Policy Matters Ohio

Press release

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Contact: **Wendy Patton**,
614.221.4505
or **Jack Shaner**,
614.487.5822

Ohio advocates call for 5 percent tax on oil and gas

Fair and adequate tax is needed to cover mounting public costs

Several Ohio organizations are calling for a 5 percent severance tax on oil and gas production to help pay soaring costs of the shale drilling boom to local communities and Ohio taxpayers.

Ohio's effective tax rate on oil and gas is less than a half-percent, far behind most other oil and gas producing states. The current tax is inadequate to compensate for increased road maintenance, new demands for emergency services, escalating housing costs, greater need for regulatory oversight and negative effects on air and water quality.

New tax revenue also would provide long-term funds for local communities that face economic ramifications of boom and bust cycles typical of the industry, according to the recommendation by Policy Matters Ohio, Ohio Environmental Council, One Ohio Now, Ohio Organizing Collaborative, Ohio Communities United for Responsible Energy and the Ohio Public Health Association.

"Ohio's fracking boom means we have to be extra vigilant about demanding clean water, safe roads and more," said Gavin DeVore Leonard, state director of One Ohio Now. "What's happening now simply is not sustainable. Oil and gas companies are part of our communities. They need to pay their fair share so important investments can be made for today and tomorrow."

A state legislative commission created under the 2015 budget bill is reviewing the severance tax issue, and was directed by the Ohio General Assembly to make recommendations by Oct. 1. But its findings have been delayed.

The impact of heavy shale gas and oil production on communities has come into focus in recent years. A December study by the Multi-State Shale Collaborative – which monitors the impact of shale drilling in Ohio and four other states -- found counties with high drilling activity saw increases in crime, housing costs, traffic fatalities and sexually transmitted diseases.

A 2014 initiative called the Ohio Shale Country Listening Project found that more than 800 residents of the Utica shale region of eastern Ohio were mostly concerned about water contamination, damage to farmland and ecosystems and increased truck traffic.

Concern over water was particularly high because of operational mishaps, illegal dumping and the sheer volume of drilling pads, pipelines and wastewater storage.

In testimony to Ohio lawmakers, community leaders of eastern Ohio have cited at least $170 million in infrastructure needs to accommodate new development, including improvements to roads, bridges, and water and sewer treatment plants.

Each developed well can require more than 1,000 truckloads of materials and equipment, damaging county roads and rural streets that were not designed for high-volume truck traffic.

In addition, many dangerous events have occurred, forcing people to evacuate their homes, wiping out wildlife and fouling the air and water, including massive fires, explosions, and uncontrolled spills and leaks -- as well as intentional breaches of Ohio law. The former owner of a Youngstown-based wastewater company in 2014 was convicted of dumping into a storm sewer thousands of gallons of wastewater from the hydraulic fracturing (fracking) process. The year before, a company was caught illegally dumping fracking waste and other contaminants into a Belmont County pond.

"I lived right across the street from a drilling fluid facility that was operating without a permit," said Rachelle Quigg, a leader with Communities United for Responsible Energy (CURE) and a Jefferson County resident. "I had trucks in and out of there all day and night. The roads took a beating and we have no idea what damage might have been done to the environment. Our communities just don't have the resources to deal with this boom in fracking."

Billions of dollars of Ohio oil and gas has been extracted through fracking since the boom began in 2011. A 5 percent severance tax would have generated close to $100 million in 2014, said Wendy Patton, senior project director of Policy Matters Ohio.

"Ohio's valuable oil and gas resources can only be harvested once," Patton said. "It's time for Ohio to join other producing states and establish a severance tax that can help with the external costs of fracking and create a base for a strong economic future when the oil and gas are gone."

Jack Shaner, deputy director of the Ohio Environmental Council, said a severance tax is long overdue.

"The multi billion dollar oil and gas industry cries poor at the Statehouse, then laughs all the way to the bank over Ohio's 20-cents-a-barrel tax on crude oil," he said. "Motorists, meanwhile, fork over 44 cents every time they pump a gallon of gasoline in the Buckeye State. It's high time lawmakers tax the lucrative oil and gas industry for its fair share and then invest the proceeds to benefit all Ohioans and their air and water, especially in eastern Ohio."

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