COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR

JEN SWAILS
SECRETARY
GOVERNOR'S OFFICE OF THE BUDGET

March 17, 2021

Honorable Stan Saylor
Majority Appropriations Chairman
House of Representatives
245 Main Capitol
Harrisburg, PA 17120

Honorable Matthew Bradford
Minority Appropriations Chairman
House of Representatives
512E Main Capitol
Harrisburg, PA 17120

Dear Chairmen:

Thank you for the opportunity to testify before the House Appropriations Committee on Thursday, March 4, 2021. During the course of the hearing, questions were raised by committee members requiring follow-up after my testimony. This letter is in response to those questions.

Rep. Ryan Warner, in regard to severance tax, asked about the industry paying its fair share and if the governor would support getting rid of the severance tax proposal and increasing the impact fee.

According to recent surveys, a clear majority of Pennsylvania citizens support a commonsense severance tax. Therefore, the governor has proposed monetization of a commonsense severance tax for Back to Work PA. This initiative will be focused on assisting workers and business owners most impacted by COVID-related closures. Pennsylvania has an opportunity to provide $3 billion to help workers and businesses to stabilize the economy and recover from the pandemic. With this rapid injection of dollars, Pennsylvania will emerge from the COVID-19 pandemic with a more diverse and robust economy, and workers will have new skills and career paths to build up prosperity for generations to come.

Rep. Lynda Culver asked how the administration tracked the productivity of employees in a quantifiable manner since work from home started, how does that compare to pre-pandemic and what metrics are used to measure that and if any savings had been realized.

At this time, approximately 65 percent of state employees continue to report in-person full-time to their worksites. The remaining 35 percent of state employees either telework full-time or split their time between working-in person at their worksite and working remotely based on their job duties.

Until the COVID-19 pandemic is controlled, telework where possible is the appropriate and prudent course of action for all employers – both public and private. In fact, many businesses are looking at allowing employees to continue to telework even after the pandemic subsides.

Agency leaders report that worker performance, including productivity, is the same or greater than it was prior to COVID-19. There was a short period of adjustment for some employees when telework began, and some agencies have seen dramatic increases in demand due to the pandemic. But the fact remains that we have been successfully delivering services to the public for almost a year now during this pandemic.

Across the commonwealth enterprise, managers and supervisors continue to oversee the work of their employees through regular communication using tools like Microsoft Teams, as well as ensuring that employees are completing tasks assigned to them and ensuring that employees are available and responsive during their scheduled shifts. Metrics used by program offices to track performance and outcomes before the pandemic remain in effect.

In terms of savings from teleworking, the Department of General Services (DGS) had been making efforts long before the pandemic to consolidate commonwealth real estate and co-locate agencies. The pandemic has accelerated the transition that was already underway. However, the commonwealth is involved in many long-term commercial leases, for which costs remain constant in the short term. Although office occupancy is down, DGS has implemented increased air filtration and ventilation to adhere to Centers for Disease Control and Prevention (CDC) guidelines. Air systems that would typically run Monday through Friday during work hours are now running all day, every day of the week to meet federal requirements. DGS has seen a 10 percent reduction in water usage, as well as a reduction in trash, and associated savings may be realized. Additionally, the Capitol Complex security system, IT and infrastructure is included in the appropriation for utilities. DGS was able to negotiate a reduction in that contract, but the costs remain because the commonwealth needs to keep the Capitol Complex secure, regardless of the number of employees present.

Rep. Jonathan Fritz asked if a specific description of the severance tax proposal could be provided and if there is draft language available.

<u>Back to Work PA – $3.0 Billion Bond Issue</u>

- Annual debt service of about $240 million
- Projections assume securitization of 80 percent of severance tax revenue[1]
- At the 80 percent threshold, $300 million in annual severance tax revenue would support the $240 million of debt service

<u>Severance Tax for Debt Service</u>

- Tax effective for production (natural gas extracted) on or after 1/1/2022
- Volume-based tax calculated per thousand cubic feet of production (MCF)
    - Like prior proposals, the tax rate schedule would be based on the New York Mercantile Exchange (NYMEX) price

[1] The remainder serves as a buffer against dips in revenue and helps secure a better interest rate without requiring a GF guarantee or backstop. To the extent the additional funds are not needed for the buffer, they could be applied to BTWPA projects.

    - Rates (see table below) are more than 50 percent lower than prior proposals
- Annual tax reports and payments would be due in June based on production in the prior calendar year
- Does not affect the impact fee – tax levied in addition to the impact fee

Tax Rate Schedule

NYMEX Price		
Lower	Upper	Tax Rate/MCF
	$2.99	$0.036
$3.00	$4.99	$0.043
$5.00	$5.99	$0.052
$6.00	+	$0.062

Revenue Estimates ($ millions)

Fiscal Year	Revenue
2021-22	$0.0
2022-23	$345.0
2023-24	$304.5
2024-25	$390.6
2025-26	$426.4

Rep. James Struzzi asked if the economic impacts of RGGI had been considered. Rep. Zach Mako asked what the Kw/h cost in 2022 would be as a result of RGGI.

The Department of Environmental Protection (DEP) has published extensive analysis and projections on the economic and ratepayer impacts of this regulation from 2022-2030 on DEP's RGGI webpage, RGGI (pa.gov).

Within that webpage, the following informational sources provide detail on the impacts and benefits to Pennsylvania's power sector and overall economy:

Overall Modeling Report

Power Sector Modeling 1st Webinar
Power Sector Modeling 2nd Webinar
Power Sector Modeling Data (Reference Case)
Power Sector Modeling Data (#1 Policy Case)
Power Sector Modeling Data (#2 Policy Case)

Economic Modeling Webinar
Economic Modeling Data

The extent to which the modeling was considered as part of the rulemaking is addressed in the [Regulatory Analysis Form], also located on the RGGI webpage under the "September 15, 2020 – Environmental Quality Board Meeting" heading.

According to the DEP's modeling, Pennsylvania's projected firm power prices by 2030 are expected to be lower than prices would be without this proposed rulemaking.

Historically, Pennsylvania has exported a third of its electricity generation, and that will continue into the future. In fact, if Pennsylvania participates in RGGI, electricity exports will increase even more than business-as-usual. Therefore, it can be expected that at least a third of the cost of compliance would be borne by out-of-state electric consumers.

If this proposed rulemaking is implemented and Pennsylvania begins participating in RGGI in 2022, residential electric consumer bills will increase by an estimated 1.5 percent in the short-term. This amounts to an additional $1.46 to $2.05 per month depending on the home heating source. However, DEP's modeling shows that this minor increase is temporary. As a result of the revenue reinvestments from the auction proceeds, by 2030, energy prices will fall below business-as-usual prices, resulting in future consumer electricity cost savings. This means electric consumers will see greater electric bill savings in the future than if this proposed rulemaking were not implemented.

As to the impact on the economy overall, DEP found that although Pennsylvania has a relatively large energy sector, this price signal in the very competitive electricity market does not have any major impact on the broader Pennsylvania economy. The modeling estimates that from 2022 to 2030, with prudent investments in the energy sector, this proposed rulemaking would lead to an increase in Gross State Product of $1.9 billion and a net increase of over 30,000 jobs in the commonwealth. These notable economic benefits do not include the billions in avoided health costs, which can be explored in detail RGGI (pa.gov).

I hope that you find this information to be helpful. If you or any of the committee members have questions or need additional information, please feel free to contact my office.

Sincerely,

Jen Swails
Secretary of the Budget