Policy Matters Ohio

Press statement

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Severance tax proposal is responsible and simple

Comments on House Bill 212

Wendy Patton

People and businesses contribute to public services in the state, to police, fire protection, schools, roads, clean water, and all the things we need. We pay taxes. We pay income and sales taxes and businesses pay business taxes.

Natural resource industries present a special case. They – uniquely – take something precious from the land that can be taken only once, and they profit from that valuable commodity. They remove, or sever, natural resources from the land. That is why, all over the world, these kinds of firms pay severance taxes – special taxes on the mining and drilling of precious resources, resources that will never be available to anyone else again.

Horizontal drilling at the scale it is being done today, and in the locations it is being done, is relatively new, growing within the past decade. Accidents in sparsely populated regions like North Dakota and Wyoming affect few people directly. But Ohio is densely populated. There are people everywhere, even in our rural places. Urban areas large and small take water from reservoirs fed by rivers and streams that flow out of Appalachia. Concerns about how horizontal drilling will affect our air, water and land must be taken into consideration.

External costs of production also are a cause for concern. Policy Matters Ohio has joined with research groups in our neighboring states – West Virginia, Pennsylvania and New York – to learn about the impact of oil and gas drilling on communities where the rigs are going up. After the thrill of the check in the mailbox, what happens? We are learning about impacts in the following areas:

- We find needs for affordable housing as work crews and oil field service providers come into a drilling region.
- New costs emerge with new usage of roads: Repair and Maintenance from accidents and heavy trucks, traffic enforcement and safety
- There are costs associated with training the workforce with skills needed throughout the supply chain. The Carrollton superintendent of schools would like an energy center for students to train in workforce skills. English-as-a second language instructors are needed.
- Costs related to Infrastructure are emerging: Water quality assessments are needed. Public works boards worry about the seismic impact of injection of wastewater on old sewer and water infrastructure.

Representative Hagan's proposal for a severance tax offers the largest producers a chance to join Ohio as good citizens, to set a good example for their suppliers, a chance to contribute, to pay their fair share, and to build a stronger Ohio. This proposal for a severance tax is responsible, straightforward and simple:

- There are no loopholes for recovery of the costs of production. Ten years ago horizontal drilling was not as common as it is today and was considered a high-yield but high-cost approach; states added loopholes to their tax codes to encourage producers to undertake this type of production. But this is the conventional approach to production in the Utica today. The kinds of tax breaks offered by other states, and in other times, are no longer needed or responsible;
- The proposal is simple: All product from the well is taxed at the same rate.
- The rate falls within the range of other major producing states. Kansas taxes natural gas at 8 percent; Montana at 9.26 percent; Texas at 7.5 percent; Oil is taxed at 11.5 percent in North Dakota, 8 percent in Kansas, 25 percent in Alaska.
- Condensate and liquid gas is taxed as well as dry gas;
- Funds are provided to mitigate the impact of this industrial development – and its supply chain – on communities – and it may be expected that the supply chain of the industry will affect diverse places in the state. Cincinnati is thought to have good geology for waste injection wells. Some places in Central Ohio are being leased. Northwest Ohio has pipelines and refining. Much of eastern Ohio has oil and gas activity;
- Funds are provided for environmental impact and conservation – a very common approach in states across the nation;
- This bill also provides funding for the future – for what happens after the boom. It provides for a permanent fund for economic diversification in communities that become dependent on oil drilling, for when the wells are pumped out and jobs are gone. Mature oil and gas states establish permanent funds to ensure the state is left better off when the resources are gone.

There is a term, "the natural resource curse," which describes a peculiar condition of regions rich in natural resources where the people remain poor, with little opportunity. Mature oil and gas states have taken pains to provide for the future by establishing permanent funds to support economic development, education, research and development, and other drivers of economic progress.

Representative Hagan sees Ohio's future in the same way – our precious natural resources can both create wealth today, and underwrite progress for tomorrow.

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Policy Matters Ohio is a nonprofit, nonpartisan state policy research institute with offices in Cleveland and Columbus.