

Issue: PA-Economy

Infrastructure Initiatives and Jobs: Can We Afford to Turn Down a Severance Tax?

Introduction

Infrastructure is the foundation of any society. It allows people to connect with schools and jobs, transports people and goods, and delivers clean water and reliable electricity to homes and businesses. Infrastructure is an investment in the future, moving society forward in energy efficiency and renewable energies. It is critical for public health and for general prosperity.

In the most recent 2018 assessment of Pennsylvania's infrastructure, done by the American Society of Civil Engineers, Pennsylvania earned three B grades for categories of infrastructure in good condition, but earned numerous C's and D's. Fifteen types of infrastructure were in "mediocre" to "poor" condition, "requiring attention," and "at risk."¹ See Appendix A for Pennsylvania's report card.

Pennsylvanians strongly support upgrading or replacing older, ineffective infrastructure around the state.² No community wants to endure repeated flooding that threatens to intensify over time, bad roads, slow internet access or none at all, contaminated drinking water, or schools that are unsafe because of lead pipes and paint.

Pennsylvanians have also shown their support for moving the state forward in promoting clean renewable energies and in pursuing energy efficiency.^{3,4} These sectors drive energy costs lower and create many good jobs.⁵

Governor Wolf's Restore PA

In 2019, Governor Wolf proposed a program, Restore PA, which would replace and revitalize much of the state's infrastructure. It would ready the state for heavy rains. It would move the state forward in energy-efficient ways and in renewable energy use. This initiative attracted a bipartisan group of 25 Senators and 99 House members as cosponsors, and had support from many municipalities, organizations, and redevelopment groups. The legislation proposing Restore PA was just short of the number of votes needed to pass. This was largely because the initiative was challenged by the Republican leadership in both chambers.⁶

Restore PA is still an open option. It calls for \$4.5 billion in bonds to finance four years of infrastructure projects around the state, generating many good-paying jobs in the fields of engineering, construction, and technology. These bonds would be repaid over 20 years through a severance tax on natural gas companies.

Because there has been so much political pushback on severance taxes, another alternative is to provide the funding for the \$4.5 billion through Governor Wolf's proposal to join the Regional Greenhouse Gas Initiative (RGGI), a ten-state cooperative effort to limit carbon dioxide through a cap-and-trade arrangement—known to boost innovation in renewable energies and create jobs.⁷ The carbon-emission fees generated by RGGI, estimated to be hundreds of millions per year, could supply the capital to pay for Restore PA infrastructure projects.⁸

Infrastructure Initiatives

Some of the initiatives in Restore PA include:

- Flood Mitigation—Some of the state’s stormwater management infrastructure is over 100 years old and in dire need of updating.⁹ Flood walls and levees need upgrading.¹⁰ Ready PA, a government website helping to keep residents safe, says Pennsylvania floods cost billions of dollars and damage thousands of homes each year.¹¹
- Broadband Access—There are at least 800,000 Pennsylvanians who have no access to the internet.¹² The access available for even more people lacks sufficient speed. Not having high-speed internet threatens students’ education, the quality of healthcare, and almost all businesses’ basic need to transmit data.¹³ High-speed internet is the basis for modern-day economies; without it, areas do not attract long-term business development. The oil and gas industry has recently identified internet bandwidth as the next “bottleneck” in streamlining and lowering production costs and enabling transmission of methane leak and drilling data.^{14,15}
- Revitalization and Renewal—In many areas of the state where affordable housing is needed, there are hundreds of thousands of abandoned buildings that could be transformed into homes or businesses or farms growing fresh food.¹⁶
- Green Energy and Energy Efficiency—There is a saying, “The least expensive energy is the energy you do not use.” Energy efficiency is the first step in moving to a more sustainable way of life. Investments in energy efficiency and renewable energies are essential for Pennsylvania to be a leader in the “Clean Energy Economy” and to reap the good-paying jobs that come with shifting to sustainable sources of energy
- Transportation Infrastructure—Moving people, goods and services efficiently decreases the costs of driving and the cost of the products being transported. It increases driver safety and overall well-being by avoiding congestion.¹⁷
- Contaminant Remediation—Schools should be safe, free of lead pipes and paint.¹⁸
- Environmental and Recreational Projects—Revitalize and expand Pennsylvania parks.¹⁹

A bipartisan seven-member board, made up of gubernatorial appointees and legislators, would oversee the allocation of Restore PA funds, subject to a competitive and evaluative selection process.^{20,21}

The Cost of Doing Nothing

Economists love infrastructure spending because these investments have an economic “multiplier effect.” A University of Maryland study suggested that every \$1 investment in infrastructure leads to \$3 in overall growth in the economy, with greater gains during a recession. Now, during the COVID-19 downturn, would be a good time to start.²²

Inaction, on the other hand, not only limits growth in jobs and productivity, but multiplies spending by the public and by state and federal government on disaster recovery. Total state spending on disaster recovery is not easy to measure; Pew Charitable Trust researchers urge “lawmakers to improve data collection.” But, in looking just at the Federal Disaster Relief Fund—a fraction of total

federal and state spending, but indicative of trends—an average \$1 billion in annual disaster relief in the 70's and 80's grew to \$4 billion in the 90's and has reached close to \$8 billion a year today (adjusted for inflation).^{23,24} This trend backs up the 2018 point made by the U.S. government's National Climate Assessment emphasizing how climate change is damaging the environment and shrinking our economy.²⁵ Can Pennsylvania afford to wait while disaster recovery costs multiply?

Jobs

It is difficult to say how many jobs would be created if \$4.5 billion dollars of infrastructure work were carried out, but a 2014 Standard & Poor's study says 29,000 directly-related jobs would be created per \$1.3 billion spent on infrastructure.²⁶

Severance Taxes

Pennsylvania is rich in natural resources and located near large energy markets, making the state very attractive to natural gas companies. Pennsylvania has made a significant investment in the oil and gas industry by extending tax credits, including \$1.65 billion over 25 years to Royal Dutch Shell to build a plastics plant and \$670 million over 25 years to future petrochemical plants (fertilizer, industrial chemicals)—and allowing pipeline infrastructure to crisscross the state's private and public lands.^{27,28} Enacting a severance tax is not going to dissuade the oil and gas industry from doing business in Pennsylvania.

Pennsylvania has the second-largest natural gas production in the country, closely following Texas. Pennsylvania produced 80% as much natural gas as Texas did in 2017.²⁹ Texas has a severance tax on natural gas that generated almost \$1 billion dollars in 2017, while Pennsylvania has an impact (drilling) fee that generated only \$210 million in the same year.^{30,31} So, while Pennsylvania produced 80% as much gas, the state made less than 25% as much in natural gas fees or taxes.

Some argue that Texas has no state income tax, yet Pennsylvania does, suggesting adding a severance tax would be excessive in Pennsylvania. However, many of the oil and gas companies in Pennsylvania pay very little federal or state income tax.³² For example, the largest natural gas company operating in Pennsylvania, Range Resources Appalachia, with \$3.3 billion in 2018 revenues, paid zero income taxes that year; the company paid only \$17,000 in taxes on 2017 revenue of \$2.6 billion.³³

Pennsylvania is the only major natural gas producing state that has no severance tax. Natural gas companies are eager for things to stay that way. Gas lobbyists walk the halls of Harrisburg, spending millions each year in lobbying and campaign contributions.³⁴

As Pennsylvania delays enacting a severance tax, hundreds of millions in state revenues are lost each year, putting pressure on individual taxpayers to pay for more of the state's costs and threatening investments in infrastructure, energy efficiency and renewable energies.

Voters Approve, Republican Legislative Leaders Do Not

Per an August 2019 Franklin and Marshall College poll, Pennsylvanians from all constituencies favor Governor Wolf's Restore PA plan, including its funding by a severance tax.³⁵

Conclusion

Governor Wolf has proposed an important and workable way forward to build up Pennsylvania's infrastructure. Investing in roads, broadband access, school safety and renewable energy is an idea

that will take the state from the reaction and recovery mode of today into a proactive investment in the future. He needs a severance tax to be enacted to pay for this.

Let's take the burden of taxes off of the working people of Pennsylvania and ask the industries that benefit so much from our natural resources to pay their share for the infrastructure that benefits all.

Appendix A

The grades for Pennsylvania's infrastructure, done by the American Society of Civil Engineers, are shown below. The source of this information is https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-PA-report_2018.pdf.



2018 REPORT CARD FOR PENNSYLVANIA'S INFRASTRUCTURE



2018 REPORT CARD FOR PENNSYLVANIA'S INFRASTRUCTURE - PAGE 8

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- ¹ https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-PA-report_2018.pdf
- ² <https://why.org/articles/poll-broad-support-for-wolfs-plan-to-tax-pa-gas-drillers-to-pay-for-infrastructure-upgrades/>
- ³ <https://environmentamerica.org/blogs/environment-america-blog/ame/i-went-door-door-100-percent-renewable-energy-pennsylvania-here%E2%80%99s>
- ⁴ <https://keealliance.org/new-energy-efficiency-bill-introduced-to-pennsylvania-senate/>
- ⁵ <https://www.post-gazette.com/opinion/letters/2019/05/30/Renewable-energy/stories/201905300063>
- ⁶ <https://stateimpact.npr.org/pennsylvania/2019/06/06/wolfs-infrastructure-plan-based-on-a-natural-gas-severance-tax-has-bipartisan-support-but-not-from-leaders/>
- ⁷ <https://www.rggi.org/>
- ⁸ <https://www.pennlive.com/news/2019/06/could-carbon-emissions-become-an-alternative-funding-source-for-gov-wolfs-restore-pa-infrastructure-program.html>
- ⁹ http://www.pareportcard.org/PARC2018/downloads/ASCE_Brochure_PA2018.pdf
- ¹⁰ <https://www.pml.org/advocacy/restore-pa/>
- ¹¹ <https://www.ready.pa.gov/BeInformed/Know-The-Threats/Pages/Flooding.aspx>
- ¹² https://www.rural.palegislature.us/broadband/Broadband_Availability_and_Access_in_Rural_Pennsylvania_2019_Report.pdf
- ¹³ <https://www.centredaily.com/article228780844.html>
- ¹⁴ <https://www.houstonchronicle.com/business/energy/article/More-Data-Than-Oil-Bandwidth-poised-to-become-14815752.php>
- ¹⁵ <https://www.edf.org/climate/oil-and-gas-enters-digital-era>
- ¹⁶ <https://housingalliancepa.org/issues/blightland-banks/>
- ¹⁷ <https://quotewizard.com/news/posts/states-with-worst-infrastructure>
- ¹⁸ <https://www.governor.pa.gov/newsroom/governor-wolf-restore-pennsylvania-would-help-remediate-contaminants-in-pennsylvania-schools/>
- ¹⁹ <https://www.governor.pa.gov/newsroom/governor-wolf-restore-pennsylvania-will-invest-in-green-infrastructure/>
- ²⁰ <https://www.penncapital-star.com/energy-environment/gov-wolf-touted-near-majority-backing-for-his-infrastructure-plan-in-june-environmental-advocates-are-trying-to-chip-away-at-that-support/>
- ²¹ <https://www.governor.pa.gov/newsroom/governor-wolf-restore-pennsylvania-will-invest-in-green-infrastructure/>
- ²² <https://www.cfr.org/background/state-us-infrastructure>
- ²³ <https://www.washingtonpost.com/us-policy/2019/04/22/taxpayer-spending-us-disaster-fund-explodes-amid-climate-change-population-trends/>
- ²⁴ This excludes over 50% of federal spending, all state and local government and resident spending, but it shows the upwardly spiraling trend.
- ²⁵ <https://www.nytimes.com/2018/11/23/climate/us-climate-report.html>
- ²⁶ <https://archive.thinkprogress.org/behind-hillary-clintons-250-billion-infrastructure-plan-d633b44c646b/>
- ²⁷ <https://apnews.com/022a08ed292fb22152dd328470d9dfe0>
- ²⁸ <https://archive.triblive.com/business/local-stories/pennsylvania-tax-incentive-plan-played-major-role-in-luring-shell-cracker-plant/>
- ²⁹ <https://www.fool.com/slideshow/these-15-states-produce-94-us-natural-gas/>
- ³⁰ <https://www.texastribune.org/2018/01/05/hey-texplainer-how-does-texas-budget-use-taxes-oil-and-natural-gas-pro/>
- ³¹ <https://www.bizjournals.com/pittsburgh/news/2018/06/21/states-shale-impact-fee-totals-209m-for-2017.html>
- ³² <http://www.multistateshale.org/top-5-facts-about-drilling-and-taxes-in-pennsylvania#:~:text=1.,the%20beginning%20of%20the%20boom.>
- ³³ <http://ir.rangeresources.com/news-releases/news-release-details/range-announces-fourth-quarter-and-year-end-2018-results>
- ³⁴ <https://www.governing.com/topics/transportation-infrastructure/gov-taxing-hydraulic-fracking-oil.html>
- ³⁵ <https://www.fandm.edu/uploads/files/366978281722999151-f-m-poll-release-august-2019.pdf> (p14)