Kentucky's Coal Severance Tax: Looking Back, Looking Forward

Democracy Resource Center

July 25, 2003

Introduction

The creation of a coal severance tax in Kentucky over thirty years ago was an important step forward for the state's coal-producing regions. But the tax and its programs have been wracked with problems over the years. The severance tax rate has stayed the same while the destruction carried out by coal companies has increased substantially. Only a small portion of the money has gone back to the coal-producing counties that are feeling the brunt of the industry's practices. And that money has not been spent in a way that furthers the economic development of the region and provides a viable future. This publication is intended to provide a basic introduction to Kentucky's coal severance tax--its history, how it functions, its uses, and some general options for reform. A better future--beyond coal--is possible and the coal severance tax can play an important role in that future.

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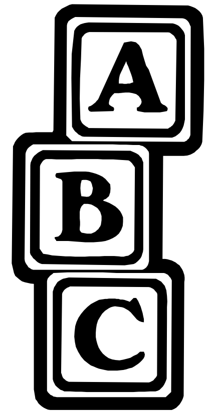
Coal Severance Tax: The Basics



What is the coal severance tax?

The coal severance tax is a tax on the removal of coal. Many governments have severance taxes on the extraction of coal and other natural resources, including gas, oil, and timber.

How does the coal severance tax work?

Kentucky's coal severance tax rate is 4.5 percent of the value of severed and/or processed coal. The tax paid on severed coal must be at least 50 cents a ton. Depending on the thickness of a coal seam, a credit of 2.25 percent to 3.75 percent of the coal's value may apply.

How much revenue does it generate?

Kentucky is currently estimated to bring in $137.8 million in coal severance taxes this year.

How long has Kentucky had a coal severance tax?

Kentucky has had a severance tax since 1972. In 1976, the rate was increased to its current 4.5 percent from 4 percent, and coverage was broadened to include processing.

Why does Kentucky have a coal severance tax?

The extraction of limited natural resources like coal does not provide long-term prosperity for local communities, and a severance tax is one resource for building a better, alternative future. A severance tax begins to acknowledge the tremendous environmental and public health damage caused by mining and other natural resource extraction.

What is the revenue from the coal severance tax spent on?

Currently, more than half of Kentucky's coal severance tax money goes to the state's General Fund where, like other taxes, it's used for a variety of purposes all across the state. The other portion is divided among a variety of programs. The two biggest are the Local Government Economic Development Fund, which primarily pays for the construction of industrial parks and sites in coal-producing counties, and has lately been used to fund infrastructure and other projects in those areas; and the Local Government Economic Assistance Fund, which provides extra resources to local city and county governments in coal-producing and coal-impacted counties to be used for a variety of purposes.

Background on Kentucky's Coal Severance Tax

1972-1992

More than 50 years after it was first proposed, Kentucky enacted a coal severance tax in 1972. While the Lexington Herald noted at the time that the tax was "distasteful to the coal industry," it was a loss for coal in a session in which it got its way on other matters, including a reduction in the cost of workers compensation at the expense of other businesses, a weakening of mine safety laws, and the defeat of a proposal to regulate strip mining. Governor Wendell Ford supported the coal severance tax, but he intended for all the new revenue to go to the state's General Fund. It was passed in a package of reforms that also removed the sales tax from food and prescription drugs, with the coal severance tax roughly making up for that revenue loss.

By 1992, only 7.6 percent of the $2.7 billion raised over twenty years from the coal severance tax had been returned to the coal counties, and pressure was building to increase the coalfield's share.

From the beginning, questions that have been at the heart of the coal severance tax were raised: Shouldn't revenue from the tax be spent to benefit the counties where coal is mined—where the impacts of coal are most felt? If so, how much of the revenue? And how should that money be spent?

These questions became all the more significant after the Organization of Petroleum Exporting Countries (OPEC) announced the 1973 oil embargo, which shot up the demand for coal and its price. Severance tax money came pouring in. The next year, a group of state legislators formed the "Mountain Caucus" to argue for the creation of a special fund that would give coal severance monies back to coal counties. State Representative Hoover Dawahare was one advocate for this fund. When the House Speaker refused to let Dawahare speak from the floor on the subject, Dawahare got his attention by climbing up on his desk and beating it with his shoe. He was thrown out of the chamber, but the resulting publicity partially led to the creation of the Coal Producing County Development Fund, which was designed to return 50 percent of any coal severance tax surplus (the amount above estimated receipts) back to the counties. In the first three years, the fund sent $33 million back. Controversy struck when it was revealed that significant amounts of this money went to increase the salaries of local officials.

In the mid-1970s, Governor Julian Carroll and the legislature greatly trimmed back the money for coal counties. In 1977 they received only $5 million, or 4 percent of coal severance tax receipts. The Governor created another program that spent almost 40 percent of coal severance revenues in the late 1970s on public education, county coal-haul roads, coalfield highways, workers' compensation costs, and area development. On into the early 80s, a significant chunk of what didn't go to the state's General Fund went into roads.

Around that time, the General Assembly created the Local Government Economic Assistance Fund. This program--which still exists--was said to send a larger portion back to the local governments of coal counties to be used for a variety of purposes. Harking back to the earlier formula, its level was limited to half of any surplus, which was set at above $177.6 million annually. While in the first year about 12 percent of coal severance tax receipts was sent to coal counties, a drop in coal production after that lowered the amount to around 5 percent for the next four years.

1986 marked the first time that the legislature allowed a flat share of the total coal severance tax revenue to go back to the counties: 10 percent, with an increase to 12 percent for subsequent years. This money was put in the Local Government Economic Assistance Fund.

1992-Present

By 1992, only 7.6 percent of the $2.7 billion raised over twenty years from the coal severance tax had been returned to the coal counties, and pressure was building to increase the coalfield's share. In his campaign for Governor, candidate Brereton Jones pledged to work for legislation that would earmark 50

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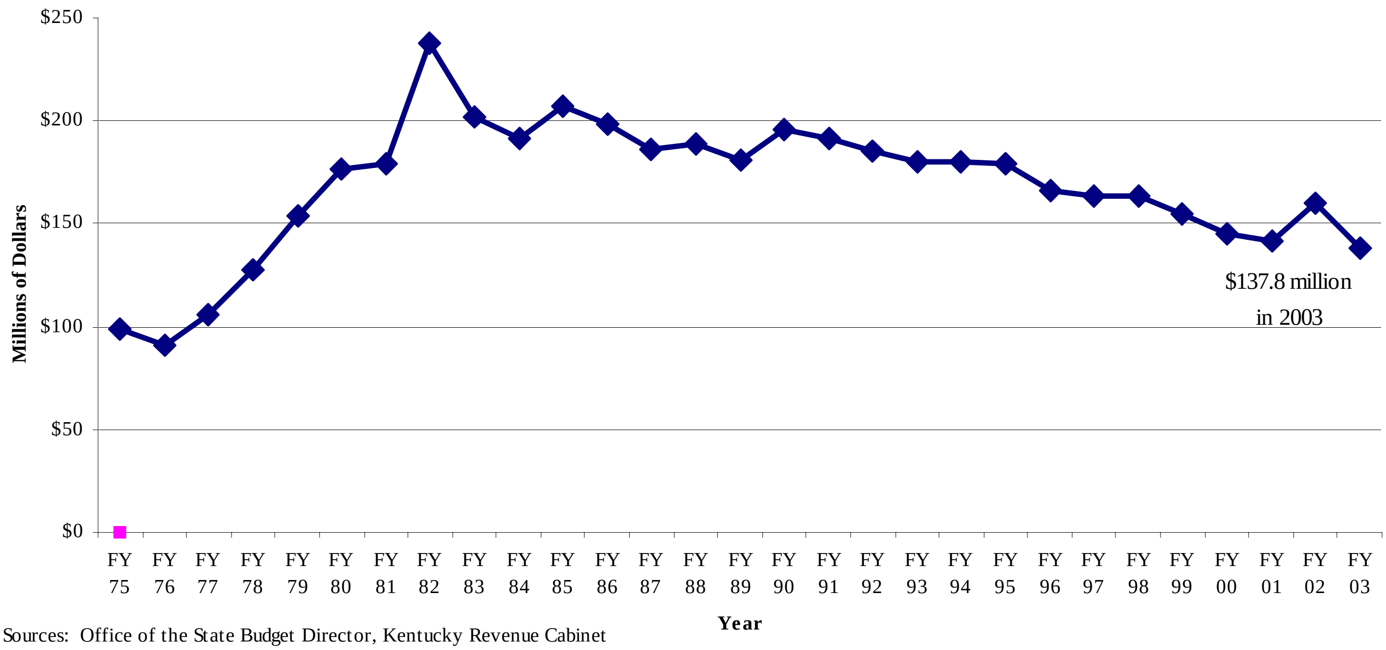
Coal Severance Tax Receipts, 1975-Present



Sources: Office of the State Budget Director, Kentucky Revenue Cabinet

The Coal Severance Tax Rate

Since the last time Kentucky changed its severance tax rate in 1976, coal mining practices have become much more destructive. Mountaintop removal is the newest form of surface mining, in which companies literally take off the tops of mountains and dump them in adjacent valleys. Mountaintop removal destroys forests, mountains, watersheds, and streams, and does so while providing fewer jobs. Mining has a parallel method underground. Highly-mechanized longwall mining also needs fewer employees than conventional underground mining while causing more destruction and leading to massive subsidence of the ground above.

> ***Kentucky's Coal Severance Tax Rate:***
> 4.5% of the value of severed and/or processed coal. The tax paid on severed coal must be at least 50 cents a ton.

Kentucky is one of the top three coal-producing states in the country, along with Wyoming and West Virginia. All three states require coal companies to pay a severance tax, but Kentucky's rate is lower than these other big producers. Wyoming sets its rate at 7 percent, while West Virginia's is 5 percent. Kentucky's coal severance tax is 4.5 percent.

By failing to increase the rate, Kentucky has failed to recognize the damage that the industry has wrought. And the increase in destruction from the mining industry has made more serious the need for resources--like that which could come from the severance tax-- to promote alternative, sustainable economic development in the coalfields.

How is New Coal Severance Money Being Appropriated?

	2002-2003	**2003-2004**
Coal Severance Taxes	$143,700,000*	$140,600,000

*$143.7 million was the January 2003 estimate used for the state budget; the April 2003 estimate is $137.8 million.

Basic state General Fund
53% of coal severance monies in 02-03 and 50% in 03-04* go to the state's General Fund.

$64,815,237 | $59,559,900

Additional money to help plug the state's budget shortfall
These funds usually go to the workers' compensation fund as part of 1997 reforms that cut the tax coal companies paid for workers' comp and used money from coal severance taxes to partially refund the workers' comp fund. $19,000,000 | $19,000,000

Total to the state's General Fund: $83,815,237 | $78,559,900

Local Government Economic Development Fund (LGEDF)
Goes into accounts for coal-producing counties originally intended for industrial parks and sites, but recently has also been spent on infrastructure and community projects (See more on page 12).
$35,389,900 | $34,818,500

Local Government Economic Assistance Fund (LGEAF)
Returns money to local governments in coal-producing counties and those counties impacted by the transportation of coal. 30 percent of that money then goes to the coal haul road system, and 70 percent to a variety of local expenses (See more on page 13).
$17,732,500 | $17,868,000

The Osteopathic Scholarship Program within the Kentucky Higher Education Assistance Authority
Pays for scholarships for Kentucky students to Pikeville College's medical school.
$1,407,100 | $1,480,200

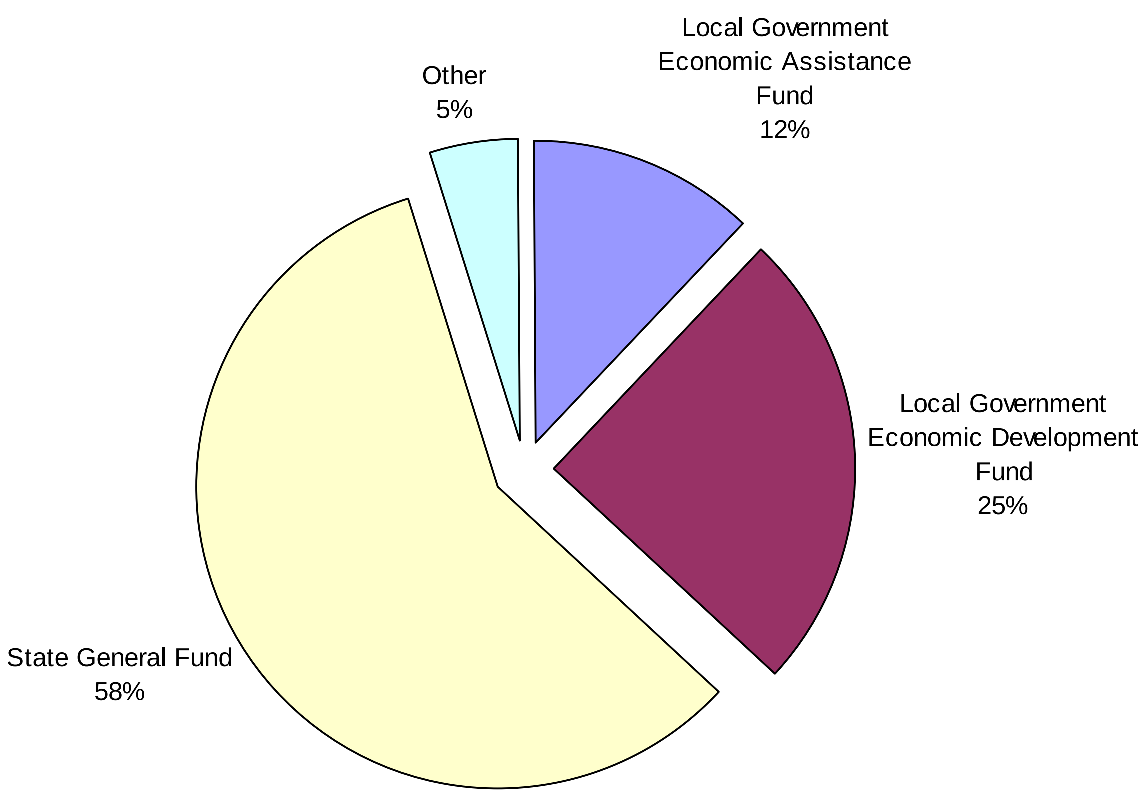
High-Tech Construction/Investment Pool
For projects and programs related to high-tech economic development in coal counties.
$1,035,000 | $1,250,000

School Facilities Construction Commission
Pays for first year of debt service for new bond issues to build new schools. One of these is a consolidated school in Harlan County. Future severance tax monies will be needed to pay off these bonds
2003-2004: $2,290,000

Kentucky Infrastructure Authority
Pays for the first year of debt service to issue bonds to pay for new water projects in coal counties. Future severance tax monies will be needed to pay off these bonds.
2003-2004: $1,999,800

	2002-2003	2003-2004
The Trover Clinic Grant within the Department for Local Government Education money for third and fourth-year University of Louisville medical students at the Trover Clinic in Madisonville.	$1,000,000	$1,000,000
Secondary Wood Products Fund Goes to the Kentucky Wood Products Competitiveness Corporation (KWPCC), which was defunded in the second year of the budget.	$960,800	
Department for Regional Development Part of the Cabinet for Economic Development that administers the Local Government Economic Development Program.	$770,500	$783,600
Kentucky Appalachian Commission State office related to the federal Appalachian Regional Commission; responsible for planning and programs.	$550,000	$550,000
East Kentucky Corporation Does industrial recruitment in eastern Kentucky	$472,000	
West Kentucky Corporation Does industrial recruitment in western Kentucky	$467,000	

How Coal Severance Tax Money was Appropriated in 2002-03



Right Back to the Coal Industry

One troubling trend in coal severance tax spending has been the use of these funds to further subsidize the coal industry.

In 1996, Governor Paul Patton pushed the General Assembly to gut the state workers' compensation system, claiming that its high cost and overly generous benefits were stunting economic development in the state. Patton's move especially aided coal companies, who were previously required to pay a special tax since a disproportionate number of workers' comp claims were injured coal miners suffering from black lung disease. Patton claimed that Kentucky was losing mining jobs because the companies couldn't afford workers' compensation premiums. "We have no choice. Time is running out on the coal industry," Patton said, asserting that the industry was paying for a "social welfare system for the coal miners of this state that was not available to any other segment of our working population."

Patton's workers' comp reform made it much harder for miners and other injured workers to receive benefits. While it cut access, it also lowered costs for companies, especially coal companies. He cut the workers' compensation tax due from coal companies by $40 million, and replaced half of that money, or about $19 million a year, with coal severance tax revenue. Patton's reform was a damaging hat trick: cut benefits to injured miners, take money meant for the development of a better future for coalfield counties, and give the coal industry a tax cut.

Coal is subsidized by severance money in other ways. In 2003,at least $6 million of coal severance tax money goes into the coal haul road system, the set of roads on which coal is transported. And coal severance money consistently goes to the Coal Export Council, which operates a pro-coal educational program. This year's budget takes $600,000 for the council out of the coal severance multi-county economic development fund.

Spending It Honest

Throughout its history, coal severance tax spending has been marred by evidence of self-serving politics that has contributed to a lack of success in the programs. As a source of funds that could help provide a real future for coal counties, it has too often been used to pay back political friends and contributors, fund pet projects that help support re-election but fail to bring real prosperity, or otherwise be used in ways that put personal gain over public interest. Questionable points in the past include:

—The use of coal severance tax dollars to increase the salaries of local officials to ridiculous levels and provide them with other perks.

—As was discovered in several counties in the early 1990s, the illegal failure to levy some types of local taxes, plugging holes with severance tax money instead.

—The recent turn to spending money on a wide variety of local projects without a plan or strategy for such spending.

—Evidence that a state agency funded through coal severance tax dollars--the Kentucky Wood Products Competitiveness Corporation--paid $145,000 to a politically important, well-connected consulting firm without a contract or documentation of the services provided.

—The 2000 state auditor report that showed a lack of accountability for hundreds of thousands of dollars of coal severance and other public funds that went to support a failed sock factory in Harlan County co-owned by a state senator.

Coal severance money is a valuable resource for the future of coal counties, but to make it viable for long-term development requires leadership that is accountable and that shares such goals.

Background on Kentucky's Coal Severance Tax

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percent of coal severance tax money for the benefit of coal counties. "50 percent" was the number recommended by the legislature's Coal Revenue Allocation Task Force, and over the nineties it became a much-discussed figure.

The 1992 General Assembly passed legislation to gradually increase the amount of coal severance money for coal counties, with a plan to reach 50 percent by 1996. The law channeled most of this money into two funds: the already-existing Local Government Economic Assistance Fund (LGEAF), and a new Local Government Economic Development Fund (LGEDF). The LGEAF was to continue receiving 12 percent of coal severance monies, while the LGEDF was to get a bigger share each year.

The purpose of the LGEDF was to promote economic development in coal-producing counties. Each county was to have its own account in the program, a multi-county account was created for joint projects, and monies were to be distributed to these accounts using a formula based on coal production (See page 13). The counties were required to apply to the state to use their funds.

But from the beginning, the Local Government Economic Development Program was stymied by a narrow view of economic development. Its strategy was to build industrial parks and sites that would presumably entice new industry to coal counties. "Essentially," columnist Bill Bishop wrote at the time, "counties can only put their new coal severance tax money into land or buildings. . . It doesn't matter that the state is littered with empty parks. . . Nor does it make any difference that many rural communities have found that leadership development or worker training or technical aid to existing businesses are infinitely more profitable than pouring money into industrial parks."

Meanwhile, even when the General Assembly passed this legislation in 1992, political leaders widely noted that the state may not put 50 percent into these programs by 1996. And it didn't. Major candidates for Governor Paul Patton and Larry Forgy both ran on 50 percent in their campaigns, but the state acted in subsequent years to hold the amount back. Despite claims to the contrary, the amount reserved for LGEAF and LGEDF still doesn't reach 50 percent in the current state budget.

By 1997, only $10 million of an available $39 million in the Local Government Economic Development Fund had been used. A new program was announced: the state would help counties organize into clusters that would spend coal severance funds on large regional industrial parks that would allegedly attract bigger companies. Groups of counties from across the state submitted proposals throughout 1997, and many were approved in 1998. To date, Kentucky has put approximately $70 million of multi-county coal severance money into building eleven regional industrial parks.

At the same time proposals for the parks were going out, some began pushing for more flexibility in how coal severance economic development dollars could be spent. Governor Patton was among them; in a 1997 speech, Patton said that "the first priority is to get manufacturing sites, but there's a limit to how many manufacturing sites you need to build in East Kentucky." Starting with the 1999-2000 state budget, the governor and the legislature opened the floodgates on spending money from coal severance accounts on a wide range of local projects, including water/sewer lines and water treatment plants; tourist sites, parks, community centers, and ballfields; fire stations, rescue squads, and jails; and new buildings, roads, and other infrastructure.

Senator Benny Ray Bailey and Cabinet for Economic Development Secretary Gene Strong told reporters at the time that spending the economic development money this way was a one-time exception. But that wasn't the case. More projects were funded from the Local Government Economic Development Fund in the 2000-02 and 2002-04 state budgets--a total of over $160 million of coal severance money for projects in these six years. The largest such project was the East Kentucky Expo Center in Governor Patton's own Pike County, which has drawn over $12 million from coal severance economic development funds.

The Biggest Coal Severance Tax Projects

Over 30 percent of the coal severance tax money collected through the Local Government Economic Development Fund since its creation in 1992 has been spent on the eleven biggest projects that follow. Most of these are regional industrial parks, planned and built in the last five years as the state's central strategy for new economic development in coal counties.

Coalfields Regional Industrial Park **$21,588,308**

Located in Perry County, a joint project of Perry, Harlan, Leslie, and Breathitt counties

American Woodmark is an occupant (a cabinet manufacturer with 260 employees; this facility received $8 million of the above funds). Adjacent to the park are Trus Joist MacMillan (which in 1997 got $1 million in coal severance taxes), Leslie Wood Products, Kentucky May Trucking, and Keith Miller. Sykes Enterprises, a low-wage call center, is closing its location here after less than four years.

East Kentucky Exposition Center **$12,900,000**

Pike County

A 7,000 seat, $22.5 million convention center and arena geared toward trade shows and entertainment and located in the county where Governor Paul Patton was once judge-executive. Coal severance tax money was allocated in the last three state budgets for the Expo Center.

Honey Branch Regional Industrial Park **$8,718,924**

Located in Martin County, a joint project of Martin, Floyd, Johnson, and Pike counties

Only occupant is a 1,000-bed high security federal prison: U. S. Penitentiary Big Sandy.

Bluegrass Crossing Regional Industrial Park **$8,575,385**

Located in Ohio County, a joint project of Ohio, Daviess, Hancock, McLean, and Muhlenburg counties

Sole occupant is Daicel Safety Systems America, a manufacturer of inflators for automotive airbags with 35 employees.

Four Star West Kentucky Regional Industrial Park **$6,668,236**

Located in Webster and Henderson counties, a joint project of Webster, Henderson, McLean, and Union counties

KB Alloys, a metal manufacturer, is an occupant; close by are a Tyson Foods poultry feed facility that employs 34 (and which previously, as Hudson Foods, also received coal severance dollars) and Alcan Ingot, a maker of aluminum products.

Southeast Kentucky Regional Industrial Park **$6,614,468**

Located in Knox County, a joint project of Knox, Bell, Clay, McCreary, and Whitley counties

Adjacent to the park are DataStream, TECO Coal company, and an Immigration and Naturalization Services facility that produces green cards.

John Will Stacey Menifee-Morgan-Rowan Reg. Industrial Park $6,058,534

Located in Menifee County, a joint project of Menifee, Morgan, and Rowan counties

Current occupants are Family Dollar Distribution Center (a warehouse for the retail chain) and Morehead Machining.

EastPark Northeast Kentucky Regional Industrial Park $5,803,917

Located in Greenup County, a joint project of Greenup, Boyd, Carter, Elliott, and Lawrence counties

Occupants to date are Cintas Corporation (a uniform maker with average pay between $7 and $9 an hour) a Cingular Wireless call center, and the Ohio Valley Warehouse Distribution Center.

Leslie County Community Development Training Center $4,000,000

Leslie County

A community development and educational training facility in Hyden that was funded through the state budget in 1999. The facility, as originally envisioned, was to house the county board of education, an entrepreneurial training center, small business incubators, a job training center, a community activity center, and a one-stop facility for social services.

Martin County Community Center Development $4,000,000

Martin County

These funds were provided in the state budget for the years 2001 and 2002 to build a community center in Martin County.

Note: Funds for industrial parks come primarily from the Local Government Economic Development Program Multi-County Account with a fraction of the funds coming from single-county accounts.

The Two Main Coal Severance Tax Programs

Local Government Economic Development Fund (LGEDF)

The Local Government Economic Development Program was created in 1992 to promote economic development in coal counties. From the beginning, it was to be primarily used to build industrial parks and sites that were to lure new industry to eastern Kentucky. $35.3 million, or 24.6 percent of coal severance tax receipts, are going into the LGEDF accounts in 2003. The fund is divided into two pools: the single-county pool and the multi-county pool. Each county has an account in the single-county pool, while 1/3 of the appropriated amount goes into the multi-county pool (see more below). Counties must apply to use money from their accounts to the Cabinet for Economic Development. *In recent years, the state has coordinated the use of some of this money to build multi-county, regional industrial parks, and since 1998 the state legislature has also started spending down the accounts on a wide variety of projects outside of industrial recruitment.*

However, as originally designed, the program is intended for the construction or development of facilities for manufacturing, processing, or assembly. Facilities for non-manufacturing firms that add value to a product are also eligible. Retail facilities and coal companies are not eligible.

General activities that can be paid for include:
- Acquisition of property and related expenses
- Infrastructure development costs including water and sewer line extensions; treatment plant construction and/or upgrades; and access roads
- Building construction costs
- Engineering expenses related to the development
- Workforce development and workforce training costs may be eligible on a project by project basis.

The portion of coal severance money sent to the LGEDF accounts is allocated as follows:

♦ Thirty-three and one-third percent (33-1/3%) to each coal producing county based on each county's share of the state's total coal severance tax collected from mining and processing for the current and preceding four years.

♦ Thirty-three and one-third percent (33-1/3%) to each coal-producing county based on the following (equally-weighted) factors (computed for the current and four preceding years):

1. Percentage of total employment in the county that is in mining;
2. Percentage of total earnings in the county that is from mining; and
3. Surplus labor rate (the percentage of the potential workforce classified as either unemployed or discouraged from seeking work).

♦ Thirty-three and one-third percent (33-1/3%) for industrial development projects for two or more coal-producing counties (this is the "multi-county fund").

Local Government Economic Assistance Fund (LGEAF)

This program, created in 1980, sends a percentage of coal severance tax funds back to the local governments of coal-producing and coal-impacted counties. In 2003, 12.3 percent of coal severance funds, or $17.7 million, goes to LGEAF (the program also receives other severance taxes—natural gas, oil, etc.). Each eligible local government creates a separate section of their budget for LGEAF funds. These funds are not supposed to be spent for administrative costs. Here's how the program intends these monies to be spent:

■ **30 percent of these funds go to maintain the coal haul road system** (the system of roads used in the transportation of coal that are impacted by coal hauling)

■ **70 percent is allowed to be spent by the local governments in these categories:**

- Public safety, including law enforcement, fire protection, ambulance service, and
- other related services;
- Environmental protection, including sewage disposal, sanitation, solid waste, and
- other related programs;
- Public transportation, including mass transit systems, streets, and roads;
- Health;
- Recreation;
- Libraries and educational facilities;
- Social services for the poor, the elderly, and individuals with disabilities;
- Industrial and economic development;
- Vocational education;
- Workforce training; and
- Secondary wood industry development

Current County Balances
Local Government
Economic Development Fund

This chart details how much money has been spent in each county's Local Government Economic Development Fund account since 1992, and the current balance of that account (as of May 23, 2003). It also includes that information for the Multi-County Fund, which is used for joint projects.

COUNTY	SPENT SINCE 1992	BALANCE
Multi-County Fund	$79,517,913.80	$9,964,613.42
Bell	$5,639,885.50	$508,187.92
Boyd	$822,372.00	$142,204.20
Breathitt	$4,642,679.25	$728,937.43
Butler	$462,000.00	$89,479.16
Caldwell	$139,471.70	$0.00
Carter	$730,500.00	$296,426.28
Christian	$449,659.35	$194,633.74
Clay	$1,511,326.07	$599,570.11
Clinton	$137,420.18	$0.00
Daviess	$680,000.00	$180,085.02
Edmonson	$122,891.55	$0.00
Elliott	$602,816.00	$100,529.52
Floyd	$5,561,170.61	$995,892.84
Greenup	$478,800.00	$242,319.59
Hancock	$316,219.00	$0.00
Harlan	$11,783,160.73	$1,155,939.99
Henderson	$912,500.00	$1,191,620.58
Hopkins	$3,347,350.75	$2,286,512.60
Jackson	$464,797.24	$219,008.65
Johnson	$1,540,000.00	$553,487.50
Knott	$11,600,831.75	$1,542,972.37
Knox	$1,807,197.63	$212,211.49
Laurel	$710,000.00	$72,561.35
Lawrence	$1,509,778.00	$303,927.51
Lee	$1,397,970.99	$130,306.22
Leslie	$10,818,195.00	$1,892,847.72
Letcher	$7,748,056.43	$2,013,034.90
McCreary	$504,800.00	$358,292.69
McLean	$740,000.00	$445,490.71
Magoffin	$1,606,000.00	$878,992.90
Martin	$12,040,179.51	$3,891,197.18
Menife	$420,749.03	$127,112.12
Morgan	$966,832.78	$162,010.50
Muhlenburg	$2,472,016.99	$1,228,089.79
Ohio	$2,079,157.00	$428,124.84

Owsley	$1,327,963.12	$331,248.96
Perry	$8,006,386.00	$2,083,658.09
Pike	$25,390,673.28	$1,626,214.53
Pulaski	$104,626.40	$0.49
Rockcastle	$30,793.98	$245,036.41
Union	$6,415,831.13	$1,570,548.63
Wayne	$115,000.00	$218.45
Webster	$8,057,833.05	$2,252,930.50
Whitley	$1,611,890.00	$342,101.83
Wolfe	$301,313.02	$351,028.10
TOTAL	$227,647,008.82	$41,939,606.84

Note: Current balance may not reflect monies already committed to specific projects but not yet disbursed.

Source: Department for Local Government

Conclusion: Options for Improving the Coal Severance Tax

The coal severance tax could be a real contributor to a new and better future for Kentucky's coal-producing communities if reforms are made. Here are four general areas of change in which specific reform proposals are needed:

Raise the tax

The coal severance tax rate has stayed the same since 1976 while the destruction caused by the coal industry has increased dramatically. The seriousness of the need for economic alternatives has also increased, and resources are needed to make those alternatives happen. An increase of the coal severance tax by just one percentage point, for example, would bring in over $30 million more dollars for these purposes.

Commit all or most of the tax to local economic development in the coalfields

Despite claims to the contrary, 50 percent of coal severance tax receipts are still not going back to the coalfields. The severance tax is a way to help pay for a new future for communities historically dependent on the coal industry--the same communities whose future is threatened by the continuous destructive presence of this industry. But only a fraction of coal severance money over the last 30 y ears has gone back.

Change the guidelines for use of the monies to make them oriented toward sustainable economic development

Economic development won't happen in coalfield counties through building more industrial parks to sit empty or devoting coal severance money to pork projects. The guidelines for the spending of coal severance economic development monies are strict and wrong-headed, making ineffective industrial parks practically the only option. And the spending down of these monies by the legislature on projects lacks coordination and strategy. Kentucky needs to revamp the guidelines with a new commitment to sustainable economic development.

Fund coordinated training and supports for local economic development alternatives

A sustainable economic development approach is much broader than one focused on courting industry executives and putting up shell buildings. At the foundation of such an approach is new community leadership, so the building of capacity is essential. It requires a clear vision of a better future and a set of community standards to guide and govern development. It requires a good analysis of the economy and careful planning so that effective strategies can be developed and sound new economic development alternatives launched. And it requires the provision of a wide range of supports to make those projects successful, including funding, training, and technical assistance. In such areas as sustainable forestry, coalfield communities have an opportunity to create new economic well-being. Initiatives to support such alternatives would be a wise use of Kentucky's coal severance tax dollars.

Selected References

Each two-year Kentucky state budget back to 1996-98 can be found on the website of the Office of the State Budget Director: http://www.osbd.state.ky.us/index.htm. These budgets include details about how new coal severance dollars are appropriated each budget cycle, as well as which projects coal severance taxes were spent on in each budget from 1998-00 to the present. The publication "Kentucky Tax Facts" (http://www.revenue.state.ky.us/pdf/taxfacts_2002.pdf) describes how each of Kentucky's taxes work, including the severance tax. The website of the Kentucky Cabinet for Economic Development (www.thinkkentucky.com) describes the Local Government Economic Development Program and has information on each regional industrial park.

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