



Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Hearing re: A Proposed Severance Tax on Natural Gas

Before the:
Environmental Resources and Energy Committee
Finance Committee
Pennsylvania Senate

Presented by:

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Good morning Chairman Eichelberger, Chairman Yaw, Chairman Blake, Chairman Yudichak, and members of the Senate Committees on Finance and Environmental Resources and Energy Committee,

My name is Gene Barr, President and CEO of the Pennsylvania Chamber of Business and Industry. The Chamber is the largest, broad-based business advocacy association in the Commonwealth, with members representing all industrial sectors, from small businesses to Fortune 500 companies. I thank you for the opportunity to express our members' concern with the imposition of higher energy taxes and, more broadly, this administration's plan to raise taxes on businesses by several billion dollars.

Policymakers Must Keep The Full Picture on Education Spending In Mind

We are willing to have a discussion about properly funding our schools, but we will disagree that the only way for our education system to produce better results is to increase spending. First and foremost, we have to solve the pension crisis. With a \$50 billion and growing unfunded liability that has resulted in multiple credit downgrades, there should be no question it is time for meaningful reform. On behalf of our members, I do want to thank the Senate for passing Senate Bill 1, which will accomplish such reform. Other steps worth taking include making the funding formula more equitable and scaling back prevailing wage mandates, which add unnecessary capital costs to school districts, as well as abolishing "last in, first out" teacher seniority rules, will also help ensure better student outcomes. Most importantly, Pennsylvania has a strong record of funding education and providing competitive compensation packages for educators. According to the most recent U.S. Census Bureau data, PA ranks in the top 10 in the nation for overall K-12 per-pupil spending and above the national average in state-specific K-12 education spending.¹ Teachers are obviously an integral part of the educational process and attracting and retaining quality teachers is tremendously important. Pennsylvania has some of the highest average teacher salaries² and best teacher to student ratios in the country.³ In fact, a recent university study cited Pennsylvania as the top state to teach in the country. I would also note that the strongest education system in the nation matters little if graduates do not have jobs waiting for them once they earn their diplomas.

Additional Taxes Will Threaten Jobs and Economic Recovery

When we survey our members and ask them the issue that most seriously impacts their ability to be competitive, the most common responses are the economy in general and taxes. There should be no question that constructive tax policy enacted over the past few years has helped improve Pennsylvania's business climate. There should also be no question that the increased development and use of natural gas has helped our economy recover as well. Paired with our abundant coal, nuclear and alternative resources, wholesale and retail gas and electric costs have come down significantly, as have emissions from point sources. DEP's data show that since 2008, emissions reductions of 63% for SOx, 21% for particulate

¹ 2012 Census of Governments: Finance - Survey of School System Finances. United States Census Bureau, May 22, 2014.

<http://www.census.gov/govs/school/>

² Estimated average annual salary of teachers in public elementary and secondary schools, by state: Selected years, 1969-70 through 2012-13. National Center for Education Statistics, April 2013. http://nces.ed.gov/programs/digest/d13/tables/dt13_211.60.asp

³ Public elementary and secondary teachers, enrollment, and pupil/teacher ratios, by state or jurisdiction: Selected years, fall 2000 through fall 2012. National Center for Education Statistics, October 2014. http://nces.ed.gov/programs/digest/d14/tables/dt14_208.40.asp?current=yes

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matter and 12% for carbon monoxide have been achieved.⁴ This has led to fewer and fewer ozone air quality alerts. There were just four ozone action days in 2014, down from 28 days in 2012.⁵

More importantly, our economy has grown. Our unemployment rate is below the national average.⁶ The exploration and development of natural gas in the Marcellus shale has created tens of thousands of jobs, reduced utility bills for all Pennsylvanians and improved the environment. Development of the resource has kept Pennsylvania in its traditional role as a national leader in energy production, with the state third in the nation in total energy production, second in the nation in net electricity production, second in natural gas production, second in nuclear generation, fifth in coal production and ninth in installed solar capacity. Importantly, the state also has the eight largest manufacturing output of any state in the country. Nearly 600,000 Pennsylvanians work in the manufacturing sector, and the state's leadership roles in energy production, should it be sustained by sensible regulatory and tax policy, will translate to even more opportunities for job growth and economic expansion in the manufacturing sector and beyond.

A 2012 PricewaterhouseCoopers report⁷ estimated increased use of domestic natural resources, including the Marcellus shale, could reduce manufacturing costs upwards of \$11 billion annually through the next decade. Such savings would allow businesses to invest in and expand their workforce, spurring a revitalized economy for the region and a growing tax base for the state.

The benefits of the Marcellus shale to state's manufacturing industry were also highlighted in a Standard & Poor's report last year, which noted that "lower natural gas and NGL prices also have materially benefited raw material costs and profit margins for petrochemical companies, nitrogen fertilizer producers, and energy-intensive manufacturers, including metals, cement, glass, and paper. North American petrochemical producers' costs have improved compared with those of other global producers."⁸ A separate Standard & Poor's report also noted that, as a result of the shale boom, "North America has moved from being the highest-cost region to the second-lowest"⁹ in terms of costs for the petrochemical industry. As a result, North America – and Pennsylvania – is well-poised to benefit greatly from increased global demand for petrochemicals and plastics, which is expected to grow at 4.4% per year – or about 1.5 times the expected growth in global gross domestic product. A March 2015 review by the American Chemistry Council showed 225 proposed or started chemical industry projects as a direct result of the shale resources available in Pennsylvania and our nation – projects which will result in 383,000 direct and indirect jobs created over the next decade and more than \$266 billion in increased economic output.¹⁰

⁴ See Summary of the 2012 Natural Gas Emission Inventory at http://files.dep.state.pa.us/Air/AirQuality/AQPortalFiles/Advisory%20Committees/Air%20Quality%20Technical%20Advisory%20Committee/2014/4-3-14/Marcellus_AQTAC_Unconventional_Gas_03-13-2014.pdf

and Overview of the 2013 Emissions Inventory for the Natural Gas Industry at http://files.dep.state.pa.us/Air/AirQuality/AQPortalFiles/Advisory%20Committees/Air%20Quality%20Technical%20Advisory%20Committee/2015/2-12-15/5-2013_EI_NG_AQTAC_2-12-2015_Final.pdf.

⁵ Action Days. Pennsylvania Department of Environmental Protection, Bureau of Air Quality. http://www.ahs2.dep.state.pa.us/aq_apps/aqpartners/code_red.asp

⁶ Pennsylvania Local Area Unemployment Statistics. Pennsylvania Department of Labor and Industry, April 2015. <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=1216762&mode=2>

⁷ Shale gas: A renaissance in US manufacturing? PricewaterhouseCoopers LLC, February 2012. <http://www.pwc.com/us/en/industrial-products/publications/shale-gas.jhtml>

⁸ Game Changer: How Shale is Transforming Global Energy – and Affecting Industry and Ratings. Standard & Poor's, Jan. 7, 2014. <http://marcelluscoalition.org/wp-content/uploads/2014/01/197319624-Untitled.pdf>

⁹ Natural Gas: Low Prices Mean Big Changes for U.S. Energy. Standard & Poor's, June 13, 2012. http://www.standardandpoors.com/spf/swf/cw/cw_0612/data/document.pdf

¹⁰ New manufacturing projects are growing our economy and creating jobs. American Chemistry Council, March 2015. <http://www.americanchemistry.com/Policy/Energy/Shale-Gas/Shale-Investment-Infographic.pdf>

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With these potential economic gains before our state, it is no wonder McKinsey & Company identified energy and infrastructure as two of five “game changer” opportunities for the United States’ future economic growth. The firm noted that the “shale boom could add as much as \$690 billion a year to GDP and create up to 1.7 million jobs across the economy by 2020. The impact will extend to energy-intensive manufacturing industries and beyond.”¹¹

Increased Taxes on the Natural Gas Industry Will Raise Costs for Pennsylvanians and Reduce Our Economic Competitiveness

The enactment of a severance tax will impede the significant progress Pennsylvania has made with respect to job creation and render the state even less competitive with that of other states. This administration’s budget plan will, as the Independent Fiscal Office noted, result in higher taxes for all Pennsylvanians, with the severance tax ultimately being born by natural gas consumers – that is, ratepayers and businesses who use gas and electricity.¹² The revenue structure established under Act 13 is fair and competitive and must be left unchanged. A recent economic analysis found that the administration’s severance tax proposal would cost Pennsylvania more than \$20 billion in lost gross domestic product and up to 18,000 jobs over the next decade.¹³ More than 6,000 jobs would be lost as soon as 2016 – many of them well-paying supply chain and construction labor positions. The proposal to levy a five percent tax fee on a minimum artificial price floor of \$2.97 per thousand cubic feet of gas (mcf) plus an additional 4.7 cent per thousand cubic feet will set the Commonwealth back instead of allowing the state to grow its economy, jobs and provide Pennsylvanians with lower energy bills. Further, with the state’s credit rating repeatedly downgraded due to its inability to manage a \$50 billion and mounting state pension crisis, we question the timing in adding \$675 million to our debt load in a bond issue for alternative energy programs. Finally, this administration’s proposal will limit the amount of dollars distributed to local governments, and it remains unclear in which order the many spending promises the Governor’s front office staff has laid out would be paid for by the severance tax revenues.

Considered in Full, This Administration’s Proposed Budget Hurts Businesses and the Economy

As the Governor’s administration has repeatedly insisted, we have looked at the Governor’s budget as a complete package. While we agree with the Governor’s description that the Corporate Net Income Tax is “obscene” and “appalling,” and while we are pleased that the Governor has not proposed to disrupt the previously planned phase-out of the Capital Stock and Franchise Tax, it must not be forgotten that these initiatives are packaged with and contingent upon other tax increases. With its higher tax rates for sales and personal income, a broadened sales tax base, the roll back of the Net Operating Loss carry forward, and the institution of mandatory unitary combined reporting, in addition to the severance tax, the fact is that many businesses, including small businesses, will be hit very hard. Further, the Governor’s front office have declined to offer or embrace meaningful pension reform, which is the number one cost driver

¹¹ Game changers: Five opportunities for U.S. growth and renewal. McKinsey Global Institute, July 2013.

http://www.mckinsey.com/insights/americas/us_game_changers

¹² Analysis of Revenue Proposals FY 2015-16 Executive Budget. Independent Fiscal Office, April 23, 2015.

http://www.ifo.state.pa.us/download.cfm?file=/resources/PDF/Revenue_Proposal_Analysis_April2015.pdf

¹³ The Economic Impacts of the Proposed Natural Gas Severance Tax in Pennsylvania. Timothy J. Considine, Ph.D., Natural Resource Economics, Inc., April 22, 2015. <http://www.api.org/~media/files/policy/taxes/2015/economic-impacts-of-the-proposed-natural-gas-severance-tax-in-pennsylvania.pdf>

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of the structural deficit moving forward. For these reasons, we remain strongly opposed to the Governor's proposed budget, including a severance tax.

Thank you for the opportunity to present our members' concerns before you today and I look forward to any questions you may have.