MARCELLUS SHALE COALITION™

Fact-Checking

Wolf Administration's Higher Energy Tax Claims

KEY FACTS

- ✓ Recently, a diverse coalition of organizations representing small- and medium-sized business as well as tens of thousands of hard-working families across various sectors of Pa.'s workforce urged Gov. Wolf and the legislature to pursue commonsense polices focused on strengthening our economy and growing jobs.
- ✓ Unfortunately, the response from Gov. Wolf and his political appointees was deeply disappointing, particularly given the enormous opportunities tied to expanding use of our region's abundant natural gas supplies.
- ✓ Specifically, suggesting that principled disagreements on the issue of even higher energy taxes "*is simply unacceptable*" and that the nearly 250,000 Pennsylvanians who work in or with the natural gas industry are "*special interests*" in "*opposition to progress for Pennsylvania*" is simply unproductive.
- ✓ With all due respect to the governor and the office that he holds, we are not "*letting down our commonwealth*" by advocating for policies that encourage small business, union and manufacturing job growth (not to mention the clear environmental benefits tied to natural gas use).
- ✓ It's also unfortunate that the governor continues to attempt to advance a fundamentally false choice between "*the interests of children and fixing our schools*" and even higher energy taxes.

Higher Energy Tax Claims: Separating Fact from Fiction

WOLF CLAIMS

"You know that the severance tax I've proposed is critical to getting Pennsylvania back on track, and it will do so at minimal cost to Pennsylvania citizens. You know that since Pennsylvania exports a significant amount of the natural gas it produces, an estimated 80% of the tax will be paid by non-Pennsylvanians." (Gov. Wolf press release, 5/18/15)

FACTS

- ✓ Despite previous efforts otherwise, Gov. Wolf finally acknowledges that additional energy taxes will indeed be paid by Pennsylvania consumers – including families, those on fixed-incomes, small businesses and manufacturers – in the form of higher electricity and home-heating bills.

- ✓ In fact, to the governor's point, 100% of Pennsylvanians using natural gas – for home heating, electricity, residential use as well as regional manufacturers – will see a cost increase as a result of higher energy taxes.

- ✓ Experts agree. According to Pa.'s Independent Fiscal Office, Gov. Wolf's energy tax increase proposal "*would be passed onto consumers in the form of higher electricity and heating bills*."

- ✓ And given the fact that Pa. consumes more than 1.1 trillion cubic feet of natural gas annually, residential consumers as well as industrial end-users will pay the bulk of this higher energy tax.

- ✓ Why jeopardize these important consumer benefits tied to natural gas with even higher energy taxes?

  - **Boosting Household Incomes:** Per IHS, shale increased U.S. household incomes by an avg. of $1,200.

  - **$13 Billion in Annual Consumer Savings:** According to Brookings, residential consumer natural gas bills have dropped $13 billion per year from 2007-2013 thanks to the shale gas revolution.

  - **"UGI to cut rates 7.5%, setting a 15-year low":** UGI Utilities will cut its residential natural-gas rate another 7.5%, the company said Thursday, sending the rate to a 15-year low. The latest decline, effective June 1, is due to an abundant supply of gas coming from Marcellus Shale, according to the company. Nearly 90% of UGI's supply comes from Marcellus Shale "and our customers are benefiting from this plentiful, reliable supply," said Paul Szykman, UGI's vice president of rates. (Lancaster Online, 5/15/15)

WOLF CLAIMS

"Furthermore, despite false claims to the contrary, natural gas companies remain strongly profitable. Last year the value of natural gas severed in Pa. was nearly $11 billion, up from $4 billion in 2011." (Gov. Wolf press release, 5/18/15)

FACTS

- ✓ As the governor knows, many natural gas producers active in Pa. also have global operations. The competition for the necessary – and increasingly limited – capital to execute oil and natural gas exploration and production projects is fierce not only across our region, but across the world.

- ✓ Given these clear market dynamic factors, uncompetitive polices – whether higher energy taxes or unnecessary and duplicative regulations that don't present any additional environmental benefits – threaten continued shale development and job creation in the Commonwealth. Simply stated: less investment results in less jobs.

  - $9+ billion in planned capital expenditures by companies operating in Pa. has already been cut.

  - Companies of all sizes across the energy industry's far-reaching supply chain have already laid-off tens of thousands of employees due to the current economic circumstances.

POLL: Pa. Voters Overwhelming Support Jobs Over New Energy Taxes

58% of Pa. voters say no to higher energy taxes if it results in jobs leaving Pa./residents losing their jobs.

57% of Pa. voters say no to higher energy taxes to pay for public employee pensions.

61% of Pa. voters chose energy jobs over higher energy taxes.

WOLF CLAIMS

"Moreover, natural gas prices, which have been depressed both nationally and locally, are expected to improve significantly by the time the severance tax takes effect next year." (Gov. Wolf press release, 5/18/15)

FACTS

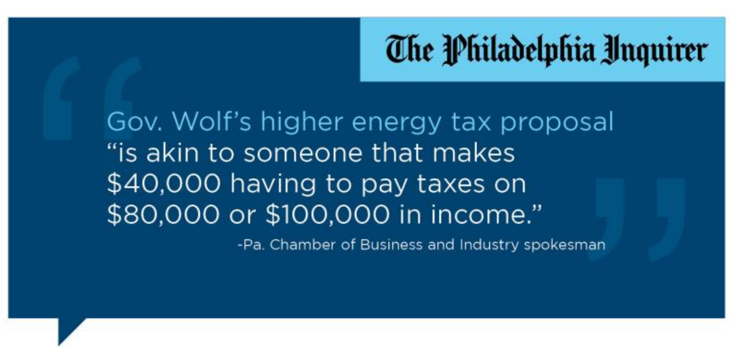
- ✓ Once again, Gov. Wolf and his administration demonstrate a startling lack of understanding of basic economics. As has been widely reported, Pa.'s natural gas sells at a deep discount compared to national commodity prices principally due to pipeline infrastructure constraints.
- ✓ In fact, nearly 90% of Pa.'s natural gas sold in monthly contracts currently averages $1.10/mcf. Given these market dynamics, Gov. Wolf's proposed energy tax equates to more than a 20% effective tax rate.

WOLF ADMIN. CLAIMS

"With the most productive wells and prolific shale resources in the country that Pennsylvania is blessed to have, we are the only state without a severance tax. That's bad for the shale industry, and it is unfair to the people of Pennsylvania."(Katie McGinty/Pa. Press Club, 5/18/15)

FACTS

- ✓ **Consider these facts:** Pa. is the only state in the nation with an impact tax, which was established by Act 13 to ensure the tax revenue generated from our industry would benefit our entire Commonwealth to the tune of $850 million. In fact, Pa.'s impact tax generated nearly $30 million more last year than West Virginia's severance tax and close to $80 million more than West Virginia's severance tax in 2013.
- ✓ **Small businesses, local government officials and labor unions** – representing tens of thousands (if not more) of Pennsylvanians – continue to speak out clearly in a unified voice against job-crushing energy taxes. How is protecting these good-paying jobs, many of them union, as well as important impact tax revenue for local communities across the entire Commonwealth, "unfair"?
- ✓ **Laborers' International Union of North America:** "If you excessively tax the shale industry, you risk hurting employers, workers and communities across this state." (Pittsburgh Business Times, 4/7/15)
- ✓ **North America's Building Trades Union:** Lawmakers need "to make sure that they don't kill this industry before it has the chance to make the largest impact in Pennsylvania and across the country," Sean McGarvey said. "I wouldn't want to be on the wrong side of history." (Wilkes-Barre Times-Leader, 10/17/14)
- ✓ **Shale Supply Chain Small Business:** "For those of you who doubt if the severance tax will make companies leave, I have news: some of them already have." (Citizens Voice, 5/15/15)



WOLF ADMIN. CLAIMS

"The industry has, and will continue to have, a standing invitation to join the governor in honest dialogue about his proposal. A proposal that is based on the West Virginia model and is right down the middle in the pack of tax plans."
(Katie McGinty/Pa. Press Club, 5/18/15)

FACTS

- ✓ **Tax Rate Smoke-and-Mirrors:** As outlined above, Gov. Wolf's higher energy tax rate is not simply 5% -- it's 5% + 0.047/mcf. That, coupled with the proposed government-mandated floor of taxable value of gas at $2.97/mcf (regardless of what gas actually sells for), drives that effective rate to more than 20%. To suggest otherwise is misleading and intellectually dishonest – and hardly, by any measure, "down the middle in the pack."
- ✓ **Let's Avoid a Race to the Bottom:** Put aside for a moment the fact that Gov. Wolf's energy tax represents the highest effective rate (by a large margin) in the entire nation. Now ask why Pa. should follow West Virginia's lead given the fact the Mountaineer State is ranked nearly dead last among *America's Top States For Business*.
- ✓ **No Two States Are the Same:** Following the administration's logic, consider this: Texas, a top oil and natural gas-producing state, doesn't have a corporate or personal income tax or sales tax. Will Pa. follow its model?
- ✓ **Capital Flows Like Water:** Higher taxes – along with the Commonwealth's steep basis differentials, that are unique to Pennsylvania, and our high-cost regulatory framework -- will deter capital investment and job growth.
- ✓ **Open to Constructive Meetings:** Nonetheless, and as indicated in the diverse coalition's letter last week, our industry and its partners remain willing to lend subject matter expertise to the administration and the General Assembly on policy matters that affect the industry.

WOLF ADMIN. CLAIMS

"The industry says that it has paid $2 billion in taxes since 2008. That's not the case. The reality is that this is a whopper of a number. … From 2009 to 2013, cumulatively, the gas extraction industry has paid $193 million in taxes. That's the entire industry and that's the cumulative number from '09 to '13 and note that is not just the corporate net income tax number. That is the total number – CNI plus sales and use tax, plus PIT, plus corporate stock and franchise tax."
(Katie McGinty/Pa. Press Club, 5/18/15)

FACTS

- ✓ **Simply Not True:** This figure is misleading at best, and if we accept this calculation it must assume (very wrongly) that shale producers and the robust supply chain of local small- and medium-size businesses that support the industry 1) do not do not pay payroll taxes, and 2) do not purchase diesel fuel. We know that the administration's math just doesn't add up and that they deliberately ignore that the impact tax has generated from producers $850 million over the past several years. Facts, as they say, are awfully stubborn things.
- ✓ **$2.1 Billion in Tax Revenues:** Natural gas operators and the robust supply chain that supports the industry pay the same taxes that every other business in Pa. pays, which has helped generate more than $2.1 billion since 2007. (Pa. Dept. of Revenue)
- ✓ **$850 Million in Impact Taxes:** Pa. is the only state that imposes a special impact tax, which has generated $850 million through 2014. (Pa. PUC)
- ✓ **More than $1 Billion in Lease, Royalty Revenues:** Pa. has generated more than $1 billion in bonus payments and royalties from shale development on state-owned lands. (Pa. DCNR)
- ✓ **High Tax Climate:** Pa. is a high-tax and regulatory state with a very challenging business climate. (MSC Blog: What They're Saying About Higher Energy Tax Proposals, 3/18/15)

WOLF ADMIN. CLAIMS

"Every industry independent analyst confirms that the impact fee is a paltry substitute for a fair tax. The IFO reports the impact fee equates to a mere 2.1% in '14 others say it's more like 1.3%. The IFO and others document that it delivers the lowest effective tax in the country." (Katie McGinty/Pa. Press Club, 5/18/15)

FACTS

- ✓ **Highest Net Corporate Income Tax of All Energy-Producing States:** Pa. has a host of taxes and fees that other oil and gas producing states do not have. For example, and as IFO has indicated, Pa. has *"the highest statutory corporate income tax rate* (9.99%)" among energy-producing states, whereas "*Ohio and Texas do not levy a corporate income tax*." (IFO, March 2014, pgs. 29-30).

- ✓ **Additional Pa. Taxes:** Pa.'s state sales & use tax rates, and permit and bond fees are exceptionally high. Second only to Arkansas and Texas by a small fraction, Pa.'s 6% State Sales & Use Tax Rate is of the highest across all shale-producing states. Pa.'s $5,000 well permit fee is 10x higher than Texas'. Pa.'s well bonding fees also far exceed those in other energy-producing states. In Pa., multi-well pads -- which accounts for virtually all shale development -- bonding fees can be as high as $600k. In Texas and West Virginia, these fees are at most $250k. Arkansas' and Colorado's fees are at most $100k. In Ohio, these fees are capped at $15k. (Ibid, pgs. 31-33)

- ✓ **Apples and Oranges:** IFO has stated clearly in a previous study that its methodology -- based on available data and overall tax liabilities in comparable shale producing states -- makes "*it difficult to generate an 'apples to apples' comparison of state severance tax systems*," adding that "*statutory [severance] tax rates alone are not comparable due to the unique features inherent in each state's tax code*."

    - IFO goes on to further underscore this critically important fact: "*These dissimilarities [across states] further complicate attempts to compare tax policies related to natural gas extraction," and note that "sufficient information is not available to consolidate other types of taxes into the effective tax rate measure*." (Ibid, pg. 1)

- ✓ **Wildly Overstated Projections:** Claims about new and even higher energy tax revenue projections have been wildly overstated and are simply not supported by the facts, as the AP and other major news outlets have reported (AP, 12/7/14; Phila. Inq., 3/12/15; Tribune-Review, 3/8/15; Morning Call, 3/7/15).

- ✓ **Creates Govt.-Mandated Price Floor:** As the AP and other major news outlets have reported, the governor's proposal creates an artificial price floor of $2.97 per mcf that's "*unique among states*" with a severance tax. This price floor fundamentally ignores what's going on in Pa.'s marketplace and creates excessive rates that are well above any other shale-producing state (AP, 3/17/15; Phila. Inq., 3/16/15; SNL Financial, 3/13/15).

More Resources

MarcellusCoalition.org/blog

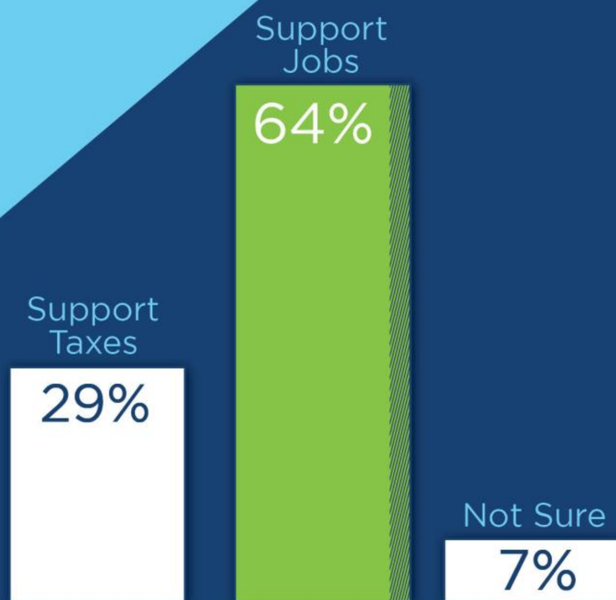
Higher Energy Taxes Threaten Shale's Manufacturing Renaissance
Local Officials: Higher Energy Taxes "Could Hurt Local Economies"
Natural Gas Industry and Small Businesses in it Together
Higher Energy Taxes Threaten Shale's Local Benefits
Higher Energy Taxes Will Sting Consumers
Local Pa. Officials United in Opposition to Higher Energy Taxes
Five #ShaleTaxFacts on Tax Day
Five Questions for Governor Wolf
Higher Energy Taxes Will "Knock the Legs Out of Industry"

What They're Saying About Higher Energy Tax Proposals
Higher Energy Tax Math Just Doesn't Add Up
"Act 13 is a Good Thing. It's Working and Needs to Stay!"
Higher Energy Taxes Would Stifle Pa. Growth
Energy Taxes Threaten Local Benefits, Small Businesses & Labor
Energy Taxes Would "Squander a Tremendous Opportunity"
Top Union Official: New Energy "Taxes Will Stifle Growth"
Local Communities "Will Lose Out Immensely" With Energy Taxes
Small Businesses to Harrisburg on New Energy Tax: "Don't Do It!"

New Poll Results:

Pa. "Voters Want Natural Gas Industry to Grow" and Support Jobs Over New Taxes

Pa. voters support jobs over new energy taxes:

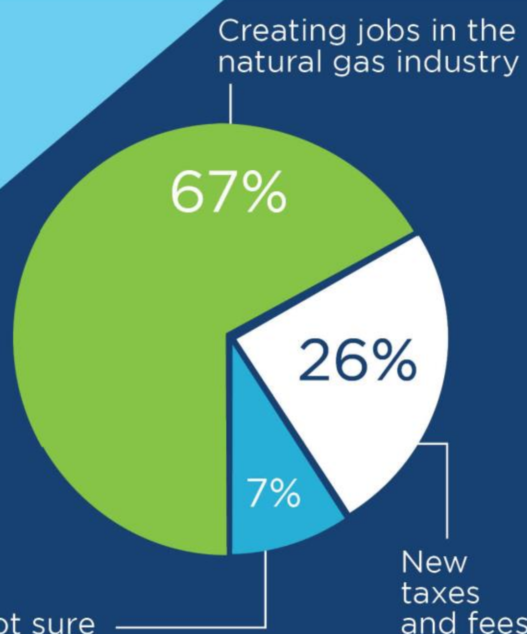


Source: Anderson Robbins Research, Statewide survey of Pa. voters (2/27/15)

"6 in 10 Voters say they would be more likely to support politicians who encourage the growth of the natural gas industry in the state."

Source: Anderson Robbins Research, Statewide survey of Pa. voters (2/27/15)

When given a choice between new natural gas jobs or higher taxes to fund the state budget, Pa. residents chose...



Source: Anderson Robbins Research, Statewide survey of Pa. voters (2/27/15)

"There is a strong preference among voters of all ideologies to help the state budget by encouraging more use of natural gas and growing jobs within the industry, as opposed to adding new taxes on natural gas."

Beaver County Times (3/1/15)

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