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Ohio's Ship of State (Editorial)

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Gov. John Kasich's new budget proposal would increase Ohio's severance tax on oil and natural-gas drilling, while it would cut state income taxes paid by individuals and small businesses. It's reasonable for the state to benefit while it can from its nonrenewable resources.

But there are better uses for fracking-boom revenues than tax cuts that would provide the greatest benefits to Ohioans who need them the least.

Mr. Kasich made a similar proposal last year, but the Republican-led General Assembly balked. The oil industry — a reliable source of legislative campaign contributions — argued that the tax would stall development of oil and gas resources and kill thousands of Ohio jobs.

Now the Republican governor is back with another plan to tap the estimated 5.5 billion barrels of oil locked in shale beneath Ohio. He reasonably wants to increase the severance tax to 1 percent on natural gas and 4 percent on oil and natural gas liquids.

That would put Ohio in the same neighborhood as states such as Michigan and West Virginia, which tax oil produced by hydraulic fracturing at 5 percent. But it would leave the state well below Texas and North Dakota, which charge 7.5 percent and 11.5 percent respectively.

Ohio practically gives its oil and gas resources away. The state now taxes a ludicrously low 20 cents a barrel on fracked oil, whether crude oil is selling for $60 or $100 a barrel. The state tax on natural gas is just 3 cents for each 1,000 cubic feet produced, no matter what gas is selling for on the open market.

The revenue raised by a moderate severance tax is needed to cope with the costs of expanded fracking in Ohio. Last week, state Attorney General Mike DeWine announced that a northeast Ohio man whose company stores brine and oil-based drilling mud was charged with discharging toxic fracking waste into a tributary of the Mahoning River.

The state has to have adequate revenue to monitor and enforce regulations, protect the environment, and make needed improvements to roads and other infrastructure that will face increased pressure as oil and gas well sites proliferate. Revenue from the severance tax also can start to repair the damage done by painful state budget cuts.

In a new poll by the liberal advocacy group Innovation Ohio, 62 percent of Ohioans said they support raising Ohio's severance tax to match Texas' rate. They said they would use the money to help offset the cuts that local governments, schools, and human-service agencies across the state have absorbed in the current two-year budget.

Instead, Governor Kasich proposes giving much of the new tax money to people who don't need it. He would cut in half the taxes many small businesses pay on their first $750,000 in annual revenues, saving them $1.9 billion over three years. Big businesses also would benefit.

And he would reduce the state's personal income tax by 20 percent over three years. That would save taxpayers an estimated $2.1 billion, but the lion's share would go to the state's top earners.

Mr. Kasich will be in Lima on Tuesday night to offer his annual assessment of how Ohio's ship of state is faring. Unless he changes course, well-to-do residents will enjoy the view from their deck chairs, while local governments and average Ohioans look in vain for life preservers.

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