west virginia Center on Budget & Policy
723 Kanawha Blvd E, Ste 300, Charleston, WV 25301
Tel: 304-720-8682 Fax: 304-720-9696
www.wvpolicy.org

News Release

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Contact: Ted Boettner, 304-590-3454 or 304-720-8682, tboettner@wvpolicy.org

Economic Diversification Trust Fund Would Protect State from Downturns in Severance Tax Revenue

Money Would Be Set Aside For Day When Resources Are Gone

As the Marcellus "Gold Rush" comes to West Virginia, it is time for policymakers to consider establishing a permanent mineral trust fund in West Virginia, similar to what six other states have done. So concludes the West Virginia Center on Budget and Policy in its report released today, "Creating an Economic Diversification Fund: Turning Nonrenewable Natural Resources into Sustainable Wealth for West Virginia." The report highlights the benefits that such funds have brought to other states and how one could benefit West Virginia.

West Virginia is one of the least economically diverse states in the nation and relies heavily on its natural resources for revenue. The markets for such resources can be volatile due to supply and demand, as well as regulations. In addition, these resources upon which the state relies will one day be gone.

"The only feasible way to ensure that we will always benefit from our rich natural resources is to create a permanent trust fund," said Ted Boettner, co-author of the study and executive director of the West Virginia Center on Budget and Policy. "A permanent trust fund should also be used to diversify our economy through strategic investing in early childhood development, workforce training, infrastructure, and research and development."

Since the early 1970s six states, Alaska, Montana, Wyoming, New Mexico, North Dakota, and Utah – have created permanent severance tax trust funds. While each is managed and invested in its own unique way, the concept is the same – to provide a source of sustainable funding for state budgets that will be available even after the taxable resource is depleted. A permanent trust fund sets aside severance tax revenue so that it all does not go into a state's general revenue fund and can be saved and invested for the future.

"With coal production declining in West Virginia, we see that local and state economies cannot rely indefinitely on finite natural resources for jobs and tax revenues," stated Rory McIlmoil, co-author of the study and project manager with Downstream Strategies. "With a permanent trust fund, we can ensure that sufficient revenues are available to sustain economic development investments in the future without being concerned as much with booms and busts."

Permanent mineral trust funds can serve many purposes. They can fund infrastructure projects, such as repair of roads and bridges, especially in those counties most directly impacted by resource extraction. As in Alaska, such a fund can provide a direct dividend directly to state residents. These funds can also provide revenue for job training, education, and economic diversification projects.

Some other highlights of the report are:

- If West Virginia had set up a permanent mineral trust fund for coal production in 1980, it would have generated over $1 billion by 2010 and have nearly $2 billion due to interest from investments.
- A one percent severance tax on natural gas and coal enacted in 2012 would generate more than $3 billion for the state by 2035.
- The establishment of a permanent trust fund can boost a state's bond rating.
- Alaska has the largest trust fund by far at over $38 billion. Each state with such a fund, except Montana, cannot disperse the funds without a public vote. Montana requires approval by ¾ of the state legislature.

The full report is available at www.wvpolicy.org or by calling 304-720-8682.

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