Ohio Environmental Council

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**Interested Party Testimony of Jack Shaner, Deputy Director, Ohio Environmental Council**
**Regarding Oil and Gas Severance Tax Provisions of the Executive Budget**
**House Bill 64 (As Introduced)**
**Presented to the Ohio House Ways and Means Committee - March 3, 2015 - Ohio Statehouse**

Chairman McClain, Vice-Chair Scherer, Ranking Member Cera, and Members of the Ohio House Ways and Means Committee, thank you for this opportunity to present Interested Party testimony on the oil and gas severance tax provisions of the Governor's Executive Budget, House Bill 64 (As Introduced).

My name is Jack Shaner, Deputy Director of the Ohio Environmental Council. The OEC is a not-for profit network of more than 100 group-members and several thousand citizen-members. Our mission is to secure clean air, land, and water for all who call Ohio home.

Here is a summary of our perspective and our recommendations for improvement to the Governor's proposed oil and gas severance tax:

**1. Funding mechanism for ODNR Division of Oil and Gas Resources**

The OEC generally supports the funding mechanism for ODNR's oil and gas program as proposed by HB 64. The Governor's proposal responsibly "pays ODNR first" for related program activities before any other authorized program recipient of severance tax revenue may qualify for funding. As such, the bill keeps faith with the long-standing intent of the Ohio severance tax for extractive industries to fund the state's regulatory oversight of extractive industry activities.

Under the bill, the Oil and Gas Well Fund (Fund 5180) and the Geological Mapping Fund (Fund 5110) would receive monthly deposits from the Director of Budget and Management of revenue generated by the proposed new severance tax on horizontal wells in amounts that consider the resources available to DNR to carry out its oil and gas regulatory mission. The GRF would then receive 80% of any funds remaining after DNR's allotment has been made with counties in which drilled wells are located receiving 20% of the amounts unused by DNR.

**2. Appropriation levels for ODNR Division of Oil and Gas Resources**

The OEC generally supports the proposed appropriation levels for ODNR's oil and gas program in the Governor's Budget. The budget funds DNR's core regulatory and oversight functions, including reviewing and issuing permits for drilling wells, field inspections of wells, oversight of haulers of brine and drilling waste, handling complaint investigations and enforcing violations of the Oil and Gas Law, geological mapping, and idle and orphan well plugging. The Governor's Budget proposes:

| Fund | Line Item | Program | FY 2016 | FY 2017 |
|---|---|---|---|---|
| 5180 | 725843 | Oil and Gas Regulatory Safety | $19.2M (+46%) | $19.4M (+1%) |
| 5180 | 725977 | Oil and Gas Well Plugging | $3.0M (+17%) | $3.0M (+29%) |
| 5110 | 725646 | Ohio Geological Mapping | $1.4M (+100%) | $1.8M (+/- 0%) |

**We note that the House of Representatives proposed substantially more funding for geological mapping when it passed HB 375 (130GA) on May 15, 2014 -- $3M per FYI, nearly double the Executive's proposed funding level for the new biennium. We strongly support the House level. And while not tax related, we strongly support the proposed reforms to increase the productivity and accountability of ODNR's Orphan Well Plugging Program proposed by Representative Scherer in HB 375 (130GA).**

**3. New funds and GRF**

The OEC's primary interest in the oil and severance tax is that it produce sufficient funds for the responsible regulatory oversight and related activity. As such and with one important exception--described below--the OEC is generally neutral on the Governor's proposal to fund three new non-ODNR funds (County Severance Tax Fund, Severance Tax Infrastructure Fund, and Severance Tax Endowment Fund) and the General Revenue Fund from severance tax revenue that remains after funding oil and gas related activities. Having said that, the OEC is supportive of Eastern Ohio receiving its fair share of revenue as it will be the beneficiary of both the rewards and the risks from this extractive activity. Also, while we have not taken a position on the Governor's proposed income tax reduction, we are concerned about the long-term impact of slow-growth budgets over successive administrations and General Assemblies for the most GRF-dependent divisions of ODNR and the long-term impact that yet another income tax cut are having on their ability to fulfill their mission to conserve our state parks, state nature preserves, and state forests.

**4. Funding mechanism for emergency response and potential future impacts**

We believe it is important and appropriate for the oil and gas severance tax to provide a source of revenue for the following needs that are directly related to oil and gas development and waste disposal--but for which the Governor's proposal offers no funding:

**A. Ohio EPA Emergency Response and Other Activities Related to Oil and Gas**

- Emergency response involving spills, releases, and other incidents that involve the Ohio EPA Division of Environmental Response and Remediation
- Oversight, inspection, enforcement, and remediation involving oil and gas pipelines by the Ohio EPA Division of Surface Water
- Oversight, inspection, enforcement, and remediation involving tank batteries and processing facilities by the Ohio EPA Division of Air Pollution Control

While it is true that the ODNR has primary authority over permitting and inspection for oil and gas production wells, it also is true that Ohio EPA has the primary role for investigation, containment, enforcement, and remediation for any spill, release, or incident that migrates off-site of a well pad or pipeline to a water body as well as air pollution control. Further, while it is true that Ohio EPA collects permit fees to defray the costs of permitting, we question whether this is sufficient to fund all of the Agency's oil + gas related operations. Further, we are not aware of any expansion of funding in the current operating budget to keep up with the growing demand the Ohio EPA surely must be experiencing from the growing shale gas development. As such, we ask that any revision to the oil and gas severance tax recognize this reality and provide a source of funding for these related activities, accordingly.

**B. Local Community Expenses and Legacy Impacts Related to Oil + Gas**

- Training and equipping local first responders for emergencies and incidents

- Local air and water monitoring and repairing, replacing, and upgrading infrastructure for drinking water and waste water systems
- Long-term, unforeseen, post-drilling and post-production impacts to local communities, the environment, and public health from future, unknown and unanticipated impacts that may require extensive remediation

We recognize that the Governor's proposal provides a new source of funding for local communities. We respectfully suggest that this funding source be expanded and authorized to dedicate additional funding to the state and local agency needs as described above.

**CONCLUSION**

The OEC acknowledges the proposed progress in the Governor's Budget to modify the Oil and Gas Severance Tax to provide a stable funding source for Ohio's oil and gas regulatory program. We respectfully ask the Committee to revise the proposal to:

- Match the House of Representatives' previous (HB 375-130 GA) funding level for geological mapping and previous reforms to the orphan well plugging program.
- Expand the portion of the severance tax revenue related to oil and gas activity to include relevant activities of the Ohio EPA.
- Expand the portion of the severance tax revenue related to oil and gas activity to include local expenses.

Thank you for your time and attention and for considering our perspective and recommendations.

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