House Finance Committee hearing on H.B. 2443
Wednesday, May 12
Mary Welch Center, Lycoming College

Testimony of Jon Bogle, Responsible Drilling Alliance

IT IS A BIT STRANGE

It is a bit strange that we need to have a hearing to ask if we should have a severance tax. The structure of the situation is large national and multi national corporations are coming into Pennsylvania and jockeying to take a trillion dollar asset out from under our feet to sell on a national market. Now we learn that they are trading their leased Pennsylvania acreage as a commodity to often foreign corporations: European, Japanese, and Indian. Price? $35-$40,000 per acre. Should we tax them? Of course we should.

> *Earlier at the same conference, Aubrey McClendon, CEO of Oklahoma City-based Chesapeake Energy Corp., estimated his company's 1.57 million acres of Marcellus leases are worth $35,900 an acre.*
>
> *Range's leases are worth more than Chesapeake's because they contain more natural gas liquids, which sell at a premium to natural gas.*
> http://www.declineoftheempire.com/2010/04/a-miracle-in-the-marcellus-shale.html

It appears that the gas industry is beginning to relent on a severance tax but only if we give them the first two or three years free so they can recoup their exploration expenses. Not so generous when we realize that almost all the gas to tax is out of the well in three years.

> "it appears (well) production declines are around 75% in year 1, 35% in year 2, 25% in year 3, 12.5% in year 4, and 10% in year 5.
>
> *approximately half of the EUR (total production from the well) is produced in the first year, a well's early decline rate is more important than IP (initial production) in predicting reserves."*
> http://www.declineoftheempire.com/2010/04/a-miracle-in-the-marcellus-shale.html

Then the federal government allows the oil and gas industry to write off it exploration and drilling cost in the first year. In 2008 Range resources only paid 0.4% of its income in taxes, last year Exxon Mobile paid NO federal taxes in the United states

http://images.businessweek.com/ss/09/04/0423_corporate_taxes/26.htm
http://seekingalpha.com/article/198959-7-top-corporate-tax-evaders

The fact that we are even having this discussion is a product of the goose. You know, the goose that is going to lay the huge golden egg. The goose that is quite sensitive, a bit of a bully, threatening to fly away if we don't cater to it every desire.

The goose itself is the product of another fairy tail, the Penn State Study, An Emerging Giant.. This study was released last summer by two professors, Robert Watson and Tim Considine neither of whom it appears actually worked at Penn State at the time. By the time it was released, Considine had left Penn State for another position and Watson had retired.

I have a couple of things in common with Robert Watson. We have both been given the honorific title of professor emeritus and neither Watson nor I have any background or training in economics. Watson was an associate professor of engineering and I a professor of art. Tim Considine, on the other hand, is an economist but he has spent his career studying fuel markets and he has no background in community economics.

The Marcellus Shale Committee hiring Considine and Watson to write An Emerging Giant it was like asking a carpenter and a pediatrician to do coronary bypass surgery.

The operation, from the viewpoint of the Marcellus Shale Committee, was a great success. For a $100,000 the gas industry got a prime propaganda piece dressed up as a Penn State research paper with Penn State's name on a blue and white cover and a small Penn State shield on each and every page.

Using Penn State's reputation to hype the economic and tax potential of drilling gave the industry a weapon to use against environmentalist and dampen calls for taxes. **I believe Penn State University is culpable in manipulating the public policy debate on Marcellus Shale drilling.** Penn State has allowed the gas industry to hijack its reputation as a great research institution. It is a mystery to me as to why the University has permitted this deception to continue. **The University should disown this industry study.**

An Emerging Giant was greeted with criticism if not outright contempt. The **Pennsylvania Budget and Policy Center**, issued a report in October of 2009 titled, *"Natural Gas Industry Report Falsely Claims Sky Will Fall if Severance Tax Enacted".*

Pennsylvania Budget and Policy Center

> *"The Pennsylvania Budget and Policy Center (PBPC) is a nonpartisan, statewide policy research project that provides independent, credible analysis on state tax, budget, and related policy matters, with attention to the impact of current or proposed policies on working families."*

http://pennbpc.org/sites/pennbpc.org/files/Reality_Check_on_Emerging_Giant_Report_1.pdf

The PBPC report took major exception to natural gas industry paper on a number of issues. Below are some headlines from the PBPC report.

No other study has shown severance taxes affecting production decisions to the magnitude that the industry report suggests.

Richness of deposit, not business climate, is the most likely reason for an increase in recent drilling in Pennsylvania compared to West Virginia.

Industry tax impacts are overstated in the report.

The assumptions behind the model cannot be reviewed.

Economic impact results appear exaggerated compared to other industry reports.

IMPLAN SOFTEWARE

The model used in the industry-financed study is called Implan, a user-friendly software package used by a variety of groups to bolster their particular point of view in public policy debates. According to an interview with the maker of Implan, ***users "can use Implan software and data to generate numbers that support any side of an argument – and get wildly varying results depending on who's clicking the mouse."***

PBPC's Conclusion: *The report serves the narrow financial interests of its funder, the natural gas industry. Policymakers could best serve the interests of all Pennsylvanians by more closely scrutinizing the report and the interests behind its prescriptions. The decision for Pennsylvania policymakers should not be whether they will entice drillers to come to the state, but rather whether they want to continue to subsidize the industry by not collecting a tax, which forces other taxpayers to foot the bill for cleanup, environmental damage, infrastructure repair, emergency services, and other social costs.*

JOBS JOBS JOBS JOBS JOBS

Watson and Considine tell us to expect 160,000 new jobs by 2015 providing Pennsylvania acts correctly and doesn't tax or regulate the industry. This number includes the multiplier effect. The Department of Labor and Industry's formula takes every new industry job and multiply it by 3.55 to find the positive job effect on the greater economy.

An Emerging Giant also claimed 29,280 jobs created in Pennsylvania in their base year of 2008. They also tell us that 308 wells were drilled in 2008. The Penn College's study of Marcellus workforce needs assessments determined that 11.53 work years are needed to drill a gas well. Therefore only 3551 job equivalents were needed to drill all the Marcellus wells in PA in 2008. Add Labor and Industry's multiplier effect of 3.55 and total job creation was 12,607. Quite a bit less than the 29,280 Watson and Considine claimed.

Pennsylvania Department of Labor and Industry also projected future job figures. It anticipates 12,423 marcellus industry jobs by 2016 and with the multiplier effect total Pennsylvania job growth by 2016 of 44,102. Not bad, but little more than a quarter of the predicted 160,000 jobs by 2015 claimed by Watson and Considine.

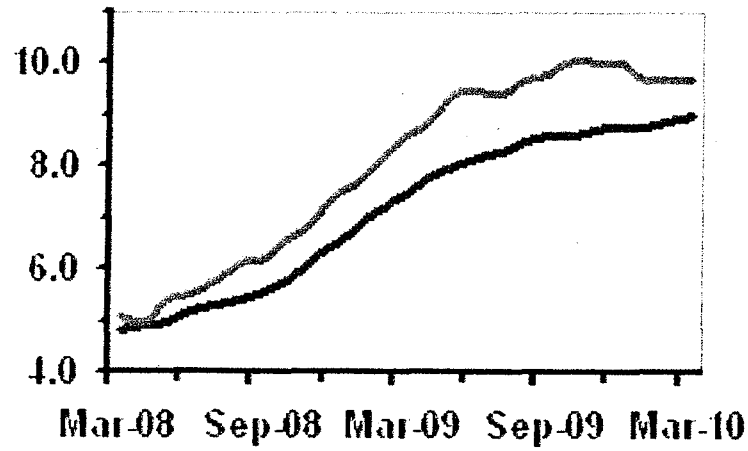
Penn College's study on Work Force Needs Assessment points out that **only 2% of industry jobs are needed to maintain the well field after drilling is completed.** Therefore, 98% of the jobs are a factor of how many wells are being drilled and those jobs will disappear when drilling is finished. It should be noted that the rig count in the Barnett shale in Texas is trailing off after only 5 or 6 years so expectations of vastly increasing jobs through 2020 is quite unlikely.

Where are the jobs?

Considine and Watson claimed 29,000 jobs were created in 2008, 49,000 jobs in 2009 and we are to expect 107,000 in 2010. As you can see from state unemployment statistics there is no evidence of these jobs. The total unemployed persons in the state in March were 582,000. We would think that if 50,000 jobs had been created we would see evidence of them. Even in places like Susquehanna County or Washington County which are being heavily drilled there is little evidence of job growth.

http://www.paworkstats.state.pa.us/

	PA March '10	**US March '10**
Civil Labor Force	6,458,000	153,910,000
Employment	5,876,000	138,905,000
Unemployment	582,000	15,005,000
Unemployment Rate	9.0%	9.7%



Unemployment Rates **PA** **US**

Bradford County leads Pa. in job growth

"I believe much of this growth has to be related to the Marcellus Shale exploration in our area," Frank Thompson, of the planning and development commission, said in a prepared statement. "Our five-county (Bradford, Tioga, Susquehanna, Sullivan and Wyoming) area gained 3,200 jobs in a one-year period, an unbelievable feat for such a rural area, especially considering what the rest of the counties are going through."

http://www.stargazette.com/article/20100506/NEWS01/5060373/Bradford-County-leads-Pa.-in-job-growth

TAXES TAXES TAXES TAXES TAXES

Watson and Considine promise a great bonanza of PA taxes. It is difficult to understand how we will reap a tax windfall when state and local municipalities have little or no authority to levee taxes on the industry. Below is a quote where the authors extol our lack of taxes and taxing authority. This is perhaps the only part of Considine's and Watson's report that the PBPC found to be accurate. The authors tell us that our present situation of no taxes gives an 11% bonus to the gas companies.

> Pennsylvania has no severance or property tax, so wellhead revenue is
> about 11 percent higher. Pennsylvania's 9.9 percent CNI is not paid by many
> companies
> and limited liability corporations (LLC)'s only pay at the 3.07 percent individual tax
> rate.
> Additionally, many companies have sufficient deductions that they pay no CNI tax.

Except for the above quote, PBPC took exception to everything else.

> ***Claim***: *"Total state and local taxes increase more than $238 million. Taxes generated from indirect business taxes, such as excise taxes, property taxes, and sales taxes also constitute a significant part of the overall tax impacts."[*
>
> ***Reality***: *This figure, representing taxes paid in 2008, appears to be significantly overstated, to the tune of more than $100 million. As the report uses the 2008 figure as the basis of future tax projections, it produces a significant exaggeration of future taxes state and local governments could expect if no severance tax is enacted.* ***Substituting the more reasonable 2008 base would reduce the report's 2020 estimate of $1.4 billion in state and local taxes to approximately $700 million.*** (bold emphasis added)

Penn State Extension has done honest and good work on the community economic aspects of the Marcellus shale. Unfortunately they didn't have an industry PR machine to advertise their results.

> Potential Economic Impacts of Marcellus Shale in Pennsylvania:
> *Reflections on the Perryman Group Analysis from Texas*
> Timothy W. Kelsey, Ph.D. tkelsey@psu.edu
> Penn State Cooperative Extension
>
> *4. Impacts on Local Governments and Taxpayers*
>
> *The impacts of Marcellus Shale on Pennsylvania local governments and taxpayers will be significantly different than that estimated by the Perryman Group in Texas. Unlike in Texas, natural gas will provide relatively little new tax revenues to local jurisdictions in Pennsylvania since*

natural gas is not subject to local taxation in the Commonwealth. In contrast, in Texas the value of natural gas extracted in a year is subject to local property taxes, which means school districts, county governments, and municipal governments receive higher local tax revenues directly from the extraction of the natural gas. ***Neither lease or royalty income in Pennsylvania is subject to local income taxes, nor do Pennsylvania local jurisdictions benefit directly from higher local retail sales since they lack authority to levy a local sales tax.***

Under current law, natural gas will not significantly increase the local tax base, and thus local tax revenues. *The Perryman Group analysis does not consider increased costs borne by local governments and school districts, but indications are that these can be significant. The process of drilling, fracing, and maintaining natural gas wells can create significant heavy truck traffic on rural roads, many of which were not designed for carrying vehicles of this size. Beyond basic drilling equipment, the traffic will include trucks carrying significant amounts of water (a report from Denton, Texas, suggests that each drilling site could require 364 such water truck trips, which would be equivalent to 3,494,400 car trips (Denton County Oil and Gas Task Force, 2005)).*

Tax collections by the state government will increase in Pennsylvania through the corporate income tax and sales tax, yet these collections will have little direct benefit to the local jurisdictions who will face higher service costs due to natural gas exploration. ***In other words, local jurisdictions with natural gas wells very likely will face higher demands for services and thus higher costs, and yet receive little new revenues to pay for those services. The result likely will be higher local taxes (paid for by everyone, not just those directly benefiting from lease or royalty revenues), or cuts in other services.*** *Because Pennsylvania law limits municipalities' and counties' abilities to use land use planning tools to influence the location of natural gas drilling activities, local governments will have little ability to prevent or affect drilling in locations which will significantly affect local service costs and taxes.* (bold emphasis added)

WHOSE GOOSE SHOULD WE COOK? COLLATERIAL DAMAGE,

We already have a golden goose in Pennsylvania, the tourist and travel industry. Travel had revenues of over 20 billion dollars, employs over 214 thousand, and has a 5 billion dollar payroll. All much greater than even the wildest fantasies of Considine and Watson.

http://209.59.134.11/statistics/impact_sub.htm?select_state_id=39

In the eight congressional districts where gas drilling is taking place, the travel industry employed 72,000, had 1.4 billion dollar payroll, and revenues of 7.2 billion dollars. This is a green industry that is also a tax cow. Anyone who has booked a room knows that the bill comes with a sizable "severance tax."

Unlike the gas industry, the travel industry pays real estate taxes on its infrastructure. The travel industry is home grown with a permanent Pennsylvania workforce.

It is probable that full bore gas exploration will do severe damage to our tourist industry in the Pennsylvania Wilds.

It is also quite probable that the any value the gas exploration industry brings to Pennsylvania will be less than the damage it will do to already established Pennsylvania industries, such as agriculture, organic farming, tourism and ecotourism. In addition we can expect hits to our real estate values and large infrastructure and social cost.

Before we give away the store, the legislature should commission an independent credible economic study to determine the job, tax, and collateral damage impacts of this industry. They should be treated like any other industry.

Jon Bogle