

Time to Stop Losing the Revenue We Need: A Severance Tax Is Still a Good Idea

March 2, 2023



**KEYSTONE RESEARCH CENTER
AND
PA BUDGET AND POLICY CENTER**

PA's fiscal state

- Despite an expected \$13 billion surplus, PA is projected to start running operating deficits in the next fiscal year.
- Those deficits don't include the funds needed to meet the moral, and now constitutional, requirement to fully and fairly fund K-12 education.
- PA must secure new, reliable, and recurring sources of revenue from those with the most ability to pay—wealthy corporations and the richest among us.
- Depending on the price of natural gas, a severance tax would raise between \$400 million and \$1.5 billion per year for the state.

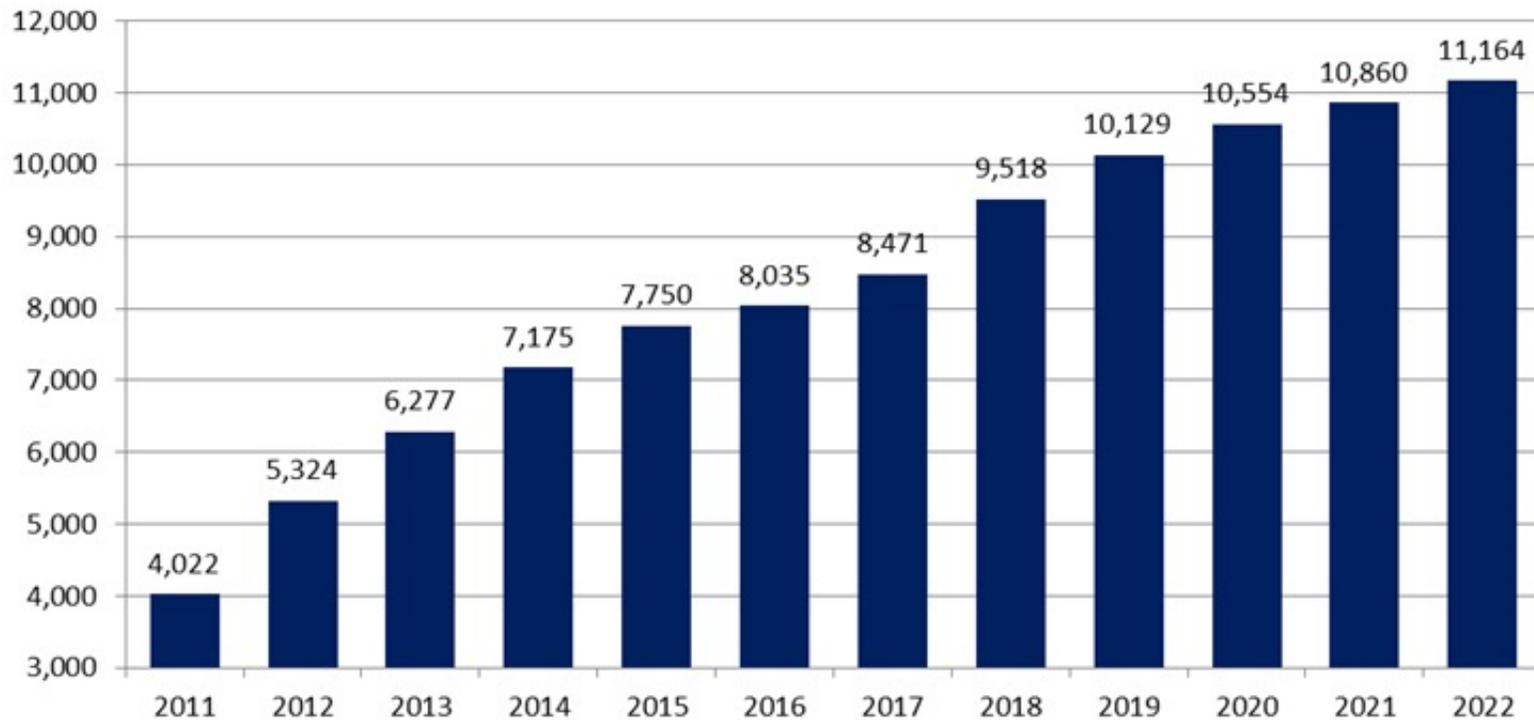


PA's inadequate impact fee

- Since 2014, Pennsylvania has been the second-largest natural gas producer in the country. We are the only state without a severance tax.
- Pennsylvania's impact fee charges companies a fee for each well they drill based on the number of years since a well was drilled and the price of natural gas. The tax does not go up in proportion to the price of natural gas or vary with the amount of gas produced. Instead, the fee declines year after year even if the volume of gas produced goes up.
- As a result, while gas production has increased seven-fold since 2011, funds raised from the impact fee have fluctuated between \$146 million and \$275 million per year.



Number of Horizontal Wells in Pennsylvania, 2011 to 2022 (estimated)

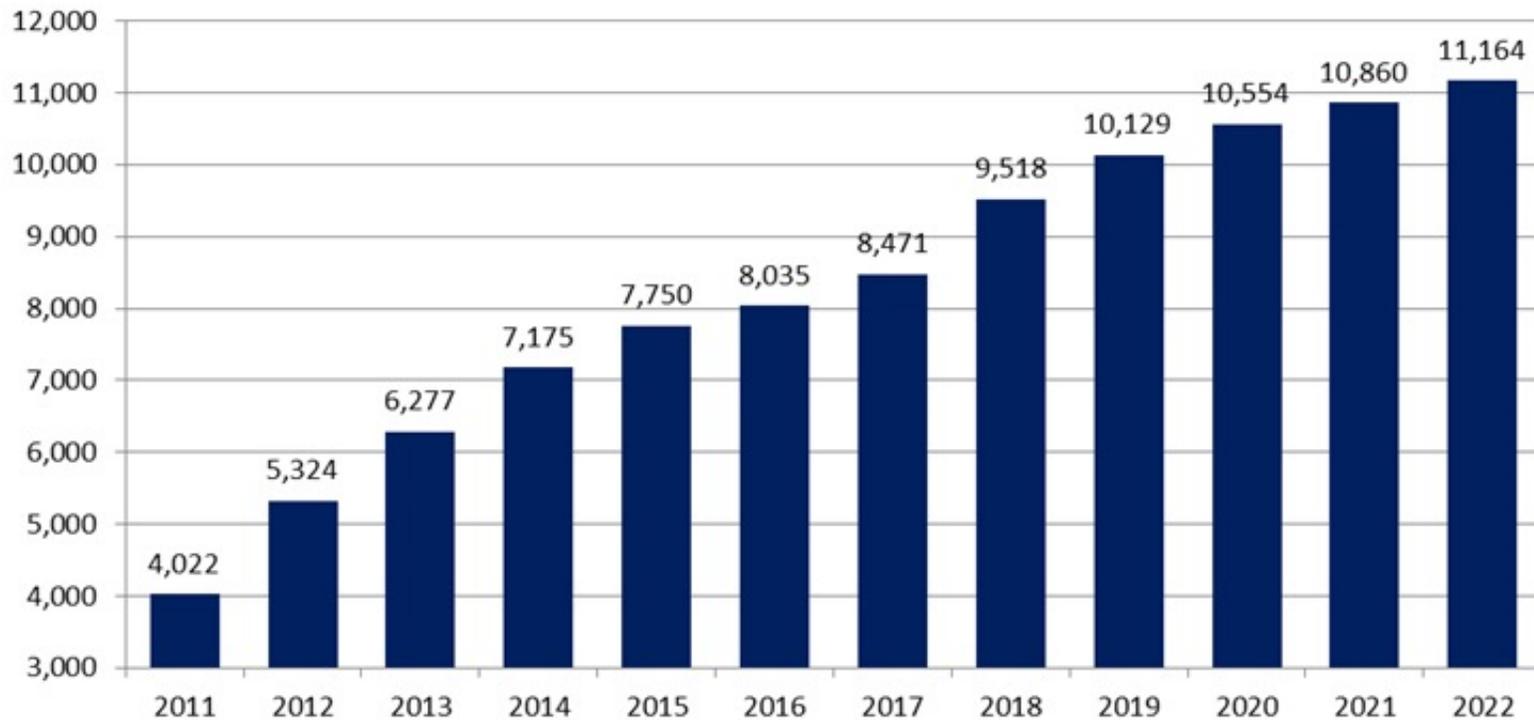


Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania Public Utility Commission Producer Impact Fee reports, online at <https://www.act13-reporting.puc.pa.gov/Modules/Reports/Reports.aspx>. Data for 2021 from http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Impact_Fee_Update_Outlook_2022.pdf and 2022 from <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/2022-Impact-Fee-Estimate.pdf>

The number of horizontal wells in Pennsylvania has increased significantly since 2011.

We expect further increases. There were **438** new wells spud in Pennsylvania over the course of 2022, compared to 385 in the comparable three quarters of 2021.

Number of Horizontal Wells in Pennsylvania, 2011 to 2022 (estimated)



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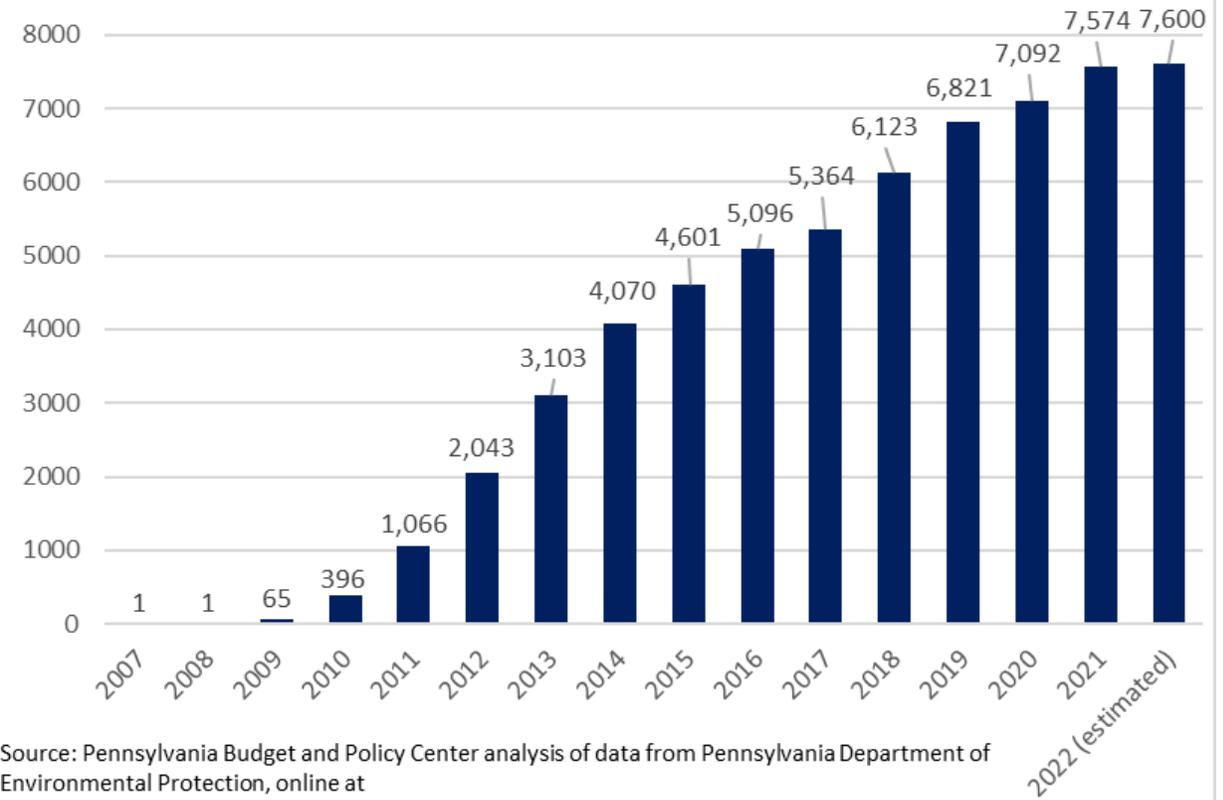
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Gas production has skyrocketed

- Gas production has increased 7-fold in Pennsylvania since 2011.
- In 2014, Pennsylvania became the second-largest natural gas producer in the U.S. and remains so today, behind only Texas. In 2021, gas production exceeded 7.5 trillion cubic feet and continues to rise each year.

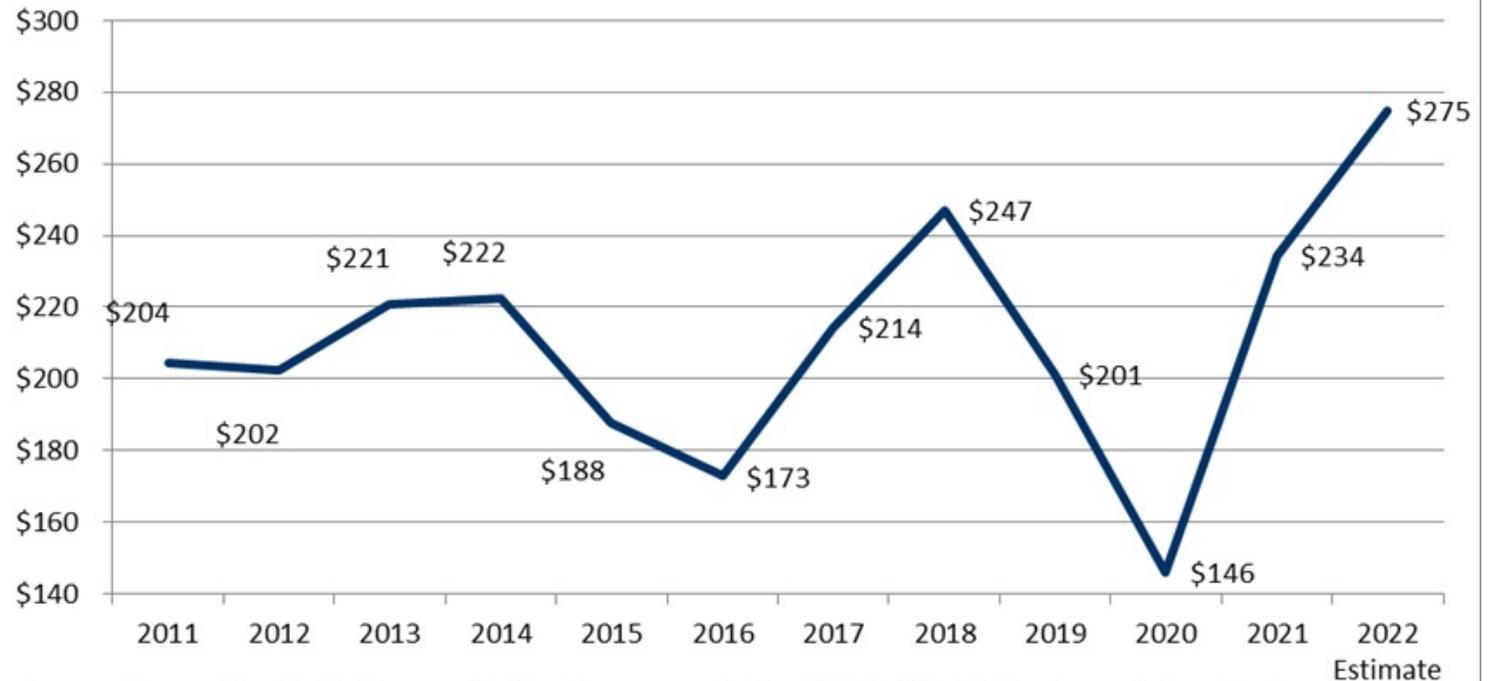
Pennsylvania Gas Production from Unconventional Wells
(billion cubic feet)



Source: Pennsylvania Budget and Policy Center analysis of data from Pennsylvania Department of Environmental Protection, online at <https://www.paoilandgasreporting.state.pa.us/publicreports/Modules/Welcome/ProdWasteReports.aspx>. Click on "Production Report" and then select a combination of reporting periods (e.g., 12 individual months or two six-month periods) for unconventional wells that add up to each of the years from 2011 to 2016. Click "View Report" on the right and production data come up for each well, along with a "Gas Total" figure at the top for the year in question. For 2007 to 2010, we used data on unconventional wells in Michael Wood, "Gas Production Booms, Drillers' Corporate Taxes Plummet," June 9, 2014; <http://www.pennbpc.org/gas-production-booms-drillers-corporate-tax-payments-plummet>. 2021 production number is from: http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Impact_Fee_Update_Outlook_2022.pdf and 2022 estimate is from <http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/2022-Impact-Fee-Estimate.pdf>

With an impact fee, more wells and gas production in Pennsylvania does not equal more revenue for the state.

Total Revenue From Pennsylvania Impact Fee (in millions of dollars), 2011 to 2022 (estimated)



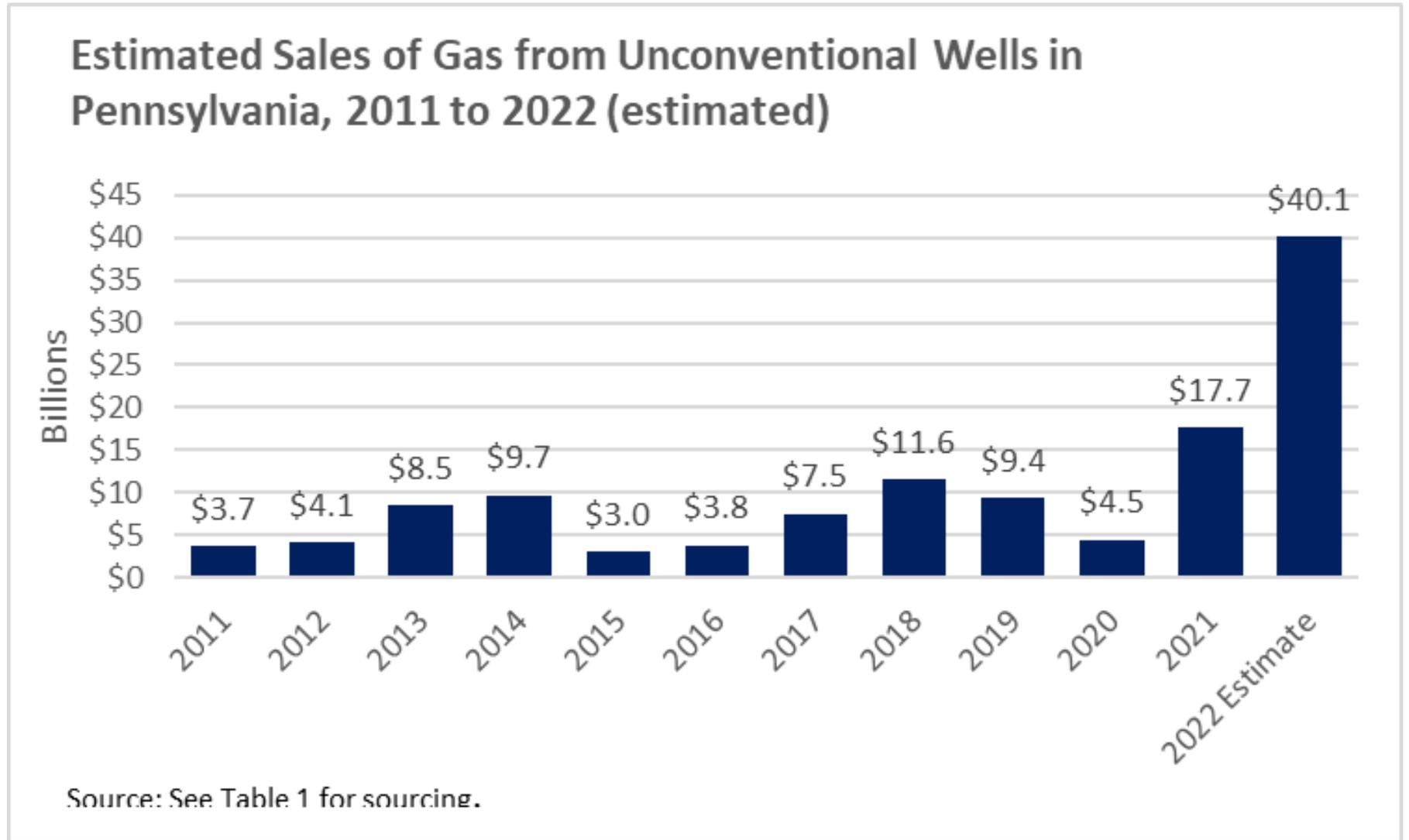
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Gas corporations are not making up for the lack of severance tax through other corporate tax payments

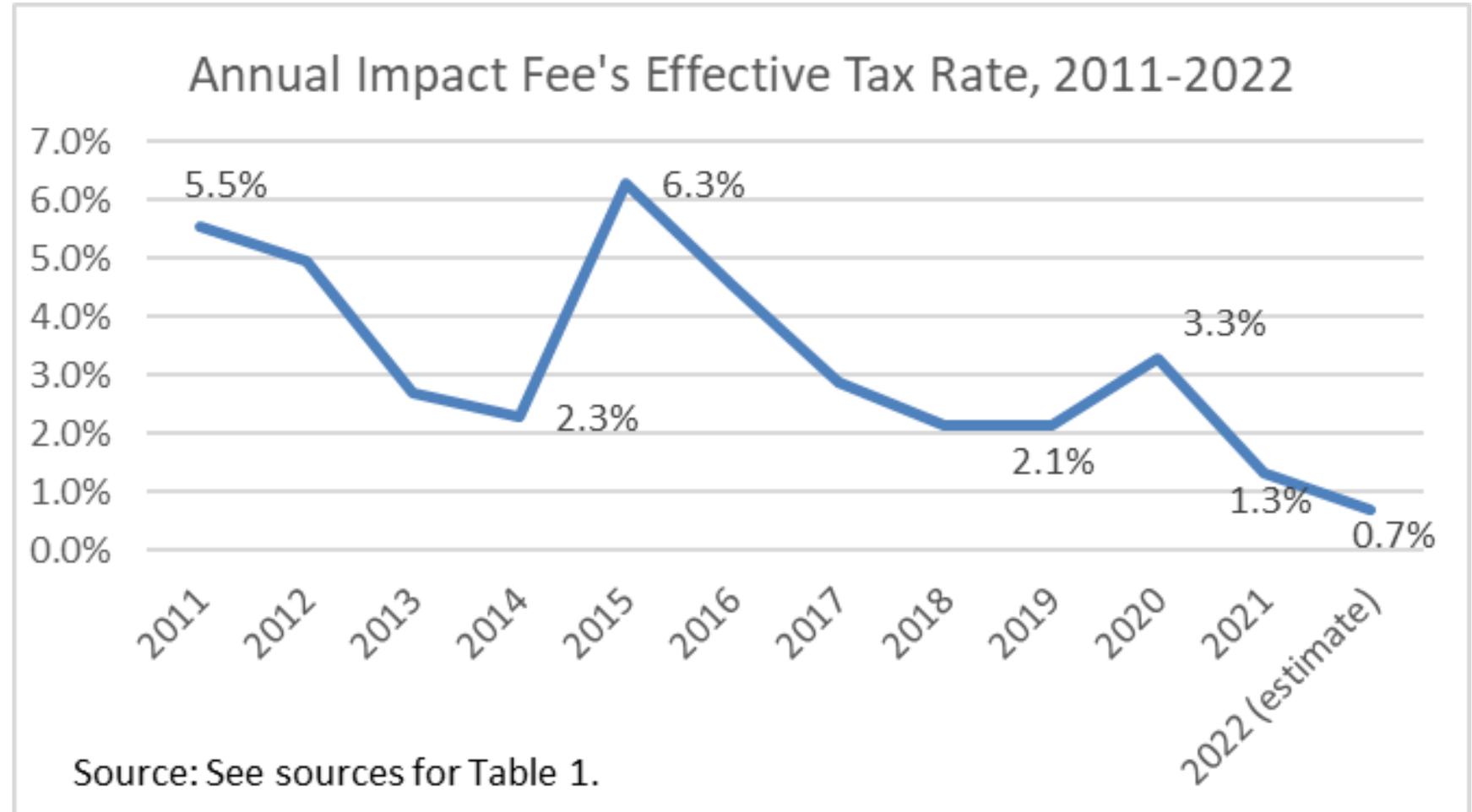
- In fact, 2/3rds of gas companies in PA avoid corporate tax payments by structuring their drilling operations as pass-through entities so they are only subject to the state's 3.07% personal income tax rate, rather than the higher corporate net income rate.
- The 1/3 that are not pass-through entities can lower their PA taxable income by using federal tax loopholes.



Total sales from gas produced in PA increased significantly in 2021 and skyrocketed in 2022.



The impact fee's effective tax rate has been decreasing in the last few years because of the increasing price of gas.

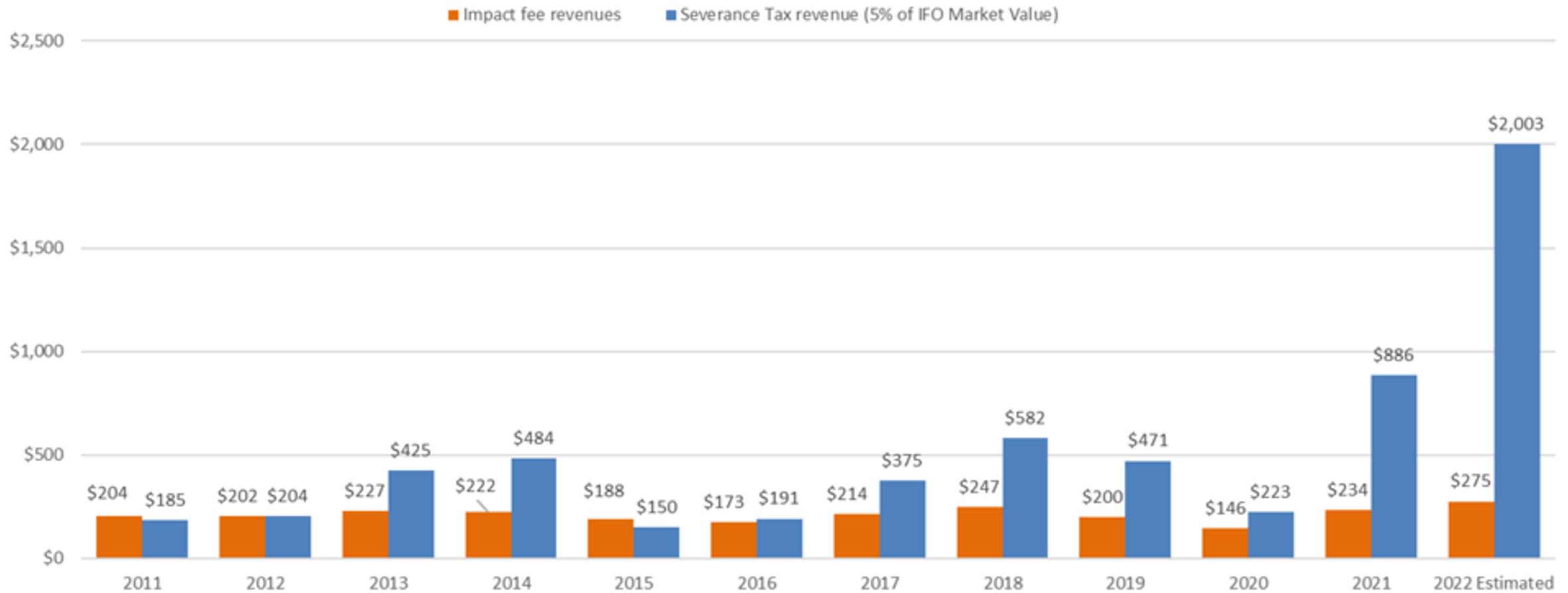


How would a severance tax differ from the impact fee?

- Many states tax the value of produced natural gas (taking a fraction of the market value, which is the amount of natural gas produced times the price of gas). The severance tax in Texas is 7.5%.
- In PA, production has steadily risen since 2008, but the price of gas has fluctuated. But, as has happened in 2021 and 2022, production was at an all-time high while the price of gas increased from \$0.63 in 2020 to an estimated \$5.27 in 2022.
- When production is high and gas prices are high, a severance tax will bring in significantly more money than the impact fee will.



Revenues from Impact Fee vs. a 5% Severance Tax, by year, 2011 to 2022 (estimated), in millions



Source: See Table 1 for sourcing.

- A 5% severance tax would have brought in \$1.9 billion more than the impact fee did between 2011 and 2021.
- In 2022 alone, estimates show that PA lost out on nearly that much in a single year - \$1.7 billion.

How much more money would a 5% severance tax raise than Pennsylvania's existing Impact Fee? (in thousands)	
	5% Severance Tax
Calendar Year	Severance Tax Revenue @ 5% of IFO Market Value Minus Impact Fee Collections
2011	-\$19,290
2012	\$1,914
2013	\$197,972
2014	\$261,940
2015	-\$38,132
2016	\$18,345
2017	\$161,020
2018	\$334,749
2019	\$269,534
2020	\$77,414
2021	\$680,917
Cumulative revenue loss (2011-2021)	\$1,946,383

Source: See Table 1 for sourcing.

Thank you!

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