HB 162 Sponsor Testimony
Rep. Jack Cera
Ways and Means Committee – May 12, 2015

Thank you Chairman McClain and Vice Chair Scherer. To my colleagues on the House Ways and Means Committee, I stand before you today to speak to you on the positive attributes of House Bill 162. This legislation is a severance tax proposal that designates a portion of the shale industry's oil and gas tax for eastern Ohio, while earmarking additional proceeds for statewide infrastructure projects.

First, let me start by saying that over the last few months I have taken the time to speak with many interested parties including local government officials, industry reps, farmers and legislators to solidify a proposal that can prove beneficial to all of Ohio.

House Bill 162 creates several programs that address the financial need of ongoing projects in the shale area. Funding will be allocated to the LGF fund to help local communities with police, fire and other general costs. Funding will also go specifically to programs that fund projects such as state highway repair within the shale region, a grant program for firefighting and EMT equipment in the shale region and to soil and water districts in the shale region. Grant money will also be available for local governments and school districts to help convert their vehicles to compressed natural gas. Additionally, HB 162 assists the Ohio Department of Natural Resources by promoting regulatory programs and an Orphan Well Program.

Be earmarking some of the dollars collected from the severance tax for infrastructure, we can help eastern Ohio grow by building new water and sewer projects and repairing existing systems. We should also look at improving our highway systems as a way to attract the new businesses and jobs needed to help the shale industry grow.

This proposal not only makes investments in the Appalachian region of Ohio, it invests in the entire state by allocating money to fund local government infrastructure projects outside the shale region. We all know that infrastructure projects mean more good paying jobs. I think we can all attest that Ohio's infrastructure needs are plentiful throughout the entire state.

(continued...)

As members of the legislature, we know that the Governor's proposed severance tax proposal was once again removed from HB 64, the state budget bill. I, for one, appreciate the effort made by Governor Kasich over the past few years to address the severance tax issue. (I would like to take this opportunity to point out that the tax rate proposed in HB 162 is lower than what was proposed by the Governor in the budget bill.) This legislation will tax production at two percent in the first two years, three percent in the next two years and four percent thereafter. The bill also provides an income tax deduction for landowners whose leases require them to pay a share of the severance tax. It holds local governments and libraries harmless from any revenue loss due to this income tax deduction.

In closing, I respectfully want to remind you that each designated fund in this piece of legislation has a unique purpose. Each fund would be used for the betterment and enrichment of Ohio and the residents that live here. This proposal, HB 162, not only helps an area of the state with great needs, but aims to put all of Ohio in a better place.

Thank you for your time and consideration of this important piece of legislation. I have included a dot analysis of this proposal for further review. I would be happy to answer any questions.

CERA SEVERANCE BILL – HB 162
Dot analysis

- Modifies, beginning October 1, 2015, the revenue distribution of the severance tax levied on hydrocarbons, i.e. oil and gas, and modifies the rate and base of the severance tax on hydrocarbons, including condensate and natural gas liquids, produced from horizontal wells.

- Fixes the modified tax base as the quantity of each such resource severed or separated multiplied by a spot price for each resource determined by the Tax Commissioner.

- For horizontal wells, adjusts severance tax rates to 2% for all resources extracted for the first two years of a horizontal well's operation, 3% for the next two years, and 4% for resources severed thereafter.

- Repeals a cost recovery assessment imposed on severed oil and gas and, for nonhorizontal wells, adjusts the rate of the severance tax to the combined rate of the assessment and current law's rate of severance tax on oil and gas.

- Distributes revenue from all hydrocarbon severance taxes as follows:
  (1) First, to the Local Government Fund and Public Library Fund, an amount that holds those funds harmless for revenue forgone from the new tax credits and deductions described below;
  (2) Second, up to $21 million to fund the Department of Natural Resources' (DNR) oil and gas and geological mapping functions.
  (3) Third, up to 50% of total collections to fund two grant programs for local governments in the shale region administered by a new Ohio Shale Gas Regional Committee (75% of that amount--see below), for general local government purposes via county undivided local government funds (20%), and for township road repairs (5%).
  (4) The remainder to fund local government infrastructure projects outside the shale region (63%), state highway repair within the shale region (20%), a grant program for local governments and school districts to use to convert their vehicles to compressed natural gas (10%), for firefighting and EMT equipment in the shale region (6%), and to soil and water districts in the shale region (1%).

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- Allocates 75% of the 50% of total collections for local governments in the shale region (described above) that are to be administered by the new Ohio Shale Gas Regional Committee between two new grant programs. 85% of that share is used to administer an infrastructure grant program in conjunction with the Ohio Public Works Commission. The other 15% funds grants that encourage long-term prosperity, but money may not be appropriated for that program until after July 1, 2025.

- Creates a new Well Plugging Program in DNR to catalog and prioritize the plugging of idle and orphaned oil and gas wells.

- Creates a new fund solely for funding activities related to the plugging of idle and orphaned oil and gas wells.

- Requires DNR to investigate oil and gas wells to determine whether they are idle or orphaned if the well owners fail to file production reports.

- Adjusts the due date of severance tax returns.

- Creates a nonrefundable credit against the horizontal well severance tax equal to the amount a severer pays in commercial activity tax on the basis of receipts from the sale of the same oil and gas.

- Creates a nonrefundable income tax credit for royalty interest-holding individual landowners that equals the lesser of 12.5% of the amount of oil and gas severance tax paid by a severer or the amount of the tax for which the landowner is responsible.

- Excludes from the tax base of the commercial activity tax any gross receipts from the sale of oil or natural gas subject to oil or gas severance taxes, provided the severer or its pass-through owners are subject to income tax on the income from that sale.