

Fast Facts

SB 461/SJR 14: Creating West Virginia Future Fund

What is the Future Fund? It's a permanent mineral trust fund that is funded by 25% of natural gas and oil severance tax revenue over \$175 million. For example, if the state collected \$200 million in natural gas and oil severance revenue next year, approximately \$6.25 million (25% of \$25 million) would be deposited into the fund.

What is the purpose of the fund? The purpose is to take revenue from a nonrenewable natural resource that is depleted over time and turn it into a renewable source of permanent wealth for the state. Otherwise, severance tax revenue will decline along with the nonrenewable natural resource itself. The fund will also ensure that future generations benefit from the state's rich natural resources.

What makes the fund permanent? It's permanent in that the principal of the fund can never be spent. Only the interest income from the fund can be used. The only way to make the fund permanent is to constitutionally protect it; otherwise it could be raided each year.

How will it be used? After fiscal year 2020, it would begin to pay out dividends or interest income to fund a range of activities, including education, workforce development, economic development and diversification, infrastructure improvements, and tax relief.

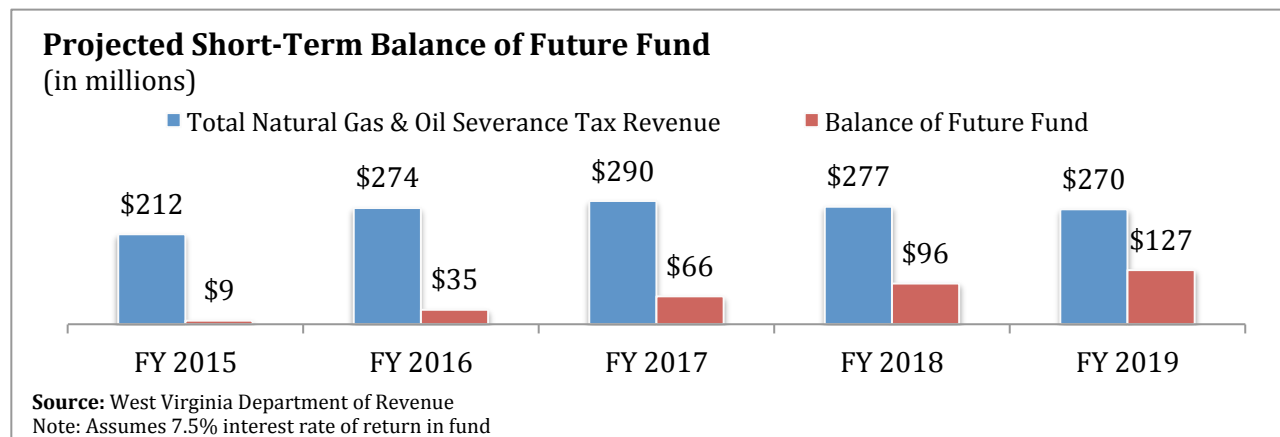
Who will manage the Future Fund? The West Virginia Investment Management Board will invest the fund and the legislature will decide how the interest income is ultimately used.

How is the West Virginia Future Fund different from the Rainy Day Fund? The Rainy Day Fund is usually only used by the governor in a time of emergency (he has to repay the fund within 90 days) or by the legislature whenever there is a severe decline in revenue or a crisis that needs immediate funds. The Future Fund is better thought of as a sunny day fund that will grow each year and be used to make investments in the state. Similarities are that both funds help with the state's bond rating.

How many states have Future Funds? While many states have land mineral trust funds where they collect royalties from mineral extraction (e.g. Permanent University Fund in Texas), several states dedicate a portion of their severance tax revenue into a permanent trust fund that is used every year. These states include Alaska, Wyoming, North Dakota, New Mexico, and Montana.

How big could the West Virginia Future Fund be in the coming years?

While there are no guarantees, it's safe to assume that natural gas and oil severance taxes will continue to grow for some time. According to the West Virginia Department of Revenue, natural gas and oil taxes will grow from \$83 million in FY 2013 to \$270 million by FY 2019. Based on these figures, and a 7.5 percent annual investment rate of return, the West Virginia Future Fund would have a balance of about \$127 million by the end of FY 2019.



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