



# How Can Energy Fund OUR Future?

WV Association of Counties, Annual Conference  
February 11, 2012, 11-12 p.m.

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# Overview

- What is a permanent mineral trust fund?
  - Review of states that have mineral trust funds
  - Current legislation to create mineral trust funds
    - ▣ WV Futures Fund – Senate Bill 182
    - ▣ WV Sustainable Wealth Fund – Senate Bill 537
  - Other policy options
  - Questions
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## What is a Permanent Mineral Trust Fund?

- ▣ **Permanent funds** are an attempt to replace non-renewable natural resources, which are depleted over time, with a permanent supply of money that grows even bigger.
  - ▣ **Successful funds** both financially bolster the state's economy through strategic spending and continue to grow at a sustainable rate at least equal to inflation.
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# Why do States Create Permanent Mineral Trust Funds?

- ❑ Converts nonrenewable resource into a renewable source of wealth for state programs and future generations.
- ❑ Without a permanent fund, the economic benefit from natural resource extraction declines along with the natural resources themselves.
- ❑ Helps even out the booms and busts of energy-based states.
- ❑ By building assets, it can boost a state's bond rating.
- ❑ Severance tax is highly exportable to other jurisdictions.
- ❑ Lowers future tax burdens.
- ❑ To diversify and expand local economies.

# How do Permanent Mineral Trust Funds Work?

- Most permanent mineral trust funds are inviolate, enshrined in the state constitution, and the corpus cannot be raided without a public vote.
- Depending on the state, the principal is invested according to legislative dictates or selections made by the investing body (stocks, bonds, bank loans, real estate, etc.).
- Investment earnings from the permanent funds are withdrawn according to various guidelines.
  - Alaska disburses the average income earned on 5 previous years.
  - New Mexico disburses 4.7% and Wyoming 5% of 5-year market value.

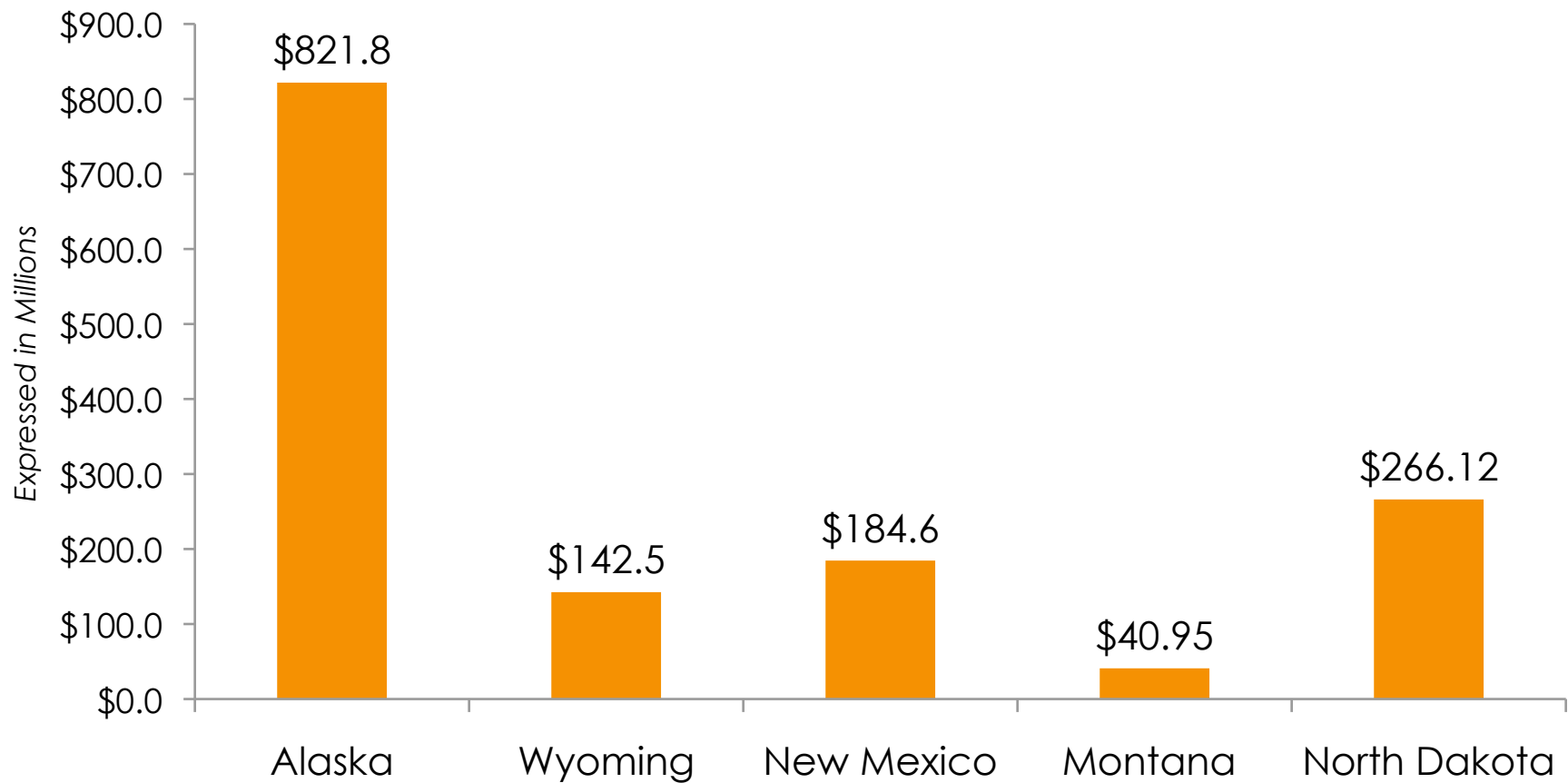
# States with Permanent Mineral Trust Funds

State	Source of fund's principal	Current fund size	Use of earnings
Alaska (1976)	<b>Alaska Permanent Fund:</b> 25% of mineral related (oil) income and legislative appropriations.	\$40.8. billion (02.09.11)	Citizen dividends, inflation-proofing, and General Fund.
Montana (1976)	<b>Coal Severance Tax Trust Fund:</b> 50% of coal severance tax collections	\$836 million (FY 2010)	General Fund, education, infrastructure, remediation, and economic development.
New Mexico (1973 & 1976)	<b>Severance Tax Permanent Fund:</b> 12.5% of severance tax collections from coal, oil and natural gas.	\$3.6 billion (6.30.11)	General Fund, education, infrastructure, and economic development.

# States with Permanent Mineral Trust Funds *continued*

State	Source of fund's principal	Current fund size	Use of earnings
North Dakota (2010)	<ul style="list-style-type: none"> <li>• <b>Permanent Oil Tax Trust:</b> Revenues from oil &amp; gas taxes which exceed \$71 million in a biennium.</li> <li>• <b>Coal Development Trust Fund:</b> 30% of coal severance tax.</li> <li>• <b>Legacy Fund:</b> 30% of all oil related revenues beginning 7.1.2011.</li> </ul>	<p>\$475 million (FY 2009-11)</p> <p>\$61.1 million (3.31.09)</p> <p>\$613 million (FY 2011-13)</p>	General Fund, property tax relief, infrastructure, remediation, and research and development.
Utah (2008)	<p><b>State Endowment Fund:</b> Severance tax revenues in excess of \$71 million from oil &amp; gas tax; revenues in excess of \$27.6 million from coal mining.</p>	\$22 million (FY 2010)	Economic diversification, capital and infrastructure.
Wyoming (1974)	<p><b>Wyoming Permanent Mineral Trust Fund:</b> 2.5% severance tax on natural gas, oil, and coal (30-40% of mineral revenues)</p>	\$5.4 billion (4.30.11)	General Fund

# How much interest income was expended in 2010?



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## Other Mineral Trust Funds (Sovereign Wealth Funds)

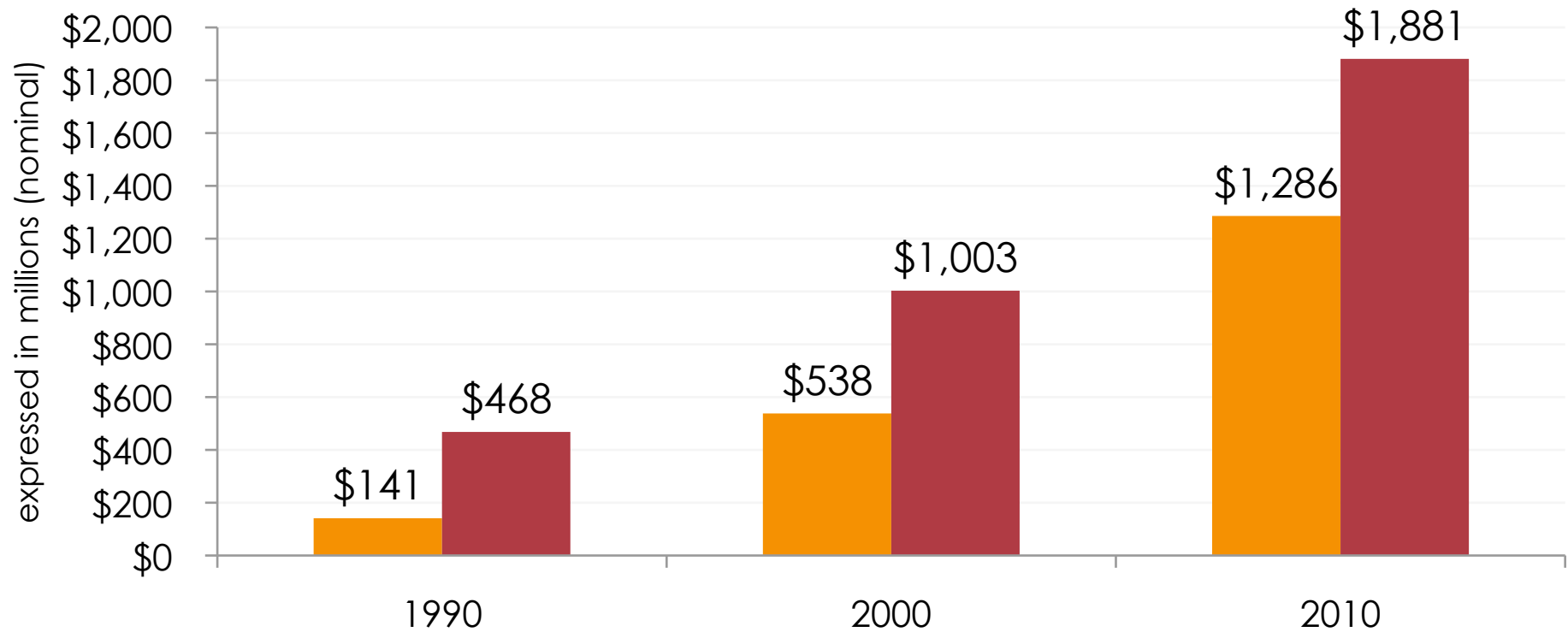
- ▣ **Alberta, Canada:** Alberta Heritage Savings Trust Fund (1976), valued at \$15.4 billion.
  - ▣ **Norway:** The Government Pension Fund (The Oil Fund - 1996), valued at \$570 billion.
  - ▣ **Navajo Nation:** The Navajo Nation Permanent Fund, valued at \$1 billion.
  - ▣ **Alabama:** Alabama Trust Fund, valued at \$2.4 billion.
  - ▣ **State Mineral Land Funds:** Texas, Wyoming, New Mexico, Minnesota, etc.
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# Why does West Virginia need a permanent mineral trust fund?

- West Virginia's economy is heavily reliant on non-renewable energy.
- Historically, natural resource extraction has not brought long-term prosperity to the state.
- West Virginia is entering a boom in natural gas production, while coal production is expected to decline.
- It ensures that future generations will always benefit from the state's rich natural resources.
- The state's low fiscal capacity makes it difficult to improve the economic welfare of its residents.

# If a Coal Trust Fund Had Been Created in 1980 with 1% Severance Tax

- Withdraw for State Investments (5% per year, Cumulative)
- End-of-Year Balance

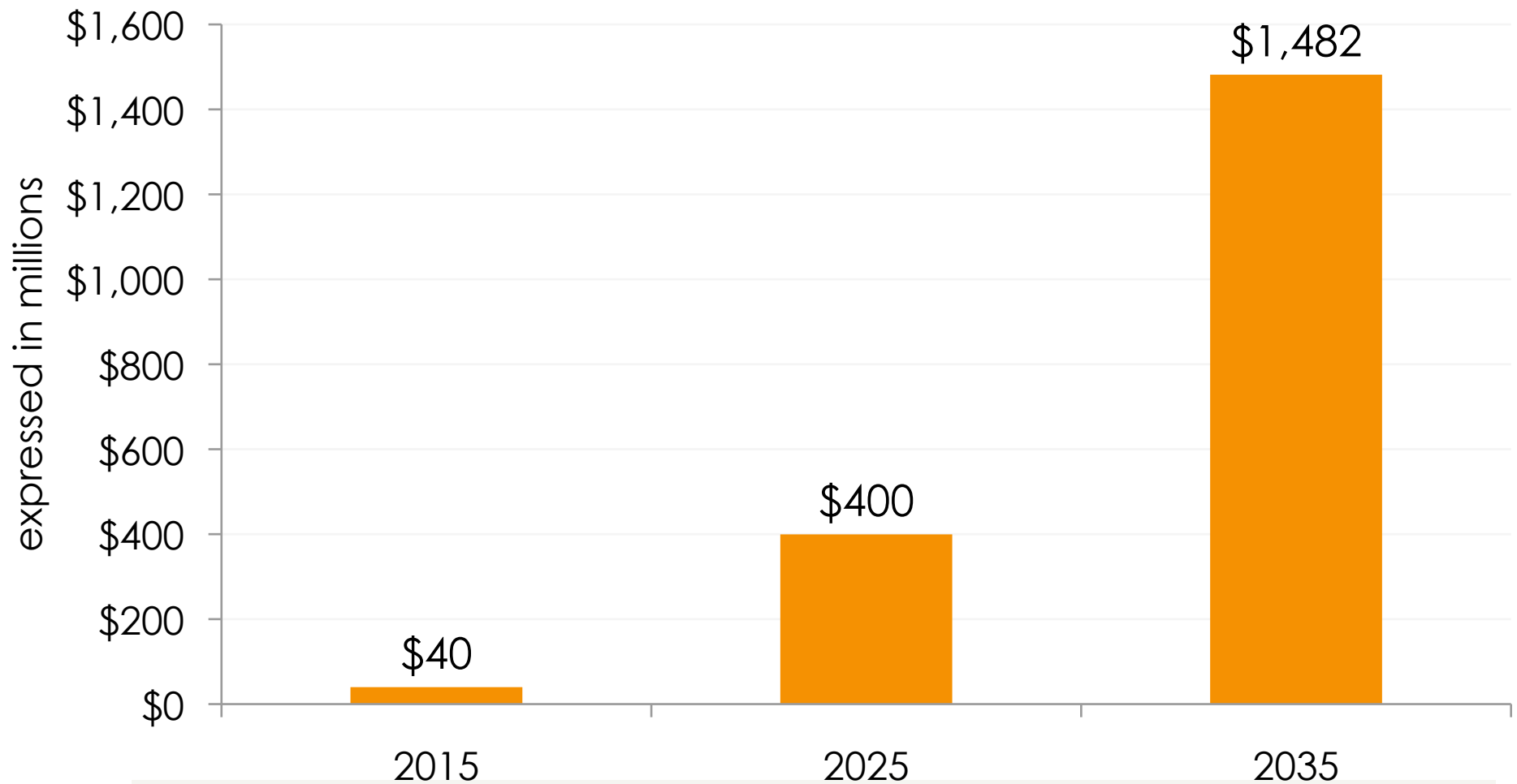


Source: WVCBP, "Creating an Economic Diversification Trust Fund," WVCBP, Jan 2012

# WV Futures Fund: S.B. 182

- Creates “West Virginia Future Fund” account within State Treasury and the principal and interest cannot be used for at least 20 years.
- Funded by “25% of the increased revenue of the increased revenue received by the state from Marcellus Shale natural gas severance taxes [2013].” Also, it permits other deposits.
- **Goals:** To meet future needs, including economic diversification, tax relief, education, and workforce development. However, it is ‘left open to address future needs of the state.’”

# Estimated Balance of Future Fund

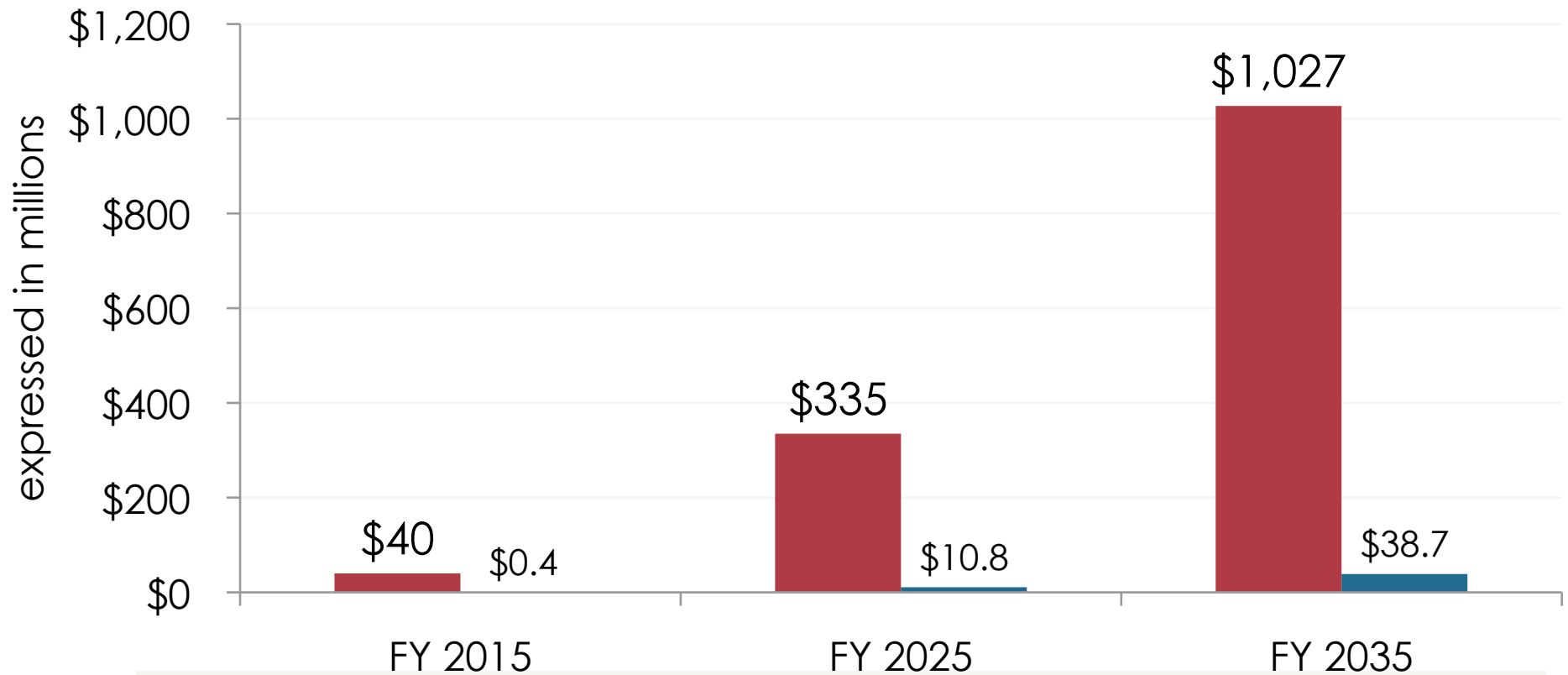


# WV Sustainable Wealth Fund: S.B. 537

- Creates “WV Sustainable Wealth Fund” administered and invested by WV IMB using prudent “investor rule.”
- Funded by “25% of the increase in state severance tax revenue from horizontal drilling and hydraulic fracturing.”
- The principal cannot be spent except upon approval of  $\frac{3}{4}$  of both Houses of the Legislature.
- Annual disbursements will be 5 percent of the 5 year market ending value beginning in 2018.
- Creates board of trustees with 13 members appointed by Governor, including one representative from oil & gas industry, education, labor, environmental interests, and six at large. The board submits recommendations on appropriations and policy issues.

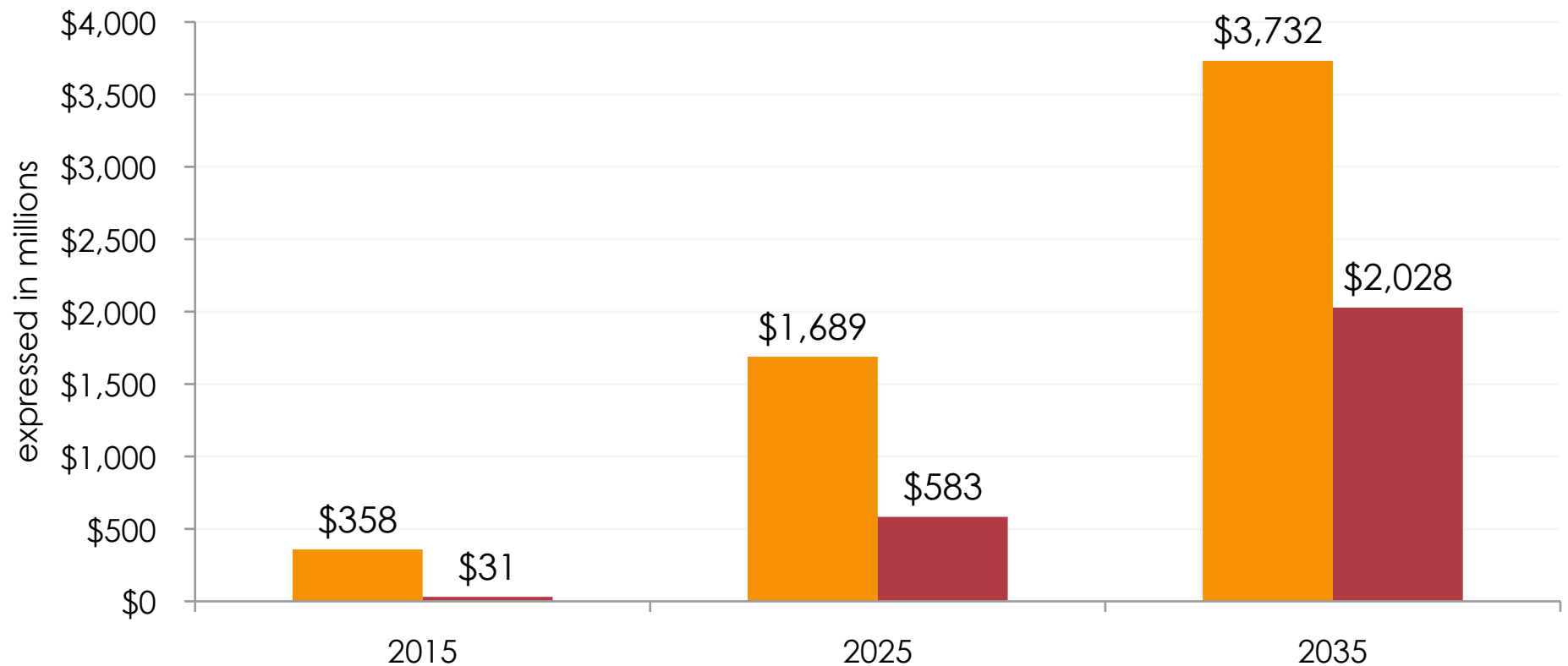
# Estimated Revenue of WV Sustainable Wealth Fund

- SB 537 (Sustainable Wealth Fund)
- SB 537 (Sustainable Wealth Fund) Appropriated Revenue



# Alternative Scenario # 1: 1% Severance Tax

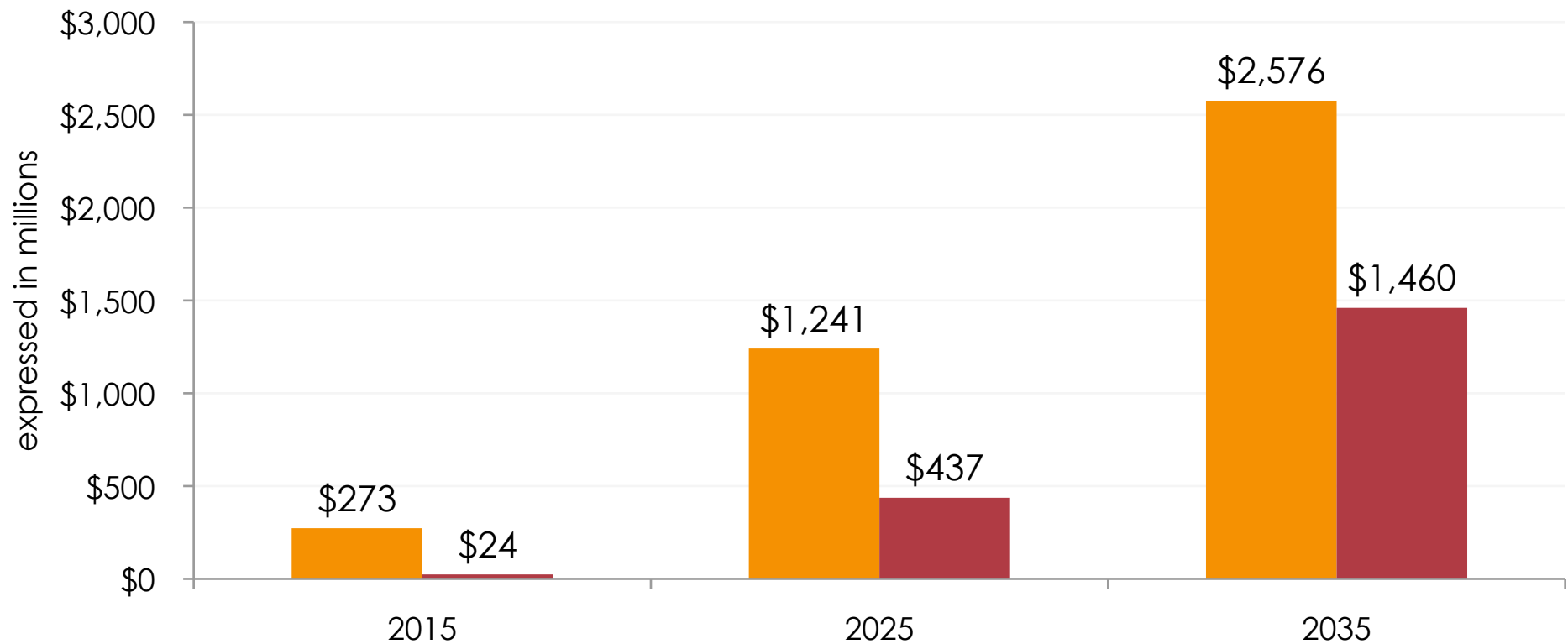
- End-of-Year Principal Balance
- Withdraw for State Investments (5% per year, Cumulative)



Source: WVCBP, "Creating an Economic Diversification Trust Fund," Jan 2012

# Alternative Scenario #2: Workers' Compensation Tax

- End-of-Year Principal Balance
- Withdraw for State Investments (5% per year, Cumulative)



# Questions?

*Economic Development*

JANUARY 2012

## CREATING AN ECONOMIC DIVERSIFICATION TRUST FUND

TURNING NONRENEWABLE NATURAL  
RESOURCES INTO SUSTAINABLE WEALTH  
FOR WEST VIRGINIA

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## INVESTING IN THE FUTURE

MAKING THE SEVERANCE TAX STRONGER  
FOR WEST VIRGINIA

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For more information, go to: [www.wvpolicy.org](http://www.wvpolicy.org)