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Diverse Coalition Opposes New Taxes on Natural Gas Industry

Letter urges lawmakers to consider impact of proposed severance tax on jobs and the economy

HARRISBURG – Highlighting the positive effect the natural gas industry has had on Pennsylvania's jobs market and economic competitiveness, a diverse coalition today issued a letter to lawmakers and the Wolf administration urging them to consider the negative impact of an additional proposed tax on the industry.

"Pennsylvania cannot afford to lose our competitive advantage in the shale play," said PA Chamber President Gene Barr. "The natural gas industry has revitalized Pennsylvania's economy, bringing hundreds of thousands of family-sustaining jobs to our state, adding billions of dollars into the economy and lowering energy prices. A higher severance tax will drive our fastest growing industry out of the state, leading to the loss of thousands of core and supply-chain jobs. Rather than placing an additional tax on this vital industry, lawmakers must look at ways to address the state's cost-drivers, specifically the growing pension crisis."

Gov. Tom Wolf included a 5 percent severance tax and a 4.7 cent per thousand cubic foot (mcf) fee on the natural gas industry as part of his 2015-16 budget proposal. The governor's plan would institute an artificial $2.97 per mcf price floor, increasing the effective rate of the proposed severance tax to as high as 15 percent. While the governor originally said the additional tax on the natural gas industry would go towards education spending, his budget proposal diverted some of the severance tax dollars towards debt service payments on a proposed $675 million bond. The remainder would filter into the General Fund for lawmakers in Harrisburg to spend.

"The drilling boom has helped push new housing starts in areas of the state that have seen depressed economies for some time," said Pennsylvania Builders Association President Peter Gallagher. "The construction of new homes creates many new jobs and new opportunities for homebuilders. Property owners in shale communities now have the means to expand their investments across the state and are impacting housing development outside of their communities. Higher taxes threaten that progress."

A recent Natural Resource Economics, Inc. study found an additional tax on the industry could result in the loss of 6,000 direct and indirect jobs in 2016 alone. That figure grows to 18,000 by 2025. The study also found that a severance tax will reduce the number of wells drilled by more than 1,000, leading to a cumulative loss of more than $20 billion to Pennsylvania's economy between 2016 and 2025.

"Pennsylvania's manufacturing renaissance is a result of the dramatic increase in the production of domestic natural gas from the state's Marcellus Shale formation," said Consumer Energy Alliance Executive Vice President Michael Whatley. "Pennsylvania's success is evident when comparing our state with its neighbors who have chosen not to tap the energy beneath their feet. Any move by Pennsylvania policymakers that would drive production out of the state will significantly raise energy prices and hurt every family, farm, factory and small business in the Keystone State. We call on the House, the Senate and Governor Wolf to come to an agreement that will encourage – rather than discourage – continued natural gas development and keep energy affordable and reliable for Pennsylvania energy consumers."

"The abundance of Pennsylvania natural gas provides a limited window of opportunity for historic industrial investment and growth," said Pennsylvania Chemical Industry Council President Jeff Logan. "The Pennsylvania Chemical Industry Council looks forward to working with Governor Wolf and legislative leaders to develop a collective common sense tax policy that will encourage in-state natural gas utilization, in-state capital investment and in-state jobs."

As noted in the coalition letter, the industry is already taxed under Act 13 of 2012. The current impact tax fee structure, which is equivalent to a 3-4 percent severance tax, has generated more than $630 million in the first three years since the Act was signed into law. The bulk of the impact tax fee revenues go back to local communities, with every county throughout the Commonwealth receiving funding and the majority going into regions where drilling is occurring to support key infrastructure projects. In addition to the impact tax fee revenues, the industry has generated more than $2.1 billion in corporate, personal and other tax revenue and has resulted in the creation of more than 240,000 jobs throughout the state.

"The Pennsylvania Business Council opposes an extraction tax levied solely on the producers of natural gas, just as we would oppose any tax levied on any single industry," said Pennsylvania Business Council President and CEO David W. Patti. "We cannot discuss the financing of the state's share of public education based in any other context other than General Fund appropriations with revenues derived from the broadest and most inclusive sources. Public goods, such as the funding of basic education, are not funded by levies on a single or special class of taxpayer. A Marcellus Shale extraction tax for education funding is an exercise in political expedience; not an example of sound public policy."

The coalition continues to stress the importance of developing the infrastructure needed to maximize the potential growth of the natural gas industry, increasing the number of job opportunities in the state and securing Pennsylvania's position as a world-class energy hub.

"Pennsylvania's natural gas revolution is a one-two punch for manufacturing competitiveness, creating new market opportunities along the supply chain and providing affordable heat and power downstream," said Pennsylvania Manufacturers Association President Dave Taylor. "Combined, these opportunities are opening up enormous potential for sustained, broad-based growth for our manufacturing sector. If state government wants more middle-class jobs, economic growth, and long-term tax revenue, we should optimize conditions for continued growth, not punish this emerging industry with higher taxes."

"Small businesses all around the Commonwealth have ridden a wave of growth serving the shale drilling industry" said NFIB Executive Director Kevin Shivers. "We've seen haulers, equipment providers, shippers and even a pillow company benefit. That has led to job creation and hiring in many towns around the Commonwealth which will dry up if the rigs leave town over severance taxes."

"Natural gas development in the Commonwealth continues to be an absolute game-changer for each and every one of our 67 counties, bringing about positive progress and broad-based economic, environmental and energy security benefits to all Pennsylvanians," said Marcellus Shale Coalition President David Spigelmyer. "When presented with an honest choice, Pennsylvanians overwhelmingly favor policies aimed at creating additional supplies of affordable energy, good-paying local jobs and expanding the natural gas industry's growth over additional energy taxes."

"In 2013, Pennsylvania producers contributed $226 million in impact fees, which benefited schools, parks, hospitals and critical infrastructure projects all across the Commonwealth," said America's Natural Gas Alliance Executive Vice President Frank J. Macchiarola. "Enacting this long-term tax to address a temporary budget shortfall is short-sighted and jeopardizes jobs and future economic growth that comes from a robust natural gas industry. There is a great opportunity to boost economic development and grow Pennsylvania's tax base by supporting critical infrastructure projects that will carry Marcellus shale gas throughout Pennsylvania and to nearby markets. We look forward to working with Governor Wolf and the General Assembly to identify better solutions to address the state's budget issues without hampering the Commonwealth's energy renaissance."

A copy of the letter can be found here. For more information, visit the coalition's website: www.stopnewenergytaxes.com.

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