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JOINT SENATE AND HOUSE DEMOCRATIC POLICY COMMITTEE

**Policy Hearing:
Restore PA**

**Monday, June 10, 2019
418 Main Capitol Building, Harrisburg, PA**

AGENDA

- 10:00 a.m. Welcome and Opening Remarks
- Senator Lisa M. Boscola, Chair
 - Representative Mike Sturla, Chair
- 10:10 a.m. Panel from the Administration:
- Dennis M. Davin
Secretary
Pennsylvania Department of Community & Economic Development
 - Sam Robinson
Deputy Chief of Staff
Office of Governor Tom Wolf
- 11:00 a.m. Questions from Members
- 11:50 a.m. Closing Remarks
- Senator Lisa M. Boscola, Chair
 - Representative Mike Sturla, Chair

**Testimony of Pennsylvania Department of Community and Economic Development Secretary
Dennis Davin on Restore Pennsylvania**

House/Senate Democratic Policy Committee Hearing – Monday, June 10, 10:00 AM

Good morning.

Chairwoman Boscola, Chairman Sturla, and members of the House and Senate Democratic Policy Committees: thank you for having me here today to discuss what I feel will be a transformative initiative for the Commonwealth of Pennsylvania.

When I was appointed secretary of the Department of Community and Economic Development in early 2015, one of my top priorities was for me and my deputy secretaries to get out on the road and visit as many communities as possible. I wanted us to hear about the challenges they face on a daily basis.

As communities are being asked to do more with less with every passing year, I wanted to see what kind of assistance we at the commonwealth could offer. Our end goal is to do everything we can to help communities become places where people can Work Smart and Live Happy.

And we've made meaningful progress. Through our community development programs like Keystone Communities, our tax credit programs like the Neighborhood Assistance Program, the technical assistance we've provided to help municipalities improve their financial condition, and so much more – I'm proud of what we have accomplished in these first four years.

And yet, there remains a critical funding gap for thousands of communities across Pennsylvania that are looking to combat their infrastructure challenges. These challenges – in particular, issues like blight remediation, broadband access, flood protection, and green infrastructure – place extraordinary financial burdens on our municipalities. When we've visited these areas, and they've asked us how we can help, we've had no choice but to tell them there was not enough funding available that would come close to tackling their problem on a comprehensive scale. Governor Wolf has mentioned that this is an issue that he faces too in his own travels around Pennsylvania.

To be frank, this is simply not good government. As a commonwealth, we're responsible for helping our communities grow, thrive, and improve the quality of life for our residents. Unchecked blight, lack of broadband access, and living in fear of flood damage runs counter to those principles. In the past several years and decades, the can has consistently been kicked down the road, and now our communities face massive infrastructure challenges with astronomical costs in which they have no financial means to tackle on their own.

Right now, we're at an inflection point. We can either continue to let these problems spiral and wreak havoc on our residents, businesses, and municipalities – or we can take action.

That's exactly what Restore Pennsylvania is about – taking action. I commend Governor Wolf for this bold proposal because it's time that we start tackling these challenges head on.

The Restore Pennsylvania legislation proposes \$4.5 billion dollars, raised through a commonsense severance tax, to help communities remediate blight, expand broadband access in rural areas, increase flood protection, improve our transportation and green infrastructure, and remediate contaminants in our water sources and our brownfield sites. Despite the challenges we face, the good news is that I think all of us in state government understand that these are significant issues that need to be addressed. But as is often the case, the sticking point is how we pay for it.

The only way we can raise the funds necessary to comprehensively address these infrastructure issues is through a commonsense severance tax on the natural gas industry. This morning, I wanted to talk about that issue specifically. I feel there is a lot of misinformation out there about what the severance tax will do and what it won't do.

First, this call for a severance tax isn't new. Governor Wolf has called for some form of severance tax every year he's been in office, and for good reason. Pennsylvania is fortunate to be located on one of the largest shale natural gas plays in the world in the Marcellus Shale. The result is that gas production is booming, and we have billions of dollars of natural gas pipeline infrastructure under our feet right now.

In fact, we're currently the second-largest producer of natural gas in the United States, only behind Texas. And we'll likely overtake Texas in the next few years. Despite the abundance of natural gas production here, we're the only gas-producing state that does not levy a severance tax on gas drillers.

Yes, we have an impact fee – but that impact fee is based on number of wells rather than volume of production. As technology has increased and we need fewer wells to extract the same volume of gas, we're not seeing the returns on the impact fee that we may have been anticipating when the fee was originally introduced. The result is that Pennsylvanians aren't getting their fair share for the resources under our feet.

Rather than be based on number of wells, a severance tax would be tied to volume of production, as is the standard in other states. Texas, for example, has a severance tax on natural gas, and has had one for decades. In 2018 alone, Texas collected more than \$1.4 billion dollars in natural gas severance taxes. In comparison, our impact fee only collected \$209.6 million in 2018.

Despite this \$1.2 billion dollar difference in revenue, Texas only produces slightly more natural gas than we do in Pennsylvania – 21 percent more. They produce 21 percent more natural gas than us, but collect nearly 700 percent more revenue.

Additionally, gas companies here pay no local property taxes and very little in state taxes. So when those opposed to a severance tax say use terms like "double taxation" to imply it would be an unfair tax that will drive the industry out of Pennsylvania and cost us jobs, in my mind, that argument does not hold water. The industry is booming in Texas despite their severance

tax, and it's been booming for decades. Implementing a severance tax here in Pennsylvania would not drive out the industry because they recognize that this is where the future of natural gas is in the United States. It's up to us to capture that potential in a meaningful way and ensure we're collecting our fair share, and distributing that for the benefit of Pennsylvanians everywhere.

Additionally, the Independent Fiscal Office has determined that the majority of the severance tax will be paid for by residents in other states that consume our natural gas. It also will have no effect on the impact fee, which will remain in place, ensuring that the communities who are using that fee for vital community development projects can continue utilizing that revenue stream. And finally, Restore Pennsylvania will prevent the practice of reducing royalty payments to landowners with post-production deductions, so landowners receiving royalties will continue to benefit from those payments.

It's past time for us to put Pennsylvanians first and implement a commonsense severance tax. If there was another way to raise the funding necessary to address our most critical infrastructure issues, we would certainly consider it. The governor has mentioned that if anyone has any other ideas to raise this funding, we will listen. But no other viable solution has come forward. The severance tax is simply the only way that we can generate those funds. No other alternative plan that is out there right now will have even a fraction of the impact that the \$4.5 billion Restore Pennsylvania plan will have once implemented. Our residents, businesses, students, teachers, and doctors deserve more.

Blight, lack of broadband access, inadequate flood protection, and aging transportation and green infrastructure is hurting our quality of life and holding back the growth of our economy. Our role in state government is to help cultivate vibrant communities and foster equal opportunity for every Pennsylvanian, regardless of their ZIP code. With the problem building over the last few decades, we need a bold plan to be able to make our commonwealth stronger for the coming generations.

I believe Restore Pennsylvania is that plan. And so do dozens of municipalities and community leaders across the state who have formally endorsed the plan with resolutions or declarations of support.

Now is the time to act. I encourage the legislature to pass the Restore Pennsylvania legislation introduced last week – House Bill 1585 and Senate Bill 725.

I want to thank the members of this committee for your support of this initiative and for the opportunity to be in front of you today to discuss it. Together, we can make Restore Pennsylvania a reality. It's going to be a transformative initiative that will make Pennsylvania a better place to live, work, and play.

Thank you.