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Ohio governor considers natural gas impact fee, higher severance tax

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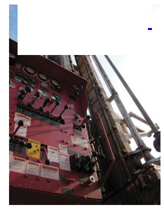

As the gas industry ramps up the extraction of gas from the Utica and Marcellus shales in Ohio, a proposal for increasing the natural gas severance tax in Ohio could come about in late winter.

The subject was raised Dec. 19 by Policy Matters Ohio.

"Part of preparation for the coming boom should include raising the severance tax rate to a level consistent with other energy states," said Wendy Patton, senior project director of the nonprofit, nonpartisan research group and author of the Dec. 19 report "Beyond the Boom: Ensuring Adequate Payment for Mineral Wealth Extraction."

As it happened, Ohio Republican Gov. John Kasich spoke of the gas industry later that same day at a year-end press conference.

Asked about the idea of increasing the severance tax, Kasich responded affirmatively.

The state plans to increase the severance tax on oil and gas, he said, as well as to impose an impact fee to help local communities with costs imposed by increased industrial activity.

Ohio's current severance tax on natural gas is levied on volume: $0.025 per thousand cubic feet. West Virginia's is levied on value, at 5 percent.

While it's hard to compare those two different taxes, a conversion to the "effective" rate — tax revenue as share of production value — puts Ohio's at about 0.37 percent of value over the past decade, according to Policy Matters Ohio, while West Virginia's 5 percent severance tax on oil and gas and on coal together came to about 3.2 percent of value in 2007, according to the West Virginia Center on Budget and Policy.

Six states had higher effective severance tax rates in 2007, according to WVCBP: Alaska, at 11.2 percent, as well as North Dakota, Montana, New Mexico, Kentucky and Wyoming.

An Ohio natural gas severance tax set at the same 5 percent on value as West Virginia's could raise more than half a billion dollars for the state from 2012 through 2015, Policy Matters Ohio calculated, based on Ohio Oil and Gas Energy Education Program production forecasts.

Asked Jan. 11 about the possibility of reviewing the natural gas severance tax during the mid-budget review, Kasich's Deputy Press Secretary Connie Wehrkamp said only that the administration is reviewing its options.

But Kasich's affirmation gave the group hope, Patton said.

A logical time for the severance tax to come up, she said, is at the mid-budget review Kasich has planned for early 2012. Ohio budgets biennially but the Kasich administration has expressed an interest in annual budgeting and proposes this unusual review as a step toward that.

The Ohio Legislature has full-year sessions, she added, so action could be taken at any time.

"There could be a bill that is proposed," she said.

Like some groups in West Virginia, Policy Matters Ohio also is pressing for a severance tax trust fund to preserve some of the wealth from natural resource extraction for future generations.

As Ohio considers increasing its severance tax, Pennsylvania continues discussion about an impact fee.

A proposed impact fee estimated to come to less than 2 percent of the value of gas extracted is expected to be passed in Pennsylvania in January.