March 10, 2014

Hon. Tom Corbett, Governor
Commonwealth of Pennsylvania
225 Main Capitol
Harrisburg PA 17120

Hon. John Kasich, Governor
State of Ohio
Riffe Center, 30th Floor
77 South High St.
Columbus, Ohio 43215-6117

Hon. Earl Ray Tomblin
Office of the Governor
State Capitol
1716 Kanawha Ave. E.
Charleston, WV 25305

Governors Corbett, Kasich, and Tomblin:

We write today to urge that our states take a common, regional approach to taxation of gas and oil at the state level, **by adopting a severance tax rate no lower than that of West Virginia, without holidays, exclusions and credits, and with a similar tax base across all products yielded from a well.**

During the past five years, our states have experienced rapid development of oil and gas extraction in the Marcellus Shale and Utica Shale. The growth of these industries has brought not only new jobs and tax revenue, but growing costs to state and local governments to manage and regulate the industry, and to address its local impacts. As we are sure you are aware, new environmental pressures, increased road maintenance needs, new demands on emergency responders, and rapid escalation of housing costs are common to the areas in our states that have seen rapid gas and oil development.

Pennsylvania, Ohio, and West Virginia led the nation in the commercial development of fossil fuels, yet the states have taken radically different approaches to sharing the benefits of mineral wealth with their residents. The structure of West Virginia's mineral extraction tax puts it in the middle of producing states. Ohio's very low tax rate and the lack of a state-level tax in Pennsylvania until 2012 put both states at the back of the pack.

Given our states' shared experience with natural gas and oil extraction, a common rate and structure of taxation would be a smart approach. Working together, we can make sure our region benefits from new development even as we protect our communities from new costs and environmental risks. Having a single tax rate across the three states would provide important long-term predictability for the industry and help provide a more promising future for Ohio, Pennsylvania, and West Virginia. Setting a common tax no lower than the West Virginia rate, as we recommend, would bring the entire region more in line with gas-producing states in the West and in the South.

This reasonable rate and structure would take taxes out of the competitive equation, eliminate any distortion widely varying tax rates might cause, and help provide sustained funding for state priorities, all with little overall impact on the industry.

Substantial investments have been made by all three states and many local governments to ensure compliance with regulations, expand infrastructure, and manage the demands and impacts of this growing industry. An adequate severance tax would ensure that industry contributes to these costs.

Interstate competition can only lead to a race to the bottom, in employment, infrastructure, and environmental protection. Interstate cooperation can ensure that industry growth is managed in a way that maximizes benefits and minimizes costs to residents.

Although our state capitals are separated by hundreds of miles, our states' oil and gas fields are separated by only a few miles. From that vantage point, a common tax rate and structure across the states seems not only simple but logical.

We look forward to discussing this topic with you in more detail in person. Thank you for your attention to this matter.

Sharon Ward, Director
Pennsylvania Budget and Policy Center

Amy Hanauer, Executive Director
Policy Matters Ohio

Ted Boettner, Executive Director
West Virginia Center on Budget and Policy