Slowdown in Pennsylvania natural gas industry adds to state budget crisis

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The Pennsylvania natural gas industry, located in the western Marcellus Shale region, has responded to an oversupply and declining gas and oil prices globally by cutting spending, curtailing operations, and laying off hundreds of workers.

The boom in Pennsylvania's shale region started in the aftermath of the Great Recession with the number of rigs peaking at 114 in 2012. The number of active production operations has since fallen to levels below those in 2008 and 2009, with only 19 rigs currently operating.

Lynn Westfall, director of the Office of Energy Markets and Financial Analysis for the US Energy Information Administration, told WITF news in Harrisburg, "It's really difficult for them to justify keeping all the rigs out there."

Concurring with this assessment, a spokeswoman for the pro-business Marcellus Shale Coalition, Erica Clayton Wright, reiterated, "These severe market headwinds are forcing dozens of energy and supply chain companies to reduce investments, close their doors, and lay off hardworking men and women."

As a result of the collapse in oil and gas prices, Cabot Oil and Gas, headquartered in Houston, Texas, has recently issued a statement saying it will decrease its 2016 capital budget by 58 percent in comparison to last year. The company will only operate one rig in the state. Seneca Resources of Pittsburgh will cut production from one of its three operational rigs and will postpone finishing a natural gas pipeline from Pennsylvania to New York until 2017. Another Pittsburgh producer, EQT, announced plans to slash capital spending to $1 billion, from $1.8 billion last year.

Some companies have already begun the process of mass layoffs. Houston, Texas-based Southwestern Energy announced earlier this year a 40 percent reduction in its workforce, 200 of whom work in Pennsylvania. Range Resources, based in Fort Worth, Texas let go 55 employees in the state.

Ray Walker, the chief operating officer, said in a recent public statement, "Low commodity prices have created a harsh reality that everyone in our industry is facing. For Range that has included difficult decisions, reflected by adjustments in our operations, reductions in capital spending, office closures, asset sales, and staff reductions."

The precipitous fall in the price of natural gas is a result of the global economic crisis, with slowing economic growth in China in particular impacting the price of commodities such as oil, steel, and coal. Tens of thousands of workers in the US, China, India, and elsewhere have been laid off, as companies try to halt the declining rate of profit by reducing labor costs.

The decline in commodity production is contributing to a fall in revenue for local and state governments. Counties and municipalities throughout Pennsylvania are losing millions of dollars in expected income from special taxes on commodity production known as impact fees.

The Public Utility Commission, a state oversight and mediator between private utility companies and consumers, has announced that it will reduce payments to counties and municipalities because of the lower gas prices. Local government agencies have used this money for improving and repairing infrastructure damage resulting from the traffic of heavy trucks involved in the extraction of oil and gas, as well as for environmental cleanup.

Enacted in 2012 as an alternative to directly taxing the gas industry, impact fees are only allotted to counties and municipalities that have gas drilling. Since

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their enactment, the impact fees have netted a total of $854 million in revenue, a tiny fraction of the profits made from gas produced in the state. The Independent Fiscal Office (IFO), located in Harrisburg, has estimated that revenue from impact fees could drop as much as 17 percent in 2016 compared to last year.

Furthermore, state royalty fees have shrunk, according to the IFO, putting a massive strain on the state Department of Conservation and Natural Resources (DCNR), the main manager of drilling in public forests. IFO director Matthew Knittel stated, "It does introduce volatility to the DCNR budget. We're seeing this play out in other states that rely heavily on severance taxes such as Alaska, North Dakota, and Texas. They're also having a lot of volatility in their budgets this year."

The lower revenue will further complicate the budget debate which continues to ensnare legislators in the state capitol Harrisburg.

Still without a state budget for this current fiscal year, Democratic Governor Wolf has proposed, for the forthcoming fiscal year budget, 2016/2017, a 6.5 percent tax on Marcellus Shale production, estimated to provide to the state's general fund $217.8 million, a drastic drop from the $1 billion that Wolf had projected in the previous fiscal year's budget.

Dave Reed, the Republican state House Majority Leader, told reporters after Wolf's recent budget address, "The bottom line is it doesn't bring in any money because natural gas prices are at record lows. We went from a situation last year where the governor proposed a billion dollar severance tax to fund education,… by the end of last year even he admitted his severance tax proposal [would have] only brought in $50 million dollars."

Overall, the state faces a $2 billion dollar budget deficit. Wolf and Republicans are seeking to offset this deficit by enacting a higher income and/or sales tax and destroying pensions for workers.

With revenue from natural gas production drying up, Wolf will rely more on his regressive taxation plan and promote the Republican proposals—to kill both the pension system for state workers and the state-owned wine and liquor stores—in order to provide his still inadequate proposal for funding public schools. Indeed, he has already signaled his support in this current fiscal year for slashing pensions for all newly hired state workers.

Wolf, in a joint session of the House and Senate, resorted to fear-mongering to argue for a regressive taxation plan and the destruction of public workers' pensions: "This deficit isn't just a cloud hanging over Pennsylvania's long-term future. It's a time bomb, and it's ticking away, right now, even as I speak. If it explodes—if the people in this chamber, if you allow it to explode—then Pennsylvania will experience a fiscal catastrophe the likes of which we have never seen."

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