

March 27, 2019

VIA HAND DELIVERY

The Honorable Mac Warner
Secretary of State
Building 1, Suite 157-K
State Capitol
Charleston, West Virginia 25305

Re: Enrolled Committee Substitute for House Bill 2673

Dear Secretary Warner:

Pursuant to the provisions of section fourteen, article VII of the Constitution of West Virginia, I hereby disapprove and return Enrolled Committee Substitute for House Bill 2673. This bill would reduce to 2.5% the severance tax rate on natural gas or oil for any natural gas produced from a well which produced an average between 5,000 and 60,000 cubic feet of gas and for any oil produced from any well which produced an average between one-half barrel and ten barrels per day, each calculated from the calendar year immediately preceding the beginning date of a given tax year. The bill also would direct the proceeds of this reduced 2.5% severance tax rate to an Oil and Gas Abandoned Well Plugging Fund, for use by the Department of Environmental Protection to plug abandoned oil and gas wells and reclaim property disturbed by the plugging.

The goal of providing additional needed funding to the Department of Environmental Protection to plug abandoned oil and gas wells and reclaim property disturbed by the plugging is a goal that needs to be pursued and achieved. However, this needed funding should come from general revenues generated by the current severance tax rate, among other sources, rather than from significantly diminished revenues generated by a 50% tax rate cut, which, under the bill, effectively becomes a 100% tax rate cut when \$4 million is in the Fund. I believe it would be to the detriment of the State and to the many causes to which general revenues are put to allow for such an increase in the amount of natural gas and oil produced with an effective tax rate of 0% once \$4 million has been deposited to the Fund, in order to direct funding to a purpose more efficiently funded from general revenues.

Further, there is potential conflict regarding the dedication of the severance tax proceeds from the privilege of producing oil and natural gas. Currently, 10% of the severance tax attributable to the severance tax on oil and natural gas is dedicated for the use and benefit of the counties and municipalities of the State, and of that amount 75% is to go to the oil and natural gas producing counties. As enacted, this bill would affect the amount available for these distributions needed to provide funds to counties and municipalities throughout the State.

For the reasons provided above, I disapprove and return Enrolled Committee Substitute for House Bill 2673.

Sincerely,

Jim Justice
Governor

cc: The Hon. Roger Hanshaw
Speaker of the House of Delegates
The Hon. Mitch Carmichael
President of the Senate