

# Testimony of M. Ray Perryman Regarding the Adverse Impact of Banning Hydraulic Fracturing in the City of Denton on Business Activity and Tax Receipts in the City and State

July 15, 2014

I appreciate Mr. Ireland reading this statement on my behalf as I am unable to attend this hearing due to a scheduling conflict.

My name is M. Ray Perryman. I am President of The Perryman Group, an economic research and analysis firm based in Waco. I hold a BS degree in Mathematics from Baylor University and a PhD in Economics from Rice University. I have more than 30 years of professional experience and have built and continue to maintain an extensive set of models for the Texas economy. I have been producing a regular forecast for the economy of Denton and the surrounding region during that time, and have conducted dozens of studies in the region. I have also studied the economic effects of oil and gas exploration and production on numerous occasions including an assessment of the effects of offshore drilling for the US Department of the Interior, several studies of specific production areas, and projections of natural gas prices and output. Information has been prepared for the Interstate Oil Compact Commission, the US Department of Energy, the Texas Railroad Commission, and numerous legislative committees regarding energy policy. Additionally, over the past several years, I have performed multiple comprehensive assessments of the impact of the Barnett Shale on the local area, as well the impact of Barnett Shale-related activity on local and state taxing authorities. I am extremely involved in a wide variety of public policy issues, and have frequently testified before governmental entities on a wide range of issues.

My firm, The Perryman Group, was recently asked to quantify the economic and fiscal harms of a ban on hydraulic fracturing in the City of Denton for the City as well as Denton County and the state. The results of our analysis, together with an explanation of the methods and assumptions used, were the subject of a recent report. I appreciate this opportunity to summarize the report and offer a perspective on these adverse consequences.

In order to measure the economic and fiscal losses associated with the reduced activity, we first analyzed oil and gas drilling activity in the City of Denton to determine the current and potential future economic and fiscal benefits for the City, Denton County, and the State of Texas. The

segment of these potential gains which would be foregone under a fracking ban was then quantified.

We estimated the cumulative economic and fiscal effects of a fracking ban in the City of Denton over the next 10 years (2014-2023) including multiplier effects, with dollar amounts expressed in constant 2013 terms to eliminate the effects of inflation. Job losses were measured in person-years, which is one person working for one year.

The overall economic harms were found to be substantial, including the loss of thousands of job-years over the next 10 years and millions of dollars annually for relevant taxing entities. Potential losses in the City of Denton through 2023 include \$251.4 million in gross product and 2,077 person-years of employment. Losses for Denton County and Texas (including those in the City of Denton) would be even higher, with losses to the state estimated to be \$354.8 million in gross product and 2,718 person-years of employment.

Local entities would forego an estimated \$10.7 million in tax revenues over the next 10 years due to a fracking ban which could otherwise have been used to fund local priorities and education. These losses include \$5.1 million for the City of Denton, about \$1.0 million for Denton County, and \$4.6 million for Denton Independent School District. The State of Texas tax losses would be about \$17.1 million over the 10-year period.

Royalties to individuals, businesses, public schools, the University of North Texas, and other public and private entities with interests within the City would decline without the addition of new wells and the potential to rejuvenate production in existing wells. These millions of dollars in losses would negatively affect budgets and resources.

The Barnett Shale has generated thousands of jobs and tens of billions of dollars in investment over time. Moreover, direct spending for exploration and production activity related to the Barnett Shale leads to multiplier effects through the economy which, in turn, initiate a chain of spillover business stimulus throughout the area.

Activity benefits both state and local governments through property taxes, severance taxes, enhanced retail sales and real estate development, permits and fees, and other types of levies such as hotel/motel occupancy taxes and receipts stemming from various taxable activities. Furthermore, money received by local governments, schools, universities, businesses, and individuals in the form of royalties and bonuses paid by natural gas operators has been significant in many areas, enhancing the quality of life as well as economic opportunities.

Much of the past and potential future development is dependent on the use of hydraulic fracturing, and a ban on fracking would drastically curtail and likely eliminate future activity in the affected areas. In addition, such a ban would limit recovery from existing wells.

The Barnett Shale can continue to serve as an important source of economic stimulus and opportunity for the local area and state for decades to come. However, hydraulic fracturing is essential to this future development. A ban on fracking would cause a notable decrease in business activity and opportunities for local residents as well as a reduction in tax revenue to local entities and the state.

Respectfully submitted,

A handwritten signature in black ink that reads "M. Ray Perryman". The signature is written in a cursive, flowing style.

M. Ray Perryman, PhD, President

The Perryman Group