a Boom-Bust Endeavor

During the year-long moratorium on high-volume hydraulic fracturing for shale gas, New Yorkers have learned a lot about the environmental impacts of "fracking", yet most people continue to assume that new drilling for natural gas will have significant economic benefits for the state and for drilling communities. The question of how fracking may affect our economy deserves closer scrutiny. A look at what has happened in other shale "plays" (regions where shale gas development is occurring) shows that while natural gas extraction produces a boom, the boom also adds public costs. Real data about job creation raises questions about whether the rosy industry projections we have been given are accurate. And long term, drilling regions may be left worse off than before they boomed.

Evidence from already developed shale plays indicates that shale gas drilling relies mostly on out-of-state workers. Local employment is concentrated in trucking, construction, and retail jobs -- many of which are part-time, short-term, or low-pay. While there have been exaggerated claims about job creation in Pennsylvania, more accurate data from the Keystone Research Center and The Pennsylvania Department of Labor and Industry show that Marcellus core industries have created about 9300 jobs since the shale boom began in 2007 – far below projections. All job creation is important during a recession, but shale gas jobs are making only a modest contribution to Pennsylvania's economy. We can expect similar results in New York.

Many of the costs of shale gas extraction fall on county and local government, including localities where drilling makes no appreciable contribution to the economy either through job creation or tax revenues. Take, for example, the proposed Seneca Lake gas storage facility just north of Watkins Glen, New York. With underground storage for 1.45 billion cubic feet of natural gas, the complex would play a key role in moving gas from the Marcellus Shale to market. Although its environmental footprint is enormous, the facility is expected to produce only ten permanent jobs after its construction. And while the facility's mere presence has the potential to damage existing industries there -- tourism and the wineries of the Finger Lakes region -- Watkins Glen is far from the most likely drilling sites and is not likely to see a lot of extra tax revenue from well production.

In fact, shale gas extraction has cumulative and regional effects that spread far beyond the locations where drilling occurs. This regional infrastructure includes compressor plants, pipelines, water extraction sites, and toxic waste disposal facilities as well as an increased volume of heavy trucks. All of these require regulation and enforcement capacity not currently in place, and impose environmental, administrative, and public safety costs that somebody has to pay for. During a drilling boom, communities must expand police forces, enlarge school systems, and prepare emergency services for the kind of incident that drilling operations can produce. When drilling ends, jobs and population exit, leaving the human and physical infrastructure built to support a boomtown population for a much smaller population to support.

If the risks of shale gas extraction are to be worth it economically, we need it to produce substantial, reliable tax revenues to defray those costs, and to invest in industries that will continue to create jobs after the drillers leave.

A loophole-free state severance tax on natural resource extraction that is distributed fairly can help pay for the costs of drilling that are not covered by local taxes. There is plenty of evidence that severance taxes do not discourage gas extraction, though they might slow it down, but then a slower drilling cycle will also mitigate the short-term costs to communities. There are also good models we can adopt, such as Colorado's, that protect local communities by compensating them for the costs of drilling and investing for the day when the "bust" comes.

The official New York moratorium on high volume hydraulic fracturing for shale gas was lifted this summer and we are in a final phase of regulatory review. Though the oil and gas firms complained about it, the moratorium provided an unusual opportunity for New Yorkers to reflect before "green lighting" an industry that could have a profound effect on their environment, economy, and quality of life. We have been able to learn from what has happened in Pennsylvania and other natural gas plays, and clarify issues we only vaguely understood a year ago. But while the moratorium has given us time to learn, it has not yet produced State policies that can buffer our economy from the adverse effects of this boom-bust endeavor, or pay the public costs that come with it. Before any drilling begins, those policies -- including a severance tax -- need to be in place.

What we learned during the moratorium was that New York was not prepared for fracking. We are still not prepared.

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