Sunday Gazette-Mail wvgazette.com

July 29, 2012

Study suggests putting severance taxes into trust funds

By Paul J. Nyden

CHARLESTON, W.Va. -- States typically collect severance taxes on the production of natural resources, such as coal, natural gas, oil, limestone, gravel and salt.

In the Appalachian area, states use those taxes to fund current projects. But seven states in the West also use severance taxes to create permanent trust funds that can help state economies in the future. Many of those funds add up to billions of dollars.

"West Virginia and other mineral-rich Appalachian states would be smart to follow the lead of Western energy states that had the foresight to create a permanent severance tax trust fund, or a Future Fund," said Ted Boettner executive director of the West Virginia Center on Budget and Policy.

"This would not only help these states meet many of their economic challenges but ensure that future generations benefit from the mineral wealth that is in their communities," he said.

Severance taxes represent a significant portion of state government income in two Appalachian states -- West Virginia and Kentucky -- according to a newly-released study by the Central Appalachia Regional Network (CARN).

According to United States Census Bureau data, mineral severance taxes generate nearly nine percent of all state revenues in West Virginia and 3.3 percent in Kentucky.

In four other Central Appalachian states -- Maryland, Ohio, Tennessee and Virginia -- severance taxes generate less than one-tenth of 1 percent of all state revenues, CARN points out.

In its new study, CARN proposes a minimum of 1 percent of all severance taxes collected be placed into permanent trust funds in each state.

The study, "Permanent Severance Tax Funds: An Economic Legacy for Central Appalachia," is available at www.carnnet.org.

"Designating a small percentage of severance taxes for permanent trust funds would create an economic legacy for resource-rich communities," the study states. "This will remain long after mineral wealth is exhausted."

Wyoming, Alaska, Montana, Colorado, New Mexico, North Dakota and Utah all set up permanent endowment funds from severance tax funds.

These funds, some of which were created back in the 1970s, have saved billions of dollars for future community development using money from severance taxes and interest.

The CARN network, created with financial help from the W.K. Kellogg Foundation, includes organizations in Kentucky, Maryland, Ohio, Tennessee, Virginia and West Virginia.

West Virginia groups in CARN include Community Access Inc., Good News Mountaineer Garage, Partnership of African American Churches and the West Virginia Community Development Hub.

Severance tax income could increase dramatically in the near future with current efforts to develop Marcellus and Utica shale reserves, especially in states like West Virginia, Ohio and Pennsylvania. As natural gas extraction gets ready to boom, CARN states, Central Appalachian states "should take action today to ensure that they truly benefit from the extraction of their valuable natural resources.

"Without a permanent fund, the economic benefit from natural resource extraction declines once production peaks."

In recent decades, most Appalachian states have done little or nothing to create any permanent trust funds.

"In the past, West Virginia did not gain a broadly shared prosperity for its residents, despite the tremendous wealth of natural resources in the state," Boettner said. "As the Marcellus Shale gas play begins to boom in the north and coal begins to bust in Southern West Virginia, it highlights the need to build local assets and to ensure a just transition.

"Without a permanent fund, the economic benefit from natural resource extraction will decline along with the natural resources themselves," Boettner said. "Rather than repeating the past, we can ensure that coal and natural gas will always play an important role in securing a brighter future for West Virginia and other states."

Severance taxes were first assessed in West Virginia in 1987, according to the CARN report. The state tax commissioner regulates the use of all severance tax income.

In West Virginia, the base rate for severance taxes is 5 percent of the market value of coal, coal-bed methane, natural gas, oil, limestone, sandstone, clay, shale, gravel and salt, the CARN study points out.

In 2005, the Workers' Compensation Debt Reduction Act set additional temporary taxes on minerals, including: 56 cents for each ton of coal mined and just under 5 cents for every million cubic feet of natural gas and coalbed methane produced in the state.

That money helps reduce the huge deficit created by the Workers' Comp Fund over many years.

Reach Paul J. Nyden at pjny...@wvgazette.com or 304-348-5164.

0 Comments **Post a Comment**