CENTRAL APPALACHIA
Regional Network

Central Appalachia Severance Tax Policy Scan

Kentucky, Maryland, Ohio, Tennessee, Virginia, and West Virginia

Contributors:
Virginia Economic Bridge
West Virginia Center on Budget & Policy

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INTRODUCTION

The Central Appalachian region of the United States has an abundance of renewable and non-renewable resources such as coal, natural gas, oil and timber. Much of this rich land however is owned by absentee landowners, and the wealth generated from these resources is transferred out of the region.
Severance tax is collected on the removal, or "severance", of renewable and non-renewable resources and provides a way to capture some of the value as it is removed from the region. Severance taxes are an important way for our communities to offset the effects of extracting or harvesting the resources, and can contribute to creating a more diverse and sustainable Appalachian economy.

The **Central Appalachia Severance Tax Policy Scan** is a compilation of severance tax policies and rate information for Kentucky, Maryland, Ohio, Tennessee, Virginia and West Virginia and examines:

- General Severance Tax Information
- Taxed Natural Resources and Current Rates
- Disposition of Severance Tax Revenue
- Uses of Revenue in Specified Funds (where identified)

The second section of the report (Appendix A) was crafted by the West Virginia Center on Budget & Policy and supports the creation of Permanent Severance Tax Trust Funds in Central Appalachian states. A national comparison of states with existing permanent severance tax trust funds is provided along with a compilation of 2012 severance tax legislation from each of the Central Appalachian states.

ABOUT CARN

The Central Appalachia Regional Network (CARN) is a coalition of organizations from the Appalachian counties of Kentucky, Maryland, Ohio, Tennessee, Virginia, and West Virginia. This regional network is a founding member of the nationwide Rural People, Rural Policy Initiative. CARN strives to connect diverse organizations to promote policy and action to improve the quality of life available to the people of Central Appalachia.

Following recommendations from a multi-sector regional summit in 2010, CARN established a Local Control of Assets work group. The group's purpose is to examine existing policies and develop positions pertaining to resources found in our communities, how they are taxed, and how the revenues are managed.

The Central Appalachia Severance Tax Policy Scan provides a foundation on which CARN will develop policy positions to create a long-term legacy for our resource-rich communities

ACKNOWLEDGMENTS

Primary research for the Central Appalachia Severance Tax Policy Scan was conducted by Kimber Simmons and Joseph Houser of Virginia Economic Bridge, Inc. Additional information concerning monetary adjustments due to inflation was provided by Southeast Kentucky Community & Technical College student, Chelsea Brock.

The research and analysis contained in the 2012 Severance Tax Legislation and Best Practices section were provided by Ted Boettner of the West Virginia Center for Budget and Policy.

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Central Appalachia (the region comprising Eastern Kentucky, Western Maryland, Southeastern Ohio, Eastern Tennessee, Southwestern Virginia and West Virginia) is rich in beauty, culture and natural resources. These natural resources – particularly coal, natural gas and timber – have been the backbone of the region's economy and have helped fuel America's economy for generations.

While these natural resources have created significant economic growth in the region, much of the wealth generated has not been shared with the people who live here. The extraction of these resources has also come with considerable costs to the communities, the environment and the region's residents. One way that the region has attempted to recoup some of these costs is by levying severance taxes. Severance taxes are taxes imposed distinctively on removal of natural resources (e.g. oil, gas, coal, other minerals, timber, fish, etc.) from land or water and measured by the value or quantity of products removed or sold.[1]

Severance taxes are collected throughout the Central Appalachian region; but each state, and sometimes counties within the state, has different policies for their collection, administration and revenue distribution. This report will provide an overview of these policies, including the types of resources that are taxed, the rates of the taxes, how the revenues are distributed and the intended uses of the funds.

SUMMARIES BY STATE

Kentucky

Severance taxes are collected on coal, natural gas, oil and other minerals (including limestone, clay, lead, zinc, etc.) in Kentucky. The severance tax program is administered by the Kentucky Department of Revenue and all payments are made to the State Treasurer. The State Treasurer oversees the disbursement of severance tax revenue. The tax rate for most natural resources is 4.5% of gross value with tax credits for thin seam coal and minerals used for specified purposes.

For fiscal year 2011, $355 million in severance taxes were collected in Kentucky with over $295 million, or 83%, coming from coal severance. This amount shows an increase of nearly 21% over the total severance tax collected for fiscal year 2006. According to the U.S. Census Bureau, severance tax collections in Kentucky represented over 3% of all state revenue.[2]

Maryland

The only severance taxes collected at the state level in Maryland are on shellfish and surcharges on open-pit and deep mined coal. The severance tax on shellfish is administered by the Department of Natural Resources and the surcharges on coal are administered by the Department of the Environment.

While there is no statewide severance tax on minerals, the state gives counties the authority to levy severance taxes, and the counties of Garrett and Alleghany impose taxes on the severance of coal and natural gas. These county-imposed taxes are administered by the County Commissioner of Revenue and distributed by the County Treasurer.

Ohio

Severance taxes are collected on coal, natural gas, oil and other minerals (including sand, gravel, salt, limestone, etc) in Ohio. In addition to the severance tax on coal, there is a reclamation tax and a surface mining tax. The Tax Commissioner administers the severance tax program, and payments are made to the State Treasurer. The State Treasurer oversees the disbursement of revenue.

For fiscal year 2010, $10.5 million in severance taxes were collected in Ohio with over $6 million, or 59%, coming from coal severance.

This amount shows an increase of nearly 39% over the total severance tax collected for fiscal year 2005. According to the U.S. Census Bureau, severance tax collections in Ohio for 2010 represented 0.04% of all state revenue.

[1] 2006 edition of the *U. S. Census Bureau's Government Finance and Employment Classification Manual.*

[2] A table displaying this information is available in the "Additional Information" section of this report.

Tennessee

Severance taxes are collected on coal, natural gas, oil and other minerals (including sand, gravel, sandstone, limestone, etc) in Tennessee. The severance tax program is administered by the Department of Revenue. The Department of Revenue retains a portion of severance taxes collected on coal and other mined minerals for administration fees, and returns the remaining moneys to the counties of severance for disbursement. The Department deposits 2/3 of the severance taxes on natural gas and oil into the state's General Fund and returns the remaining moneys to the counties for disbursement.

For fiscal year 2011, $6.9 million in severance taxes were collected in Tennessee with over $800,000, or 12% coming from coal severance. This amount shows a decrease of nearly 25% over the total severance tax collected for fiscal year 2006. According to the U.S. Census Bureau, severance tax collections in Tennessee for 2010 represented 0.02% of all state revenue.

Virginia

The only severance taxes collected at the state level in Virginia are on timber. The severance is administered by the Department of Taxation and payments are made to the State Treasury.

While there is no statewide severance tax on minerals, the Commonwealth gives counties and cities the authority to levy severance taxes. The counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell and Wise and the City of Norton levy a severance tax on coal and natural gas.

The counties of Buchanan, Dickenson, Lee, Russell, Tazewell and Wise levy a severance tax on oil. These taxes are administered by the County Commissioner of Revenue and distributed by the County Treasurer.

For fiscal year 2010, $1.875 million in severance taxes were collected in Virginia on timber. This amount shows an increase of 9% over the severance tax collected for fiscal year 2005. According to the U.S. Census Bureau, severance tax collections in Virginia for 2010 represented 0.01% of all state revenue.[3]

West Virginia

Severance taxes are collected on coal, natural gas, oil, timber[4] and other minerals (including sand, gravel, salt, limestone, etc) in West Virginia. The "Workers' Compensation Debt Reduction Act of 2005" imposes an additional severance tax on coal, natural gas, coal-bed methane and timber. The State Tax Commissioner administers the severance tax program.

For fiscal year 2010, $511 million in severance taxes were collected in West Virginia with over $449 million, or 88% coming from coal severance. This amount shows an increase of nearly 37% over the total severance tax collected for fiscal year 2006. According to the U.S. Census Bureau, severance tax collections in West Virginia for 2010 represented nearly 9.0% of all state revenue.

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[3] These calculations on include data on the timber severance tax. Since severance taxes on coal, natural gas and oil are not collected at the state level, they were not included in the calculations.

[4] The severance tax on timber has been temporarily eliminated for tax years 2010-2012.

Severance Tax Rates by State and Natural Resource						
	Kentucky	**Maryland**	**Ohio**	**Tennessee**	**Virginia**	**West Virginia**
Coal	Base Tax – 4.5% of gross value;	State: Open-pit Mined Coal Surcharges – $0.17/ton; Deep Mined Coal Surcharges – $0.15/ton County: Surface mining Tax – $0.30/ton	Base Tax – $0.10/ton; Reclamation Tax – $0.12/ton, $0.14/ton or $0.16/ton*; Surface mining Tax – $0.012/ton	Base Tax - $0.20/ton (before 7/09), $0.50/ton (7/09-6/11); $0.75/ton (7/11-6/13); $1.00/ton (after 6/13)	State: n/a County/City: 2% of gross receipts	Base Tax – 5% of gross value; Thin seam coal (37”-47”) – 2% of gross value; Thin seam coal (<37”) – 1% of gross value; Waste coal – 2.5% of gross value
Natural Gas (includes Coal-bed Methane)	4.5% of gross value	State: n/a County: Allegany County – 7% of market value; Garrett County – 5.5% of market value	$0.025/Mcf	3% of gross value	State: n/a County/City: 3% of gross value (with the exception of Norton City with 2%)	5% of gross value
Oil	4.5% of market value	n/a	$0.10/barrel	3% of gross value	State: n/a County/City: 0.5% of gross value	5% of gross value
Minerals	4.5% of gross value	n/a	Salt – $0.04/ton; Limestone, Gravel, Sand & Dolomite – $0.02/ton; Sandstone, Shale, Gypsum & Quartzite – $0.01/ton	Varies by county up to a maximum of $0.15/ton	n/a	Limestone, Sandstone, Clay/Shale & Salt – 5% of gross value
Timber	n/a	n/a	n/a	n/a	Varies by timber type and use	Temporarily eliminated
Shellfish	n/a	Oysters – $1.00/bushel; Hard-shell clams – $0.25 per bag; Soft-shell clams – $0.50/bushel	n/a	n/a	n/a	n/a

KENTUCKY

General Information

- A severance tax on coal was first enacted in Kentucky in 1972.
- A severance tax on natural gas and other natural resources was added in 1980.
- The severance tax programs in Kentucky are administered by the Kentucky Department of Revenue.[5]

Taxed Natural Resources and Current Rates

- Coal (severing and/or processing):
  - Base rate – 4.5% of gross value with a minimum tax of $0.50 per ton[6]
  - There are credits applied to coal mined from thin seams that lower the rate of the tax.[7]
    - For above-drainage seams using deep mining or underground mining methods: 2.25% for seams with thickness between 27 and 30 inches (making the tax rate equal to 2.25% of gross value) or 3% for seams with thickness of less than 27 inches (making the tax rate equal to 1.5% of gross value).
    - For below-drainage seams using deep mining or underground mining methods: 2.25% for seams with thickness between 32 and 36 inches (making the tax rate equal to 2.25% of gross value); 3% for seams with thickness between 27 and 32 inches (making the tax rate equal to 1.5% of gross value); or 3.75% for seams with thickness of less than 27 inches (making the tax rate equal to 0.75% of gross value).
  - Limit of tax on coal used for burning solid waste – $0.50 per ton or 4.0% of selling price, whichever is lower[8]
- Natural Gas (severing and/or processing) – 4.5% of gross value[9]
- Oil:
  - Base rate – 4.5% of the market value[10]
  - Tax credit equal to 4.5% of the market value of crude petroleum oil that is produced from a recovered inactive well (making the tax rate equal to 0%)[11]
- All other Natural Resources (severing and/or processing):
  - Base rate – 4.5% of gross value[12]
  - Tax credit on limestone severed or processed within the state and sold outside of the state – 4.5% of gross value (making the tax rate equal to 0%). This credit is limited to those that sever or process limestone through the rip-rap construction aggregate or agricultural limestone stages and sell at least 60% of stone out of state.[13]
  - Limit of tax on limestone used in the manufacture of cement – $0.14 per ton[14]
  - Clay – limited to $0.12 per ton. There is a tax credit equal to the entire rate of the severance tax for clay that is severed or processed in the state and sold to and used for the construction of landfill in the state.[15]
  - Exemptions:
    - No tax on the processing of Ball Clay[16]

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[5] Kentucky Tax Code §143.040 and Kentucky Tax Code §143A.040
[6] Kentucky Tax Code §143.020
[7] Kentucky Tax Code §143.021
[8] Kentucky Tax Code §143.023
[9] Kentucky Tax Code §143A.020
[10] Kentucky Tax Code §137.120
[11] Kentucky Tax Code §137.132
[12] Kentucky Tax Code §143A.020
[13] Kentucky Tax Code §143A.035
[14] Kentucky Tax Code §143A.036
[15] Kentucky Tax Code §143A.037
[16] Kentucky Tax Code §143A.020(1)

- No tax on Fluorspar, Lead, Zinc or Barite[17]
- No tax on Rock, Limestone or Gravel used for privately maintained but publicly dedicated roads[18]
- No tax on Limestone sold or used for agricultural purposes that qualify for exemption from sales and use taxes[19]

Disposition of Severance Tax Revenue

- Coal:
  - $19 million is transferred annually (in four equal quarterly payments) to the benefit reserve fund of the Kentucky Workers' Compensation Funding Commission[20]
  - Payment of severance tax incentives (as a reimbursement of up to 80% of severance tax paid) to qualifying companies for purchase and/or severance of coal used in alternative fuel or gasification facility[21]
  - On an as needed basis, the Transportation Cabinet and the Department for Energy Development and Independence may request funds annually from the commissioner of the Department of Revenue. The Transportation Cabinet may request the funds required for lease rental payments for resource road projects. The Department for Energy Development and Independence may request the funds required (up to $3 million) for lease rental payments for energy research development or demonstration projects.[22] (No payments have been made under this statute in recent years.)
  - 35% of the remaining revenue(after disbursements to the Workers' Compensation Funding Commission and for severance tax incentives) is transferred into the Local Government Economic Development Fund (50% of the revenue is transferred into the fund and then an amount equal to 15% of coal severance revenue is transferred from the Local Government Economic Development Fund into the Local Government Economic Assistance Fund)[23]
    - 5% of funds in the Local Government Economic Development Fund (after the transfer of moneys into the Local Government Assistance Fund) is transferred into the Secondary Wood Products Development Fund[24]
    - 1/3 of the remaining funds (after transfers to the Local Government Economic Assistance Fund and to the Secondary Woods Products Development Fund) are allocated to each coal producing county based on a ratio of the coal severed in the respective county to the total of coal severed in the state.[25]
    - 1/3 of the remaining funds (after transfers to the Local Government Economic Assistance Fund and to the Secondary Woods Products Development Fund) are allocated to each coal producing county based on the following factors: percentage of employment in the mining industry in relation to total employment; percentage of earnings from the mining in relation to total earnings; and surplus labor rate.[26]
    - 1/3 of the remaining funds (after transfers to the Local Government Economic Assistance Fund and to the Secondary Woods Products Development Fund) are reserved to be expended for industrial development projects that benefit two or more coal producing counties.[27]

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[17] Kentucky Tax Code §143A.030
[18] Kentucky Tax Code §143A.030
[19] Kentucky Tax Code §143A.030
[20] Kentucky Tax Code §342.122
[21] Kentucky Tax Code §143.024
[22] Kentucky Tax Code §143.090
[23] Kentucky Tax Code §42.4582-2 and Kentucky Tax Code §42.4585
[24] Kentucky Tax Code §42.4586
[25] Kentucky Tax Code §42.4592
[26] Kentucky Tax Code §42.4592
[27] Kentucky Tax Code §42.4592

- Of the remaining revenue (after disbursements to the Workers' Compensation Funding Commission and for severance tax incentives), 15% is transferred into the Local Government Economic Assistance Fund.[28] The severance tax revenue in the Local Government Economic Fund is disbursed as follows:
  - 60% of the funds are distributed to each coal producing county based on a ratio of the coal severed in the respective county to the total of coal severed in the state.[29]
  - 30% of the funds are distributed to each coal producing county based on the following factors, equally weighted: per capita income (in inverse order); ton miles of resource roads; and population.[30]
  - 10% of the funds are distributed to non-coal producing counties that are impacted by the transport of coal based on the following factors, weighted as indicated: geographic area (30/100), ton miles of resource roads (40/100); and per capita income in inverse order (30/100).[31]
- The remaining funds (50% of the coal severance revenue after disbursements to the Workers' Compensation Funding Commission and for severance tax incentives) stay in the Kentucky General Fund.

- All other minerals[32] (excluding coal):
  - 50% of the revenue is transferred to the Local Government Economic Assistance Fund.[33]
    - 100% of the funds are distributed among the mineral producing counties based on amount of the tax collected within the respective county.[34]
  - 50% of the revenue stays in the Kentucky General Fund.

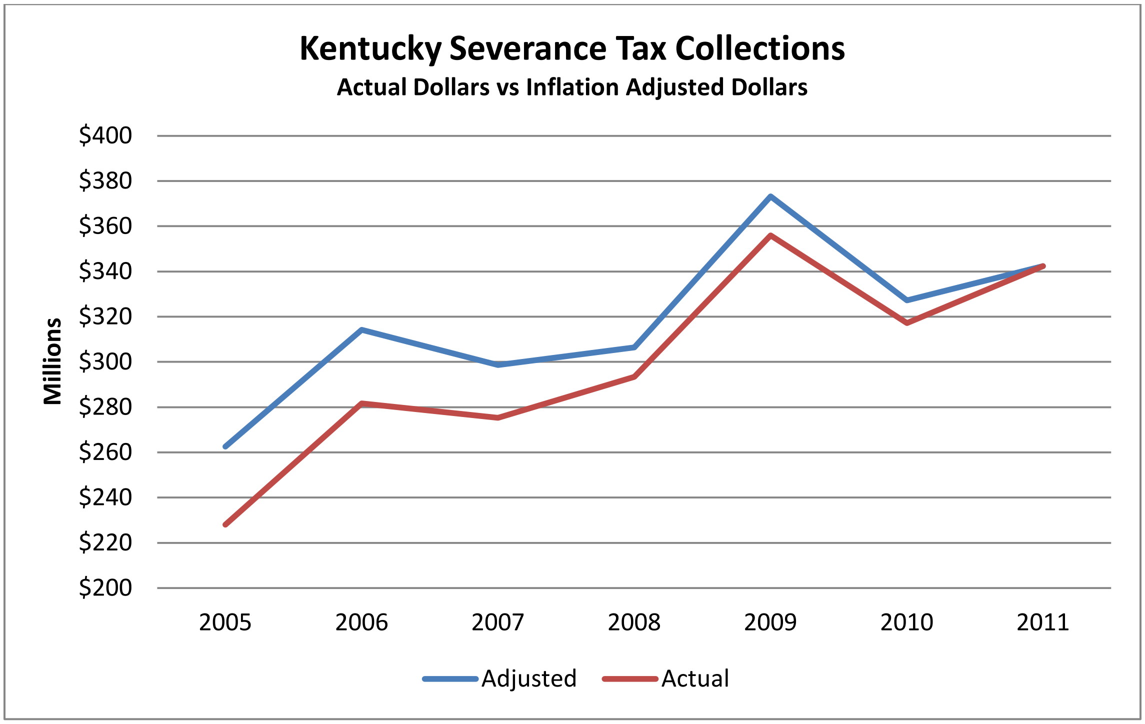
Uses of Revenue in Specified Funds:

- Local Government Economic Development Fund:[35]
  - All moneys must be spent on industrial development projects (including industrial development parks, regional industrial parks, and value-added facilities), job development incentive grants to individual firms, and debt service on industrial development projects.
- Local Government Economic Assistance Fund:[36]
  - 30% of all moneys in the fund must be spent on the coal haul road system
  - 70% of moneys in the fund are to be spent on the following priority categories (none of these moneys may be used for expenses related to administration of the government):
    - Public safety, including law enforcement, fire protection, ambulance service, and related services
    - Environmental protection, including sewage disposal, sanitation, solid waste, and related services
    - 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

[28] Kentucky Tax Code §42.4585
[29] Kentucky Tax Code §42.470
[30] Kentucky Tax Code §42.470
[31] Kentucky Tax Code §42.470
[32] This includes natural gas and oil as well as mined minerals.
[33] Kentucky Tax Code §42.450
[34] Kentucky Tax Code §42.470
[35] Kentucky Tax Code §42.4588
[36] Kentucky Tax Code §42.455

- Workforce training
- Secondary wood industry development

- Secondary Wood Products Development Fund[37]:
  - Funds are to be used to support the Quicksand Wood Utilization Center, secondary wood products firms, and secondary wood products networks.



Kentucky Severance Tax Collections 2005-2011[38]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$184,436,935	$224,490,111	$221,952,516	$232,977,827	$292,591,094	$271,943,611	$295,836,611
Natural Gas & Minerals*	38,801,666	50,701,858	47,161,910	50,155,157	54,963,206	37,639,344	38,195,264
Oil	4,710,832	6,386,501	6,198,342	10,201,113	8,430,228	7,564,121	8,287,566
Total	**$227,949,433**	**$281,578,470**	**$275,312,768**	**$293,334,097**	**$355,984,528**	**$317,147,076**	**$342,319,441**

* Receipts for severance taxes on natural gas and minerals (such as limestone and clay) are aggregated.

Kentucky Severance Tax Collections 2005-2011 – Adjusted to 2011 Dollars[39]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$212,427,341	$250,479,073	$240,789,502	$243,404,873	$306,777,610	$280,528,348	$295,836,611
Natural Gas & Minerals	44,690,261	56,571,554	51,164,515	52,399,878	57,628,142	38,827,619	38,195,264
Oil	5,425,754	7,125,859	6,724,392	10,657,669	8,838,974	7,802,920	8,287,566
Total	**$262,543,356**	**$314,176,485**	**$298,678,409**	**$306,462,420**	**$373,244,726**	**$327,158,887**	**$342,319,441**

[37] Kentucky Tax Code §154.47-070
[38] Annual Reports of the Department of Revenue for 2005-2011
[39] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).

MARYLAND

General Information

- The state only collects severance taxes on shellfish.
- The state collects surcharges on coal mining, both by open-pit methods (strip-mining) and by deep mining methods.
- The state gives the authority to counties to levy severance taxes at the county level.
- The rate for the tax on coal is set by the state, but the rates for natural gas have been set by the counties.

Taxed Natural Resources and Current Rates

- State level:
  - Oysters – $1.00 per bushel[40]
  - Hard-shell clams – $0.25 per bag[41]
  - Soft-shell clams – $0.50 per bushel[42]
  - Surcharges on open-pit mined coal:
    - Mine reclamation surcharge – $0.15 per ton[43]
    - Bond supplement surcharge – $0.02 per ton[44]
  - Surcharge on deep mined coal – $0.15 per ton[45]
- County level :
  - Coal – The counties of Allegany and Garrett collect severance taxes on coal mined using surface mining methods as specified in the Annotated Code of Maryland.[46] The rate of that tax is $0.30 per ton.[47]
  - Natural Gas:
    - Allegany County – 7% of wholesale market value[48] (60% is paid by the producer and 40% is paid by the purchaser)
    - Garrett County – 5.5% of wholesale market value[49] (60% is paid by the producer and 40% is paid by the purchaser)

Disposition of Severance Tax Revenue

- State level:
  - Oysters, Hard-shell clams, and Soft-shell clams – 100% to the Fisheries Research and Development Fund[50]
  - Open-pit mined Coal, mine reclamation surcharge – $0.09 per ton is deposited into the Bituminous Coal Open-Pit Mining Reclamation Fund and $0.06 per ton is remitted to the county in which it was severed.[51]
  - Open-pit mined Coal, bond supplement surcharge – $0.02 per ton is deposited into the Bituminous coal Open-Pit Mining Reclamation Fund[52]

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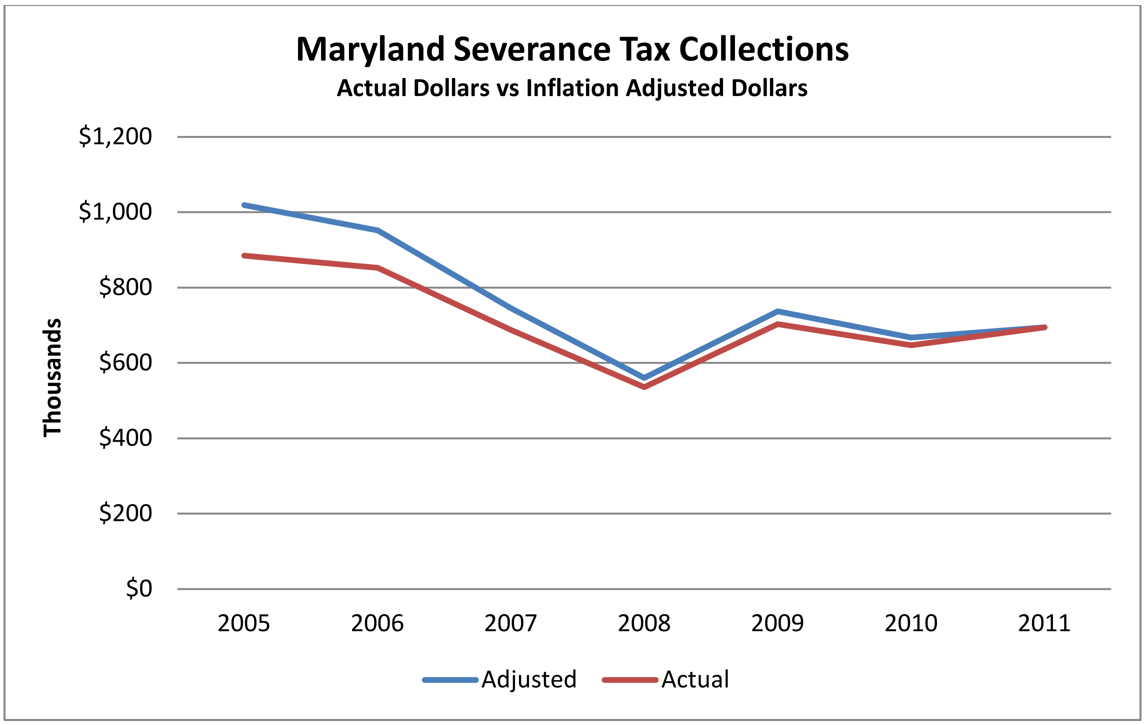
[40] Maryland Natural Resources Code Annotated §4-1020
[41] Maryland Natural Resources Code Annotated §4-1028 and a bag is to contain no more than 105 clams.
[42] Maryland Natural Resources Code Annotated §4-1035
[43] Maryland Environment Code Annotated §15-509(a)
[44] Maryland Environment Code Annotated §15-509(d)
[45] Maryland Environment Code Annotated §15-615(b)
[46] Annotated Code of Maryland Article 24, §9-501
[47] Annotated Code of Maryland Article 24, §9-502
[48] Code of Allegany County, Maryland §394-1
[49] Garrett County, MD Code of Ordinances §51.02(A)(1)
[50] Maryland Natural Resources Code Annotated §4-1020, §4-1028, and §4-1035
[51] Maryland Environment Code Annotated §15-509(b)
[52] Maryland Environment Code Annotated §15-509(d)

- Deep mined Coal – $0.09 per ton is retained by the office of the Secretary of the Environment and $0.06 per ton is remitted to the county in which the coal was severed.[53]

- County level:
  - Coal:
    - Allegany County – $0.20 per ton is paid to the general fund of the county, $0.09 per ton is paid to the Coal Haul Road Fund and $0.01 per ton is distributed to coal towns.
    - Garrett County – 100% is paid to the general fund of the county.
  - Natural Gas :
    - Allegany County – 100% is paid to the general fund of the county.[54]
    - Garrett County – 10/11 is paid to the general fund of the county and 1/11 is distributed to the municipalities of the county on a per capita basis.[55]



[53] Annotated Code of Maryland §15-615(b)
[54] Code of Alleghany County, Maryland § 394-10
[55] Garrett County, MD Code of Ordinances §51.02(A)(2)

Allegany County, Maryland Severance Tax Collections 2005-2011[56]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$404,369	$391,638	$328,058	$316,985	$381,785	$422,250	$382,956
Natural Gas*	-	-	-	-	-	-	-
Total	$404,369	$391,638	$328,058	$316,985	$381,785	$422,250	$382,956

Allegany County, Maryland Severance Tax Collections 2005-2011 – Adjusted to 2011 Dollars[57]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$465,737	$436,977	$355,900	$331,172	$400,296	$435,580	$382,956
Natural Gas*	-	-	-	-	-	-	-
Total	$465,737	$436,977	$355,900	$331,172	$400,296	$435,580	$382,956

Garrett County, Maryland Severance Tax Collections 2005-2011[58]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$479,643	$457,488	$356,796	$218,366	$315,473	$221,448	$310,161
Natural Gas	512	3,649	2,537	777	5,531	3,552	1,509
Total	**$480,155**	**$461,137**	**$359,333**	**$219,143**	**$321,004**	**$225,000**	**$311,670**

Garrett County, Maryland Severance Tax Collections 2005-2011 – Adjusted to 2011 Dollars[59]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$552,434	$510,451	$387,077	$228,139	$330,769	$228,439	$310,161
Natural Gas	590	4,071	2,752	812	5,799	3,664	1,509
Total	**$553,024**	**$514,522**	**$389,829**	**$228,951**	**$336,568**	**$232,103**	**$311,670**

* A request was made of the Allegany County Finance Department for information about the severance tax on Natural Gas but no response was received.

[56] Allegany County Finance Office
[57] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).
[58] Garrett County Finance Office. The totals for Coal include both the Coal Severance Tax (the portion of the state surcharge that is returned to the county) and the Coal Tonnage Tax (the tax that is collected by the county).
[59] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).

OHIO

General Information

- Severances taxes were first enacted in Ohio in 1972.
- The tax is administered and distributed by the State Tax Commissioner.

Taxed Natural Resources and Current Rates

- Coal – $0.10 per ton[60] plus: the reclamation tax ($0.12 per ton or $0.14 per ton or $0.16 per ton, dependent upon the value of the Reclamation Forfeiture Fund at the end of the previous budget biennium[61]) and the surface mining tax ($0.012 per ton for coal mined by surface mining methods[62])
- Natural Gas – $0.025 per Mcf[63]
- Oil – $0.10 per barrel[64]
- Limestone – $0.02 per ton[65]
- Gravel – $0.02 per ton[66]
- Sand – $0.02 per ton[67]
- Dolomite – $0.02 per ton[68]
- Salt – $0.04 per ton[69]
- Clay – $0.01 per ton[70]
- Sandstone – $0.01 per ton[71]
- Shale – $0.01 per ton[72]
- Gypsum – $0.01 per ton[73]
- Quartzite – $0.01 per ton[74]

Disposition of Severance Tax Revenue

- Coal
  - Base tax rate of $0.10 per ton – 4.76% of tax revenue to the Geological Mapping Fund, 14.29% to the Unreclaimed Lands Fund and 80.95% to the Coal Mining Administration Fund[75]
  - Reclamation tax – 100% to the Reclamation Forfeiture Fund[76]
  - Surface mining tax – 100% to the Unreclaimed Lands Fund[77]
- Natural Gas and Oil – 10% of tax revenue to the Geological Mapping Fund and 90% to the Oil and Gas Well Fund[78]

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[60] Ohio Revised Code §5749.02(A)(1)
[61] Beginning July 1, 2007, if at the end of the fiscal biennium, the balance of the Reclamation Forfeiture Fund is greater than of equal to $10 million, the reclamation tax rate is $0.12 per ton; if the balance is at least $5 million but less than $10 million, the rate is $0.14 per ton; or if the balance is less than $5 million, the tax rate is $0.16 per ton. – Ohio Revised Code §5749.02(A)(8).
[62] Ohio Revised Code §5749.02(A)(9)
[63] Mcf stands for 1,000 cubic feet. The code reference for the tax rate is Ohio Revised Code §5749.02(A)(6).
[64] Ohio Revised Code §5749.02(A)(5)
[65] Ohio Revised Code§5749.02(A)(3)
[66] Ohio Revised Code §5749.02(A)(4)
[67] Ohio Revised Code §5749.02(A)(4)
[68] Ohio Revised Code §5749.02(A)(3)
[69] Ohio Revised Code §5749.02(A)(2)
[70] Ohio Revised Code §5749.02(A)(7)
[71] Ohio Revised Code §5749.02(A)(7)
[72] Ohio Revised Code §5749.02(A)(7)
[73] Ohio Revised Code §5749.02(A)(7)
[74] Ohio Revised Code §5749.02(A)(7)
[75] Ohio Revised Code §5749.02(B)
[76] Ohio Revised Code §5749.02(B)
[77] Ohio Revised Code §5749.02(B)
[78] Ohio Revised Code §5749.02(B)

- Limestone, Gravel, Sand and Dolomite – 7.5% of tax revenue to the Geological Mapping Fund, 42.5% to the Unreclaimed Lands Fund and 50% to the Surface Mining Administrative Fund[79]
- Salt – 100% of tax revenue to the Geological Mining Fund[80]
- Clay, Sandstone, Shale, Gypsum and Quartzite – 100% of tax revenue to the Surface Mining Fund[81]

Uses of Revenue in Specified Funds:

- Geological Mapping Fund – The moneys in this fund shall be used for the purposes of performing the necessary field, laboratory, and administrative tasks to map and make public reports on the geology, geologic hazards, and energy and mineral resources of the state.[82]
- Unreclaimed Lands Fund – The moneys in this fund shall be used for the purpose of reclaiming land, public or private, affected by mining, or controlling mine drainage, for which no cash is held in the reclamation forfeiture fund or the surface mining fund and also for the purpose of paying the expenses and compensation of the council on unreclaimed strip mined lands.[83]
- Coal Mining Administration Fund – The moneys in this fund shall be used for administration and enforcement of the contents of the Ohio Revised Code – Chapter 1513: Coal Surface Mining. Up to $1 million may be transferred to the Reclamation Forfeiture Fund; and funds may be transferred to Unreclaimed Lands Fund, if the Director of Natural Resources determines it necessary.[84]
- Reclamation Forfeiture Fund – The moneys in this fund shall be used for the purpose of reclaiming areas of land affected by coal mining under a coal mining and reclamation permit where the operator has defaulted or forfeited.[85]
- Oil and Gas Well Fund – The moneys in this fund shall be used for the expenses of the Division of Oil and Gas Resource Management, the expenses associated with administration of Ohio Revised Code – Chapter 1509: Division of Oil and Gas Resource Management – Oil and Gas, the expenses associated with administration of Ohio Revised Code – Chapter 1571: Underground Storage of Gas, expenses that are critical and necessary for the protection of human health and safety and the environment related to oil and gas production in the state, and not less that 14% of the revenue credited to the fund must be spent for the following: to plug idle and orphaned wells, to restore the land surface properly from orphaned wells, and to correct conditions that the chief has determined are causing imminent health or safety risks at an idle and orphaned wells or those in which the owner cannot be contacted.[86]
- Surface Mining Fund – The moneys in this fund shall be used for the administration and enforcement of Ohio Revised Code – Chapter 1514: Other Surface Mining, for the reclamation of land affected by surface or in-stream mining under a permit that the operator failed to reclaim and for which the performance bond filed by the operator is insufficient to complete the reclamation, and for the reclamation of land affected by surface or in-stream mining that was abandoned and left unreclaimed and for which no permit was issued or bond filed.[87]

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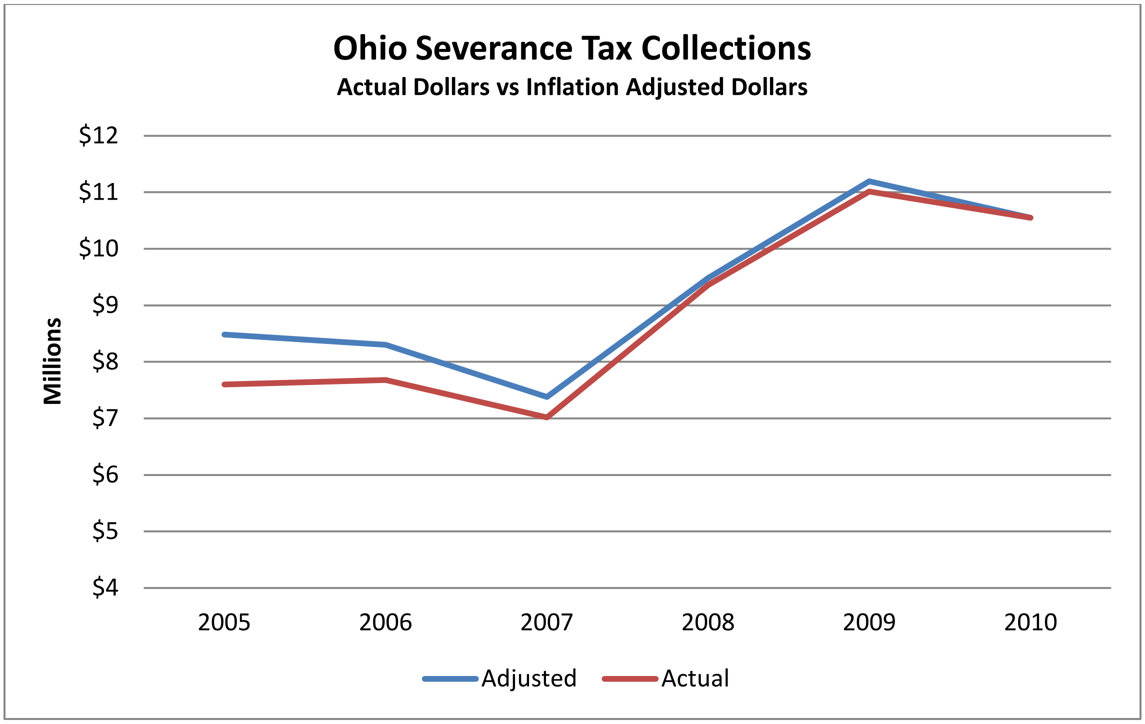
[79] Ohio Revised Code §5749.02(B)
[80] Ohio Revised Code §5749.02(B)
[81] Ohio Revised Code §5749.02(B)
[82] Ohio Revised Code §1505.09
[83] Ohio Revised Code §1513.30
[84] Ohio Revised Code §1513.181
[85] Ohio Revised Code §1513.18
[86] Ohio Revised Code §1509.02 and §1509.071
[87] Ohio Revised Code §1514.06 and §1514.11


Ohio Severance Tax Collections
Actual Dollars vs Inflation Adjusted Dollars
Millions
$12
$11
$10
$9
$8
$7
$6
$5
$4
2005
2006
2007
2008
2009
2010
Adjusted
Actual

Ohio Severance Tax Collections 2005-2010[88]						
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Coal	$2,052,560	$2,216,710	$2,016,846	$4,463,852	$6,272,478	$6,269,175
Natural Gas	2,104,101	2,023,276	1,945,713	1,973,148	2,069,704	2,067,986
Oil	510,481	530,817	505,876	528,280	499,297	487,165
Limestone	1,512,348	1,360,579	1,252,499	1,299,974	1,111,512	883,334
Gravel	621,376	718,526	580,400	394,991	337,919	256,826
Sand	506,396	510,446	475,825	405,561	369,937	293,012
Dolomite	41,278	41,539	11,840	19,443	41,464	9,006
Salt	186,956	200,422	167,562	211,046	245,660	233,521
Clay	19,742	23,230	14,847	21,982	12,890	11,501
Sandstone	15,594	23,542	16,631	17,669	14,321	8,928
Shale	23,833	25,379	27,292	24,693	33,895	27,752
Gypsum	0	0	0	0	0	0
Quartzite	2,986	2,364	3,343	2,152	2,155	2,116
Total	**$7,597,651**	**$7,676,830**	**$7,018,674**	**$9,362,791**	**$11,011,233**	**$10,550,320**

Ohio Severance Tax Collections 2005-2010 – Adjusted to 2010 Dollars[89]						
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Coal	$2,291,710	$2,397,642	$2,121,053	$4,520,909	$6,375,335	$6,269,175
Natural Gas	2,349,256	2,188,420	2,046,245	1,998,369	2,103,643	2,067,986
Oil	569,959	574,143	532,014	535,032	507,485	487,165
Limestone	1,688,556	1,471,632	1,317,213	1,316,590	1,129,739	883,334
Gravel	693,774	777,174	610,388	400,040	343,460	256,826
Sand	565,398	552,110	500,410	410,745	376,003	293,012
Dolomite	46,087	44,930	12,452	19,692	42,144	9,006
Salt	208,739	216,781	176,220	213,744	249,688	233,521
Clay	22,042	25,126	15,614	22,263	13,101	11,501
Sandstone	17,411	25,464	17,490	17,895	14,556	8,928
Shale	26,610	27,450	28,702	25,009	34,451	27,752
Gypsum	0	0	0	0	0	0
Quartzite	3,334	2,557	3,516	2,180	2,190	2,116
Total	**$8,482,877**	**$8,303,428**	**$7,381,317**	**$9,482,466**	**$11,191,796**	**$10,550,320**

[88] Ohio Department of Taxation Annual Report
[89] The actual amounts for 2005-2010 have been adjusted to 2010 values using an inflation calculator (http://www.usinflationcalculator.com/).

TENNESSEE

General Information

- All severance taxes are administered at by the Department of Revenue.
- Rates for severance taxes on coal, natural gas and oil are set by the state.
- Rates for severance taxes on minerals (excluding coal) are set by the county.
- There are three counties that have a severance tax on pulpwood. These taxes were created by private act.

Taxed Natural Resources and Current Rates

- Coal
  - $0.20 per ton (before 7/1/09)
  - $0.50 per ton (between 7/1/09 and 6/30/11)
  - $0.75 per ton (between 7/1/11 and 6/30/13)
  - $1.00 per ton (after 6/30/13)[90]
- Natural Gas – 3% of gross value[91]
- Oil – 3% of gross value[92]
- Minerals (sand, gravel, sandstone, chert, limestone) – varying[93] (The state code allows up to $0.15 per ton, the actual rate is determined by county.[94])
  - Counties that do not levy a severance tax on minerals: Bradley, Chester, Crockett, Dyer, Gibson, Grainger, Hamblen, Hamilton, Hancock, Hardeman, Henderson, Henry, Houston, Jefferson, Knox, Lake, Lauderdale, Lewis, Macon, Morgan, Pickett, Polk, Scott, Sequatchie, Sevier, Tipton and Washington
  - Counties with a rate of $0.05 per ton: Humphreys
  - Counties with a rate of $0.10 per ton: Benton, Cannon and Perry
  - Counties with a rate of $0.15 per ton: Anderson, Bedford, Bledsoe, Blount, Campbell, Carroll, Carter, Cheatham, Claiborne, Clay, Cocke, Coffee, Cumberland, Davidson, Decatur, DeKalb, Dickson, Fayette, Fentress, Franklin, Giles, Greene, Hardin, Hawkins, Haywood, Hickman, Jackson, Johnson, Lawrence, Lincoln, Loudon, Madison, Marion, Marshall, Maury, McMinn, McNairy, Meigs, Monroe, Montgomery, Moore, Obion, Overton, Putnam, Rhea, Roane, Robertson, Rutherford, Shelby, Smith, Stewart, Sullivan, Sumner, Trousdale, Unicoi, Union, Van Buren, Warren, Wayne, Weakley, White, Williamson and Wilson
- Pulpwood – varying (The counties of Anderson, Benton and Wayne levy a severance tax on Pulpwood that was created by private act. Such a tax for any other county must now be authorized by general law instead of private act.[95])

Disposition of Severance Tax Revenue

- Coal – 1.125% of severance tax revenue to the Department of Revenue for administration and collection and 98.875% is returned to the county where the coal was severed. 50% of the returned funds must be used for the educational system and 50% used for highway and stream cleaning.[96]
- Natural Gas – 2/3 of severance tax revenue to the state general fund and 1/3 is returned to the county where the wellhead is located.[97]

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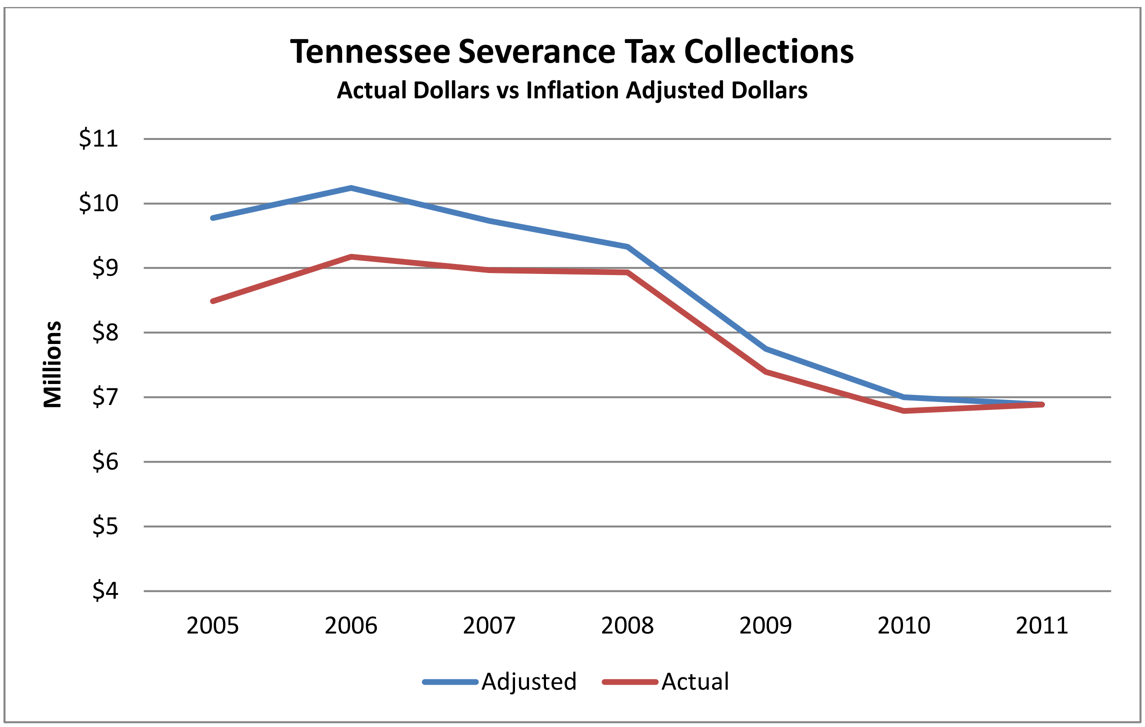
[90] Tennessee Code § 67-7-104
[91] Tennessee Code § 60-1-301(a)
[92] Tennessee Code § 60-1-301(a)
[93] Tennessee County Tax Statistics, 34th Edition, March 2011, The University of Tennessee County Technical Assistance Service an agency of the Institute for Public Service
[94] Tennessee Code § 67-7-203(a)
[95] Tennessee Code § 67-1-111
[96] Tennessee Code § 67-7-110
[97] Tennessee Code § 60-1-301

- Oil – 2/3 severance tax revenue to the state general fund and 1/3 is returned to the county where the wellhead is located.[98]
- Minerals – All severance tax revenues for minerals, minus expenses to cover administration and collection, are returned to the county where the mineral was severed. Although the Tennessee Revised code states that all funds are to become part of the county road fund to be used for construction, maintenance and repair,[99] several counties dedicate mineral severance tax funds to other purposes such as: general fund – Decatur County, Giles County, Humphreys County, Rutherford County, Unicoi County, Weakley County and Williamson County; debt service – Dickson County; and education – Wayne County[100]

  * There is an exception to the rule concerning allocation of revenue from mineral severance tax. Tennessee Code §67-7-207(b): "Not withstanding the provisions of subsection (a), in any county having a population of not less than fourteen thousand nine hundred twenty-five (14,925) no more than fourteen thousand nine hundred forty (14,940), according to the 1980 federal census or any subsequent federal census, the county legislative body man, by resolution adopted by a two-thirds vote, allocate such revenues to the county road fund, the county general fund or any other fund of the county."



[98] Tennessee Code § 60-1-301
[99] Tennessee Code § 67-7-207
[100] Tennessee County Tax Statistics, 34th Edition, March 2011, The University of Tennessee County Technical Assistance Service an agency of the Institute for Public Service

Tennessee Severance Tax Collections 2005-2011[101]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$624,976	$689,843	$562,949	$519,090	$460,758	$908,299	$823,386
Natural Gas/Oil	812,664	1,106,459	1,041,463	1,837,550	1,951,955	1,342,622	1,532,211
Minerals	7,047,170	7,381,423	7,364,476	6,575,103	4,978,438	4,535,034	4,531,808
Total	**$8,484,810**	**$9,177,725**	**$8,968,889**	**$8,931,744**	**$7,391,151**	**$6,785,955**	**$6,887,406**

Tennessee Severance Tax Collections 2005-2011 – Adjusted to 2011 Dollars[102]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$719,823	$769,705	$610,726	$542,322	$483,098	$936,974	$823,386
Natural Gas/Oil	$935,995	$1,234,552	$1,129,851	$1,919,791	$2,046,597	$1,385,009	1,532,211
Minerals	$8,116,658	$8,235,962	$7,989,495	$6,869,375	$5,219,822	$4,678,205	4,531,808
Total	**$9,772,477**	**$10,240,220**	**$9,730,074**	**$9,331,489**	**$7,749,517**	**$7,000,188**	**$6,887,406**

[101] Tennessee Department of Revenue Collections Spreadsheets 2005-2011.
[102] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).

VIRGINIA

General Information

- Severance taxes in the state are only collected on timber.
- The state gives the authority to counties to levy severance taxes at the county level. The state sets a maximum rate for coal at 2% (1% as a severance tax and an additional 1% as a coal and gas road improvement tax); a maximum of 0.5% on oil and a maximum or 3% on natural gas (2% as a severance tax and 1% as a coal and gas road improvement tax).
- The statute giving authority to levy the coal and gas road improvement tax is due to expire on December 31, 2014.
- State law requires that a portion of both the severance tax on natural gas and the coal and gas road improvement tax be paid to the Virginia Coalfield Economic Development Authority (this applies to the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell and Wise and the City of Norton).
- The Code of the City of Norton, VA includes ordinances levying severance taxes on coal and gas but also includes an ordinance banning mining within city limits.[103] However, the City does receive a portion of the severance tax on coal and gas collected by Wise County, VA that is earmarked for coal road improvement.[104]

Taxed Natural Resources and Current Rates

State Level:

- Timber – varies by wood type and processing[105]
  - Pine Lumber – $1.15 per M ft BM[106] or $0.20 per ton
  - Hardwood Lumber – $0.225 per M ft BM or $0.04 per ton
  - Pine Logs – $1.15 per M ft or $0.20 per ton
  - Hardwood Logs – $0.225 per M ft or $0.04 per ton
  - Pine Veneer Logs – $1.15 per M board ft or $0.20 per ton
  - Hardwood Veneer Logs – $0.225 per M board ft or $0.04 per ton
  - Pine Pulpwood – $0.475 per cord or $0.20 per ton
  - Hardwood Pulpwood – $0.1125 per cord or $0.04 per ton
  - Pine Railroad Crossties – $0.038 per piece or $0.20 per ton
  - Hardwood Railroad Crossties – $0.01 per piece or $0.04 per ton
  - Pine Chips – $0.00986 per 100 lbs
  - Hardwood Chips – $0.00234 per 100 lbs
  - Pine Mining posts, ties, props, round mine collars, etc. (< 4') – $0.38 per 100 pieces
  - Hardwood Mining posts, ties, props, round mine collars, etc. (< 4') – $0.09 per 100 pieces
  - Pine Mining posts, ties, props, round mine collars, etc. (between 4' and 8')– $0.6175 per 100 pieces
  - Hardwood Mining posts, ties, props, round mine collars, etc. (between 4' and 8')– $0.1425 per 100 pieces
  - Pine Mining posts, ties, props, round mine collars, etc. (> 8')– $0.76 per 100 pieces
  - Hardwood Mining posts, ties, props, round mine collars, etc. (> 8')– $0.18 per 100 pieces
  - Pine Keg Staves – $0.038 per 400 inch bundle or $0.20 per ton
  - Hardwood Keg Staves – $0.015 per 400 inch bundle or $0.04 per ton
  - Pine Keg Heads – $0.115 per 100 heads or $0.20 per ton
  - Hardwood Keg Heads – $0.045 per 100 heads or $0.04 per ton
  - Hardwood Tight Cooperage – $0.045 per 100 staves or $0.04 per ton

[103] The City of Norton, VA Code of Ordinances Section 12-4
[104] The Code of Virginia §58.1-3713.1
[105] From the Virginia Department of Taxation Form 1034 – Virginia Forest Products Tax Return
[106] M ft BF stands for 1,000 feet Board Measure

County Level:

- Coal – The Code of Virginia gives counties and cities the authority to levy taxes on the severance of coal at a rate of up to 2% of gross value. [107] These taxes are collected and distributed at the county/city level.
    - Buchanan County – 2% of gross receipts[108]
    - Dickenson County – 2% of gross receipts[109]
    - Lee County – 2% of gross receipts[110]
    - Russell County – 2% of gross receipts[111]
    - Scott County – 2% of gross receipts[112]
    - Tazewell County – 2% of gross receipts[113]
    - Wise County – 2% of gross receipts[114]
    - City of Norton – 2% of gross value[115]
- Natural Gas – The Code of Virginia gives counties and cities the authority to levy taxes on the severance of coal at a rate of up to 3% of gross value.[116] These taxes are collected and distributed at the county/city level.
    - Buchanan County – 3% of gross receipts[117]
    - Dickenson County – 3% of gross receipts[118]
    - Lee County – 3% of gross receipts[119]
    - Russell County – 3% of gross receipts[120]
    - Scott County – 3% of gross receipts[121]
    - Tazewell County – 3% of gross receipts[122]
    - Wise County – 3% of gross receipts[123]
    - City of Norton – 2% of gross value[124]
- Oil – The Code of Virginia gives counties and cities the authority to levy taxes on the severance of coal at a rate of up to 0.5% of gross value.[125] These taxes are collected and distributed at the county/city level.
    - Buchanan County – 0.5% of gross value[126]
    - Dickenson County – 0.5% of gross value [127]
    - Lee County – 0.5% of gross value
    - Russell County – 0.5% of gross value [128]
    - Wise County – 0.5% of gross receipts [129]

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[107] The Code of Virginia gives counties and cities the authority to levy taxes on the severance of coal. These taxes are collected and distributed at the county/city level. Tax Code of Virginia §58.1-3712(A) and § 58.1-3713(A)

[108] The Buchanan County, VA Code of Ordinances §88-25(A) and §88-25(B)

[109] The Dickenson County, VA Coal, Gas, and Oil Severance Tax Ordinance Section 1(A) and Section 1(B)

[110] Lee County, VA Code Article III, Section 15-36

[111] The Russell County, VA Coal, Gas, and Oil Severance Tax Ordinance Section 1(A) and Section 1(B)

[112] Scott County, VA Ordinance 91-2, Section Four

[113] The Tazewell County, VA Code of Ordinances Section 10-113 and Section 10-148

[114] The Wise County, VA Code of Ordinances Section 19-37

[115] The City of Norton, VA Code of Ordinances Section 11-53 and Section 11-66

[116] The Code of Virginia §58.1-3712, §58.1-3713 and §58.1-3713.4

[117] The Buchanan County, VA Code of Ordinances §88-25(A), §88-25(B), and §88-25(C)

[118] The Dickenson County, VA Coal, Gas, and Oil Severance Tax Ordinance Section 1(A), Section 1(B), and Section 1(C)

[119] Lee County, VA Code Article III, Section 15-36

[120] The Russell County, VA Coal, Gas, and Oil Severance Tax Ordinance Section 1(A), Section 1(B), and Section 1(C)

[121] Scott County, VA Ordinance 91-2, Section Four

[122] The Tazewell County, VA Code of Ordinances Section 10-113, Section 10-148 and Section 10-151

[123] The Wise County, VA Code of Ordinances Section 19-37

[124] The City of Norton, VA Code of Ordinances Section 11-53 and Section 11-66

[125] The Code of Virginia § 58.1-3712.1

[126] The Buchanan County, VA Code of Ordinances § 88-25(D)

[127] The Dickenson County, VA Coal, Gas, and Oil Severance Tax Ordinance Section 1(A)

[128] The Russell County, VA Coal, Gas, and Oil Severance Tax Ordinance Section 1(A)

[129] The Wise County, VA Code of Ordinances Section 19-37

Disposition of Severance Tax Revenue

- State level:
  - Timber – 87% is deposited into the Reforestation of Timberlands State Fund and 13% is deposited into the Protection and Development of Forest Resources State Fund. The state comptroller will determined the cost of collecting the taxes and each fund will pay the Department of Taxation the determined amount according to the proportion of taxes allocated.[130]
- County level:
  - Coal – The Code of Virginia specifies how each county should allocate portions of the funds collected from the severance tax on coal.
    - The first 1% – 100% to the county's general fund.
    - The second 1% (referred to as 'The coal and gas road improvement and Virginia Coalfield Economic Development Authority tax') – 75% is to be deposited into the county's Coal and Gas Road Improvement Fund and 25% is to be paid to the county's Virginia Coalfield Economic Development Fund.[131] *Wise County is the exception with 55% of the funds deposited into the county's Coal and Gas Road Improvement Fund, 20% allocated to the incorporated towns and cities within the county's border, and 25% paid to the county's Virginia Coalfield Economic Development Fund.[132]
  - Natural Gas – The Code of Virginia specifies how each county should allocate portions of the funds collected from the severance tax on coal.
    - The first 1% – 100% to the county's general fund.
    - The second 1% (referred to as 'The coal and gas road improvement and Virginia Coalfield Economic Development Authority tax') – 75% is to be deposited in the county's Coal and Gas Road Improvement Fund and 25% is to be paid to the county's Virginia Coalfield Economic Development Fund.[133]
    - The third 1% – 50% to the county's general fund and 50% to the county's Virginia Coalfield Economic Development Fund.[134]
  - Oil – 100% to the county's general fund.

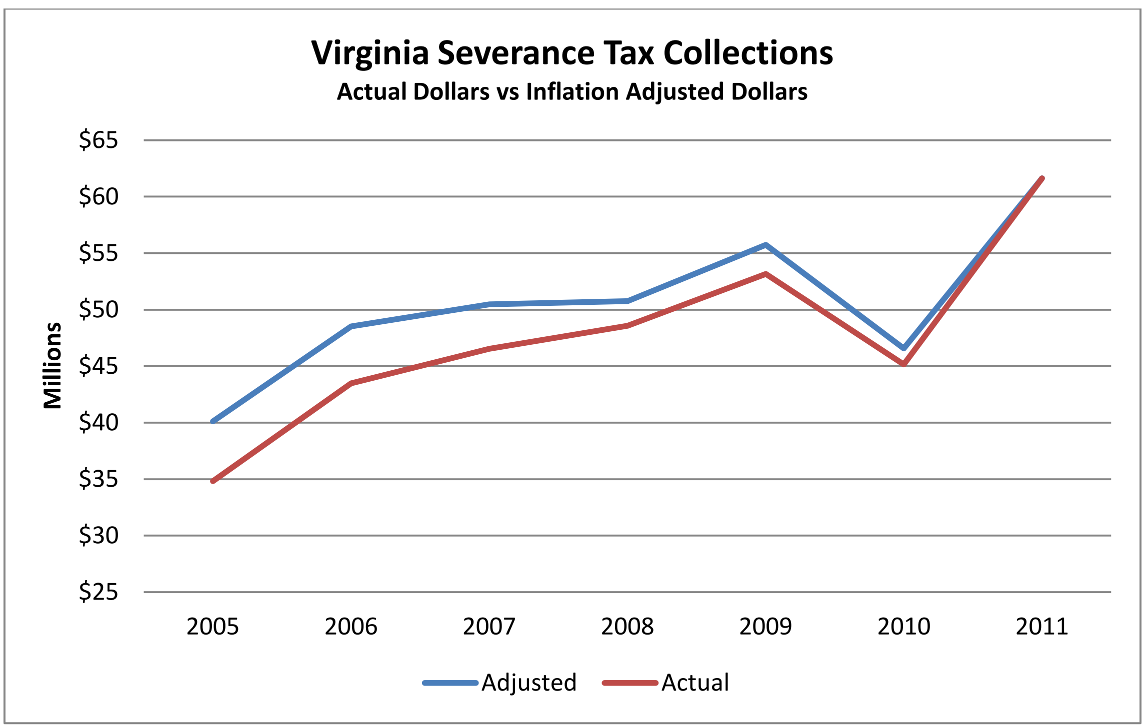
Uses of Revenue in Specified Funds:

- State level:
  - The Reforestation of Timberlands State Fund – The moneys paid into this fund shall be used for the sole purpose of reforesting privately owned timberlands in the Commonwealth and no portion of revenues shall revert to the general fund of the Commonwealth.[135]
  - The Development of Forest Resources State Fund – The moneys paid into this fund shall be used for the sole purpose of raising, planting and propagating seedling trees, forest fire protection, forestry education and rendering forestry service to the timber landowners of the Commonwealth. No portion of these revenues shall revert to the general fund of the Commonwealth.[136]
- County level:
  - Coal and Gas Road Improvement Funds – These moneys shall be spent for such improvements to public roads as the county's coal and gas road improvement advisory committee and the governing body of such county or city may determine. If the county so chooses, the moneys may also be used to improve city and town roads. Also, up to 25% of these funds may be used to may be used to fund

[130] The Code of Virginia §58.1-1609
[131] The Code of Virginia §58.1-3713
[132] The Code of Virginia §58.1-3713.1
[133] The Code of Virginia §58.1-3713
[134] The Code of Virginia §58.1-3713.4
[135] The Code of Virginia §58.1-1609
[136] The Code of Virginia §58.1-1609

the construction of new water and/or sewer systems and lines in areas with natural water supplies which are insufficient from the standpoint of quality or quantity.[137]

- Virginia Coalfield Economic Development Fund – These funds are managed by the Virginia Coalfield Economic Development Authority for economic development endeavors within the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Tazewell and Wise and the City of Norton. Moneys paid into the Fund from the coal and road improvement tax shall be applied and used only in the county or city from which the funds were received, unless the governing body of the county or city consents to their use in another county or city. Moneys paid into the fund from the additional severance tax on natural gas may be used at the discretion of the Authority.[138] The Authority is authorized to spend funds on the following: Purchase of real estate; grading of site(s); construction of flood control dams; water, sewer, natural gas and electrical line replacement and extensions; construction, rehabilitation or expansion of buildings; construction of parking facilities; access road construction and street improvements; purchase, lease or relocation of machinery, tools, equipment, furniture, software or other personal property; construction of improvements outside the Commonwealth if in the Breaks Interstate Park,; feasibility studies, site studies, preliminary engineering or architectural reports and other studies and plans; Such other improvements, projects, activities or purposes as the Authority deems necessary to accomplish its purpose; and Costs and expenses associated with any item listed, including, but not limited to, architectural, engineering, consulting, legal, closing, installation, delivery and assembly expenses.[139]



[137] The Code of Virginia §58.1-3713
[138] The Code of Virginia §15.2-6009 and §15.2-6010
[139] The Code of Virginia §15.2-6011

Virginia Timber Severance Tax Collections 2005-2011[140]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Timber	$1,715,000	$1,773,000	$1,978,000	$2,048,000	$1,971,000	$1,875,000	$1,849,000

Virginia Timber Severance Tax Collections 2005-2011 – Adjusted to 2011 Dollars [141]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Timber	$1,975,271	$1,978,258	$2,145,872	$2,139,659	$2,066,566	$1,934,194	$1,849,000

Virginia Coal & Gas/Oil Severance Tax Collections by County 2005-2010[142]								
County/ City	**Natural Resource**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Buchanan	Coal/Natural Gas/Oil	$12,615,517	$16,030,474	$17,977,332	$16,834,435	$19,855,492	$20,592,374	$29,779,757
Dickenson	Coal/Natural Gas/Oil	6,140,446	8,704,009	9,694,650	11,104,447	11,734,655	7,510,028	9,593,726
Lee	Coal/Natural Gas/Oil	340,700	409,066	521,140	407,726	290,268	85,898	253,981
Russell	Coal/Natural Gas/Oil	2,264,142	2,995,301	3,239,563	4,056,977	3,922,156	3,180,798	3,575,042
Scott	Coal/Natural Gas/Oil	9,153	13,605	10,690	21,938	30,269	19,124	14,874
Tazewell	Coal/Natural Gas/Oil	974,742	1,485,548	1,734,963	2,614,270	2,262,313	2,669,811	3,096,522
Wise*	Coal/Natural Gas/Oil	10,241,368	11,449,941	10,812,986	10,940,537	12,399,573	8,720,685	13,230,881
Norton**	Coal/Natural Gas/Oil	178,532	208,566	188,529	186,512	234,263	166,571	222,047
	Total	**$32,764,600**	**$41,296,510**	**$44,179,853**	**$46,166,842**	**$50,728,989**	**$42,945,289**	**$59,766,830**

* Includes the amounts listed as revenue for the Towns of Big Stone Gap and Wise. ** This is the amount that was paid to the City of Norton by Wise County from the Coal and Gas Road Tax.

Virginia Coal & Gas/Oil Severance Tax Collections by County 2005-2010 – Adjusted to 2011 Dollars [143]								
County/ City	**Natural Resource**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Buchanan	Coal/Natural Gas/Oil	$14,530,065	$17,886,304	$19,503,058	$17,587,869	$20,818,202	$21,242,476	$29,779,757
Dickenson	Coal/Natural Gas/Oil	7,072,329	9,711,662	10,517,430	11,601,432	12,303,619	7,747,120	9,593,726
Lee	Coal/Natural Gas/Oil	392,405	456,423	565,369	425,974	304,342	88,610	253,981
Russell	Coal/Natural Gas/Oil	2,607,751	3,342,064	3,514,503	4,238,549	4,112,325	3,281,216	3,575,042
Scott	Coal/Natural Gas/Oil	10,542	15,180	11,597	22,920	31,737	19,728	14,874
Tazewell	Coal/Natural Gas/Oil	1,122,670	1,657,528	1,882,208	2,731,273	2,372,003	2,754,097	3,096,522
Wise*	Coal/Natural Gas/Oil	12,199,363	13,232,424	12,132,276	11,812,798	13,481,764	9,329,075	13,230,881
Norton**	Coal/Natural Gas/Oil	205,626	232,711	204,529	194,859	245,621	171,830	222,047
	Total	**$38,140,752**	**$46,534,296**	**$48,330,971**	**$48,615,675**	**$53,669,613**	**$44,634,150**	**$59,766,830**

[140] Virginia Department of Taxation Annual Reports for Fiscal Years 2005-2011
[141] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).
[142] Virginia Auditor of Public Accounts Comparative Report of Local Government Revenues and Expenditures (Amended) for Fiscal Years 2005-2011
[143] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).

WEST VIRGINIA

General Information

- Severance taxes were first implemented in West Virginia in 1987.
- All severance taxes are administered by the state tax commissioner.
- The severance tax on timber has been temporarily eliminated for tax years 2010-2012.
- The “Workers’ Compensation Act Debt Reduction Act of 2005” imposes additional severance taxes on select natural resources, including timber.

Taxed Natural Resources and Current Rates

- Coal
  - Base rate – 5% of gross value[144]
  - Thin seam coal (qualified seams 37” to 47” thick) – 2% of gross value[145]
  - Thin seam coal (qualified seams less than 37” thick) – 1% of gross value[146]
- Waste Coal[147] – 2.5% of gross value[148]
- Coalbed Methane[149] – 5% of gross value[150]
- Natural Gas – 5% of gross value[151]
- Oil – 5% of gross value[152]
- Timber – For timber produced during tax years 2010-2012, rate is temporarily eliminated[153] (the rate prior to the temporary elimination was 1.22% of gross value)[154]
- Limestone – 5% of gross value[155]
- Sandstone – 5% of gross value[156]
- Clay/Shale – 5% of gross value[157]
- Sand/Gravel – 5% of gross value[158]
- Salt – 5% of gross value[159]

[144] West Virginia Code §11-13A-3(b)
[145] West Virginia Code §11-13A-3(i)
[146] West Virginia Code §11-13A-3(i)
[147] Waste coal is defined as “coal produced from processing material contained in refuse, gob piles, slurry ponds, pond fines or other sources of waste coal” by the West Virginia Code §11-13A-3e.
[148] West Virginia Code §11-13A-3e(c)
[149] Coalbed methane is defined as “gas which can be produced from a coal seam, the rock or other strata in communication with a coal seam, a mined-out area or a gob well” by the West Virginia Code §22-21-2c.
[150] West Virginia Code §11-13A-3d(c)
[151] West Virginia Code §11-13A-3a(b)
[152] West Virginia Code §11-13A-3a(b)
[153] West Virginia Code §11-13A-3b(d)
[154] West Virginia Code §11-13A-3b(b)
[155] West Virginia Code §11-13A-3(b)
[156] West Virginia Code §11-13A-3(b)
[157] West Virginia Code §11-13A-3c(b)
[158] West Virginia Code §11-13A-3c(b)
[159] West Virginia Code §11-13A-3c(b)

The "Workers' Compensation Debt Reduction Act of 2005"[160] imposes an additional severance tax on the following natural resources:

- Coal – $0.56 per ton[161]
- Natural Gas – $0.047 per Mcf[162]
- Coalbed Methane – $0.047 per Mcf[163]
- Timber – 2.78% of gross value[164]

Disposition of Severance Tax Revenue

- The first $24 million collected is deposited into the Infrastructure General Obligation Debt Service Fund.[165]
- The state tax commissioner retains $70,000 annually for administration – $35,000 from coal severance taxes and $35,000 from oil and natural gas severance taxes.[166]
- Timber – 100% is deposited into an account specifically for the Division of Forestry.[167]
- Coal – Of the percentage rate of gross value that is charged as a severance tax (both the base 5% and reduced rates for thin seam coal), 0.35% is dedicated to county and municipal governments.[168] The revenue collected through this dedication to local governments is paid into two funds – 75% of the revenue to the County Coal Revenue Fund and 25% of the revenue to the All Counties and Municipalities Coal Revenue Fund. Funds in the County Coal Revenue Fund are distributed quarterly amongst the "coal producing counties" with the amount paid to each county determined by the percentage of coal that is mined there.[169] Funds in the All Counties and Municipalities Coal Revenue Fund are distributed quarterly amongst all counties and municipalities in the state dependent on population.[170]
- Waste Coal – 100% of tax revenues collected from waste coal will be deposited into the Waste Coal-Producing Counties Fund which is a revolving fund.
- Oil and Natural Gas – 10% of severance tax revenue is dedicated to county and municipal governments. The revenue collected through this dedication to local governments is paid into two funds – 75% of the

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[160] West Virginia Code §11-13V-2 "It is the intent of the Legislature in enacting this article to impose new, additional privilege taxes on severing or producing natural resources in this state and for the net proceeds from collection of the new taxes to be dedicated to paying down the unfunded liability in the Workers' Compensation Fund, or paying debt service on bonds sold to raise funds to pay down the unfunded liability in the Workers' Compensation Fund, or for any combination of these two purposes."
[161] West Virginia Code §11-13V-1(a)
[162] West Virginia Code §11-13V-1(b)
[163] West Virginia Code §11-13V-4a(a)
[164] West Virginia Code §11-13V-1(c)
[165] West Virginia Code §31-15A-16
[166] West Virginia Code §11-13A-5A(k) and West Virginia Code §11-13A-6(k)
[167] West Virginia Code §11-13A-20a(c)
[168] West Virginia Code §11-13A-6
[169] The amount to which a coal-producing county is entitled from the county coal revenue fund shall be determined by: (1) Dividing the total amount of moneys in the fund then available for distribution by the total number of tons of coal mined in this state during the preceding quarter; and (2) multiplying the quotient thus obtained by the number of tons of coal removed from the ground in the county during the preceding quarter. West Virginia Code §11-13A-6(f)
[170] The amount to which each county and municipality is entitled from the all counties and municipalities coal revenue fund shall be determined in accordance with the provisions of this subsection. For purposes of this subsection "population" means the population as determined by the most recent decennial census taken under the authority of the United States: (1) The treasurer shall first apportion the total amount of moneys available in the all counties and municipalities coal revenue fund by multiplying the total amount in the fund by the percentage which the population of each county bears to the total population of the state. The amount thus apportioned for each county is the county's "base share". (2) Each county's base share shall then be subdivided into two portions. One portion is determined by multiplying the base share by the percentage which the total population of all unincorporated areas within the county bears to the total population of the county, and the other portion is determined by multiplying the base share by that percentage which the total population of all municipalities within the county bears to the total population of the county. The former portion shall be paid to the county and the latter portion is the "municipalities' portion" of the county's base share. The percentage of the latter portion to which each municipality in the county is entitled shall be determined by multiplying the total of the latter portion by the percentage which the population of each municipality within the county bears to the total population of all municipalities within the county. West Virginia Code §11-13A-6(g)

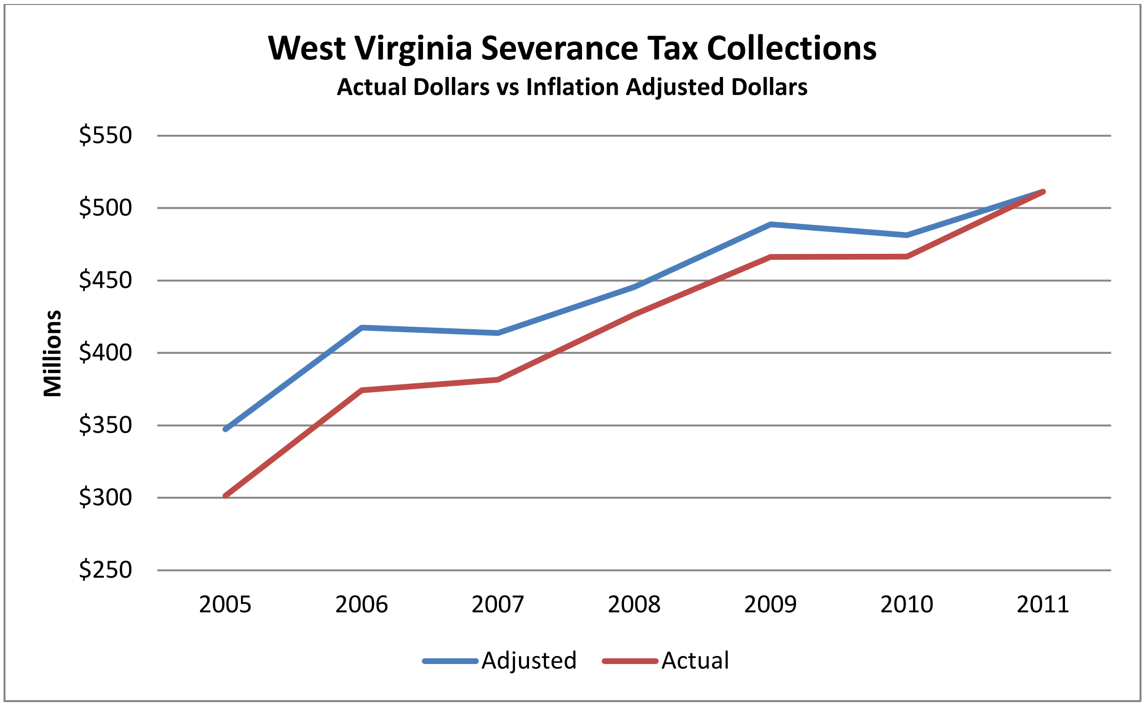
revenue to the County Oil and Gas Revenue Fund and 25% of the revenue to the All Counties and Municipalities Oil and Gas Revenue Fund.[171]

- The remaining revenue that has not been distributed to another fund will be deposited into the West Virginia General Revenue Fund.

Uses of Revenue in Specified Funds:

- Infrastructure General Obligation Debt Service Fund – The moneys in this fund shall be used for the following purposes: construction, extension, expansion, rehabilitation, repair and improvement of water supply and sewage treatment systems and for the acquisition, preparation, construction and improvement of sites for economic development in this state.[172]
- County Coal Revenue Fund and All Counties and Municipalities Coal Revenue Fund – The moneys in this fund are distributed to coal producing counties and may be expended by the county commission or governing body of the municipality for such public purposes as the governing body shall determine to be in the best interest of the people of its respective county or municipality, provided, that in counties with population in excess of two hundred thousand, at least seventy-five percent of the funds received from the county coal revenue fund shall be apportioned to, and expended within the coal-producing area or areas of the county, said coal-producing areas of each county to be determined generally by the state tax commissioner: provided, however, that the coal severance tax revenue fund moneys shall not be budgeted for personal services in an amount to exceed one-fourth of the total funds available in such fund.[173]
- Waste Coal-Producing Counties Fund – The moneys in this fund are to be used for economic development and infrastructure improvement projects – 90% of moneys for infrastructure and 10% for economic development. The distribution of funds will occur annually and be prorated to the number of tons of taxable waste coal produced in each county.[174]
- County Oil and Gas Revenue Fund and All Counties and Municipalities Oil and Gas Revenue Fund – may be expended by the county commission or governing body of the municipality for such purposes as the county commission or governing body shall determine to be in the best interest of its respective county or municipality, provided that in counties with population in excess of two hundred thousand, at least seventy-five percent of the funds received from the oil and gas county revenue fund shall be apportioned to and expended within the oil and gas producing area or areas of the county, the oil and gas producing areas of each county to be determined generally by the state tax commissioner, provided, however, that the moneys distributed to any county or municipality under the provisions of this section shall not be budgeted for personal services in an amount to exceed one-fourth of the total amount of the moneys.[175]

[171] West Virginia Code §11-13A-5
[172] West Virginia Code §31-15A-16
[173] West Virginia Code §11-13A-6(h)
[174] West Virginia Code §11-13A-3e(f)
[175] West Virginia Code §11-13A-5a(h)



West Virginia Severance Tax Collections 2005-2011*[176]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$242,716,024	$283,373,363	$298,005,720	$335,027,928	$379,031,586	$401,975,621	$449,869,400
Waste Coal	183,396	319,132	191,191	327,599	1,869,178	374,012	754,463
Natural Gas	51,040,606	80,525,898	76,157,378	81,939,105	75,948,589	55,623,576	51,512,204
Oil	2,516,245	4,421,296	4,136,993	5,666,660	5,002,365	5,201,361	6,182,768
Coalbed Methane					454,411	454,411	1,255,405
Sand/Gravel	284,109	104,968	77,312	367,215	158,627	122,047	58,312
Timber	3,619,479	3,963,719	1,731,054	1,356,706	1,185,066	570,890	515,461
Limestone/Sandstone	594,752	795,505	699,697	1,021,171	677,419	834,653	800,241
Other**	462,376	669,599	372,115	789,755	1,889,784	417,095	273,393
Unclassified						916,992	84,044
Total	**$301,416,986**	**$374,173,480**	**$381,371,460**	**$426,496,139**	**$466,217,024**	**$466,490,657**	**$511,305,691**

* Based on preliminary data
** For years 2005-2009, the "Other" category includes unclassified items

West Virginia Severance Tax Collections 2005-2011 – Adjusted to 2011 Dollars[177]							
Natural Resource	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Coal	$279,550,946	$316,179,171	$323,297,299	$350,022,281	$397,409,239	$414,665,998	$449,869,400
Waste Coal	211,228	356,078	207,417	342,261	1,959,807	385,820	754,463
Natural Gas	58,786,599	89,848,289	82,620,812	85,606,333	79,631,018	57,379,613	51,512,204
Oil	2,898,114	4,933,144	4,488,097	5,920,274	5,244,909	5,365,568	6,182,768
Coalbed Methane					476,443	468,757	1,255,405
Sand/Gravel	327,226	117,120	83,873	383,650	166,318	125,900	58,312
Timber	4,168,776	4,422,594	1,877,968	1,417,426	1,242,525	588,913	515,461
Limestone/Sandstone	685,012	887,600	759,080	1,066,874	710,264	861,003	800,241
Other	532,547	747,118	403,696	825,101	1,981,412	430,263	273,393
Unclassified						945,941	84,044
Total	**$347,160,448**	**$417,491,113**	**$413,738,243**	**$445,584,200**	**$488,821,934**	**$481,217,775**	**$511,305,691**

[176] West Virginia Department of Revenue
[177] The actual amounts for 2005-2011 have been adjusted to 2011 values using an inflation calculator (http://www.usinflationcalculator.com/).

LINKS & DATA SOURCES

State Codes:

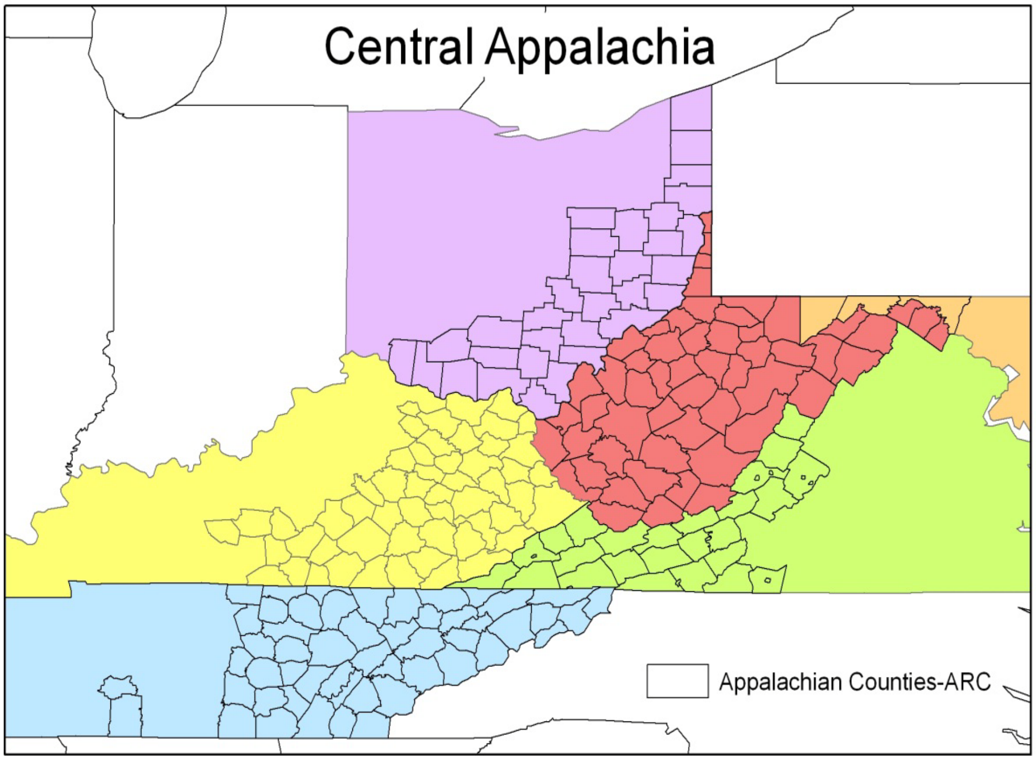
- Kentucky – http://www.lrc.state.ky.us/krs/titles.htm
- Maryland – http://www.lexisnexis.com/hottopics/mdcode/
- Ohio – http://codes.ohio.gov/orc
- Tennessee – http://www.michie.com/tennessee
- Virginia – http://lis.virginia.gov/000/src.htm
- West Virginia – http://www.legis.state.wv.us/WVCODE/Code.cfm

County Codes:

- Allegany County, MD – http://ecode360.com/al0892/
- Garrett County, MD – http://www.amlegal.com/library/md/garrettco.shtml
- Buchanan County, VA – http://www.ecode360.com/BU1535#BU1535
- Norton City, VA – http://library.municode.com/index.aspx?clientId=12085
- Tazewell County, VA – http://library.municode.com/index.aspx?clientId=12360
- Wise County, VA – http://library.municode.com/index.aspx?clientId=10318

ADDITIONAL INFORMATION

Map of Central Appalachia, as defined by the Appalachian Regional Commission.



Appalachian Counties and Cities[178]:

Kentucky: Adair, Bath, Bell, Boyd, Breathitt, Carter, Casey, Clark, Clay, Clinton, Cumberland, Edmonson, Elliott, Estill, Fleming, Floyd, Garrard, Green, Greenup, Harlan, Hart, Jackson, Johnson, Knott, Knox, Laurel, Lawrence, Lee, Leslie, Letcher, Lewis, Lincoln, McCreary, Madison, Magoffin, Martin, Menifee, Metcalfe, Monroe, Montgomery, Morgan, Nicholas, Owsley, Perry, Pike, Powell, Pulaski, Robertson, Rockcastle, Rowan, Russell, Wayne, Whitley, and Wolfe

Maryland**:** Allegany, Garrett, and Washington

Ohio**:** Adams, Ashtabula, Athens, Belmont, Brown, Carroll, Clermont, Columbiana, Coshocton, Gallia, Guernsey, Harrison, Highland, Hocking, Holmes, Jackson, Jefferson, Lawrence, Mahoning, Meigs, Monroe, Morgan, Muskingum, Noble, Perry, Pike, Ross, Scioto, Trumbull, Tuscarawas, Vinton, and Washington

Tennessee**:** Anderson, Bledsoe, Blount, Bradley, Campbell, Cannon, Carter, Claiborne, Clay, Cocke, Coffee, Cumberland, De Kalb, Fentress, Franklin, Grainger, Greene, Grundy, Hamblen, Hamilton, Hancock, Hawkins, Jackson, Jefferson, Johnson, Knox, Lawrence, Lewis, Loudon, McMinn, Macon, Marion, Meigs, Monroe, Morgan, Overton, Pickett, Polk, Putnam, Rhea, Roane, Scott, Sequatchie, Sevier, Smith, Sullivan, Unicoi, Union, Van Buren, Warren, Washington, and White

Virginia: Counties of Alleghany, Bath, Bland, Botetourt, Buchanan, Carroll, Craig, Dickenson, Floyd, Giles, Grayson, Henry, Highland, Lee, Montgomery, Patrick, Pulaski, Rockbridge, Russell, Scott, Smyth, Tazewell, Washington, Wise, and Wythe. The following independent cities in Virginia are also within the Appalachian Region: Bristol, Buena Vista, Covington, Galax, Lexington, Martinsville, Norton, and Radford.

West Virginia**:** *All counties*: Barbour, Berkeley, Boone, Braxton, Brooke, Cabell, Calhoun, Clay, Doddridge, Fayette, Gilmer, Grant, Greenbrier, Hampshire, Hancock, Hardy, Harrison, Jackson, Jefferson, Kanawha, Lewis, Lincoln, Logan, Marion, Marshall, Mason, McDowell, Mercer, Mineral, Mingo, Monongalia, Monroe, Morgan, Nicholas, Ohio, Pendleton, Pleasants, Pocahontas, Preston, Putnam, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Tucker, Tyler, Upshur, Wayne, Webster, Wetzel, Wirt, Wood, and Wyoming

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[178] From the Appalachian Regional Commission - http://www.arc.gov/counties

Severance Taxes as a Portion of the State's Revenue[179]

		Kentucky	Maryland[180]	Ohio	Tennessee	Virginia[181]	West Virginia
2005	Severance	$228,848,000	N/A	$7,920,000	$1,438,000	$1,772,000	$307,265,000
	Total Revenue	$9,090,882,000	$13,366,914,000	$24,011,238,000	$10,007,292,000	$15,918,847,000	$4,301,156,000
	Percentage	2.52%	N/A	0.03%	0.01%	0.01%	7.14%
2006	Severance	$281,581,000	N/A	$7,675,000	$1,796,000	$1,852,000	$336,387,000
	Total Revenue	$9,713,808,000	$14,549,632,000	$25,412,275,000	$10,660,344,000	$17,288,324,000	$4,547,929,000
	Percentage	2.90%	N/A	0.03%	0.02%	0.01%	7.40%
2007	Severance	$275,313,000	N/A	$7,015,000	$1,604,000	$2,006,000	$328,320,000
	Total Revenue	$9,895,207,000	$15,094,183,000	$25,697,905,000	$11,390,037,000	$18,666,687,000	$4,642,230,000
	Percentage	2.78%	N/A	0.03%	0.01%	0.01%	7.07%
2008	Severance	$293,334,000	N/A	$9,420,000	$2,357,000	$2,060,000	$347,592,000
	Total Revenue	$10,043,875, 000	$15,743,757,000	$26,074,544,000	$11,538,430,000	$18,322,873,000	$4,881,908,000
	Percentage	2.92%	N/A	0.04%	0.02%	0.01%	7.12%
2009	Severance	$355,985,000	N/A	$11,052,000	$2,413,000	$1,997,000	$376,677,000
	Total Revenue	$9,740,886,000	$15,285,561,000	$23,950,056,000	$10,433,133,000	$16,607,511,000	$4,787,352,000
	Percentage	3.65%	N/A	0.05%	0.02%	0.01%	7.87%
2010	Severance	$317,146,000	N/A	$10,550,000	$2,251,000	$1,882,000	$417,230,000
	Total Revenue	$9,531,507,000	$15,223,923,000	$23,583,596,000	$10,513,788,000	$16,411,055,000	$4,655,034,000
	Percentage	3.33%	N/A	0.04%	0.02%	0.01%	8.96%

[179] US Census Bureau: State Tax Collections (http://www.census.gov/govs/statetax/)
[180] At the state level, Maryland's only severance tax collection is on shellfish and these numbers were not included in the Census Bureau's counts. Select counties collect severance taxes on coal and natural gas/oil.
[181] At the state level, Virginia's only severance tax collection is on timber. Select counties collect severance taxes on coal, natural gas, and oil.

APPENDIX A: BEST PRACTICES AND 2012 SEVERANCE TAX LEGISLATION

BEST PRACTICES FOR BUILDING LOCAL ASSETS: Creating a Permanent Severance Tax Trust Fund

If Central Appalachian states want future generations to benefit from the extraction of their natural resources, they must set aside a portion of the severance tax to invest in important public structures that will build a stronger, more vibrant future. To accomplish this task, Kentucky, Ohio, Maryland, Tennessee, Virginia and West Virginia could follow the lead of six other energy states by creating a permanent severance tax trust fund. Even after a state's natural resources are depleted, it could use income from the fund to diversify the economy, make much-needed investments in infrastructure and human capital, lower future tax burdens, and deal with costs associated with past and future mineral extraction.

When natural resources like coal, oil and natural gas are extracted, many states place a severance tax on them to bring in important revenue. States typically consider establishing a permanent severance tax fund to provide a source of revenue once the nonrenewable natural resources have been depleted. By capturing a portion of the earnings accruing to the mining companies and investing in income-earning assets, states are turning their nonrenewable resources into a continuous source of funding for state programs. Since the early 1970s, six states – Alaska, Montana, Wyoming, New Mexico, North Dakota and Utah – have created permanent severance tax trust funds.

TABLE 1

A Comparison of States with Permanent Severance Tax Trust Funds

	Alaska	Montana	New Mexico	North Dakota	Utah	Wyoming
Trust fund name(s)	Alaska Permanent Fund	Coal Severance Tax Trust Fund	Severance Tax Permanent Fund	Legacy Fund	State Endowment Fund	Permanent Mineral Trust Fund
Year(s) created	1976 by constitutional amendment	1976 by constitutional amendment	1973 by statute; 1976 by constitutional amendment	2010 by constitutional amendment	2008 by constitutional amendment	1974 by constitutional amendment
Principal	$38.2 billion (Dec. 1, 2011)	$836 million (FY 2010)	$3.6 billion (June 30, 2011)	$613 million (FY11-13)	$23 million (Dec. 31, 2010)	$5.4 billion (April 30, 2011)
Source of Revenue	At least 25% of mineral-related (oil) income and legislative appropriations	50% of severance tax collections on coal	12.5% of severance tax collections coal, natural gas, oil, and other minerals	30% of coal and oil severance tax collections	Severance tax revenues in excess of $71 million from oil & gas, and $27.6 million from coal.	2.5% severance tax on gas, oil
Annual Tax Inflows	$887 million (FY 2011)	$22 million (FY 2010)	$3.5 million (FY 2010)	$613 million (FY 11-13)	$0 (FY 2011)	$290 million (FY 2010)
Investment Return Rate	18.8% (July 1, 2010-March 31, 2011)	4.9% (FY 2010)	22.0% (July 1, 2010-March 31, 2011)	N/A	2.1% (FY2011)	15.2% (July 1, 2010-March 31, 2011)
Asset Allocation	Fixed income, equities, real estate, other	In-state investments, loans, short-term investment and bond pool, other	Domestic and non-US equity, real estate, fixed income, in-state investments, other	N/A	Local Government Investment Pool (money markets)	Equities, fixed income, cash
Amount of Distribution Appropriated	$814 million (FY 2011)	$45 million (FY 2011)	$183 million (FY 2010)	$0 (FY 11-13)	$0 (FY 2011)	$142 million (FY 2010)
Disbursement Formula	Average investment income earned on 5 previous years	Various formulas	4.7% of 5-year market value	N/A	N/A	5% of average 5-year market value
Use of Earnings	Citizen dividends, inflation-proofing, and general fund	General fund, education, infrastructure, remediation, and economic development	General fund, education, infrastructure, and economic development	General fund, property tax relief, infrastructure, remediation, research	Economic diversification, capital and infrastructure	General fund
Action Required to Disburse Principal	Public vote	¾ vote of legislature	Public vote	Public vote	Public vote	Public vote

As **Table 1** indicates, the six states that have permanent severance tax trust funds vary in size, scope, structure and how they disburse the earnings from their funds. For example, the Alaska Permanent Fund was created in 1976 and has a balance of nearly $40 billion. On the other hand, Utah's State Endowment Fund was created in 2008 and only has a balance of $23 million. Each state also differs in the sources of revenue that flow into its funds. While New Mexico, Wyoming and Utah use severance tax revenue from multiple natural resources, Alaska, Montana and North Dakota only use severance tax revenue from one natural resource. While each state's permanent severance tax trust varies in size and scope, all six funds were created by a constitutional amendment that protects the principal or corpus from being allocated. Because these funds are protected from being "raided" it makes them "permanent" or inviolate.

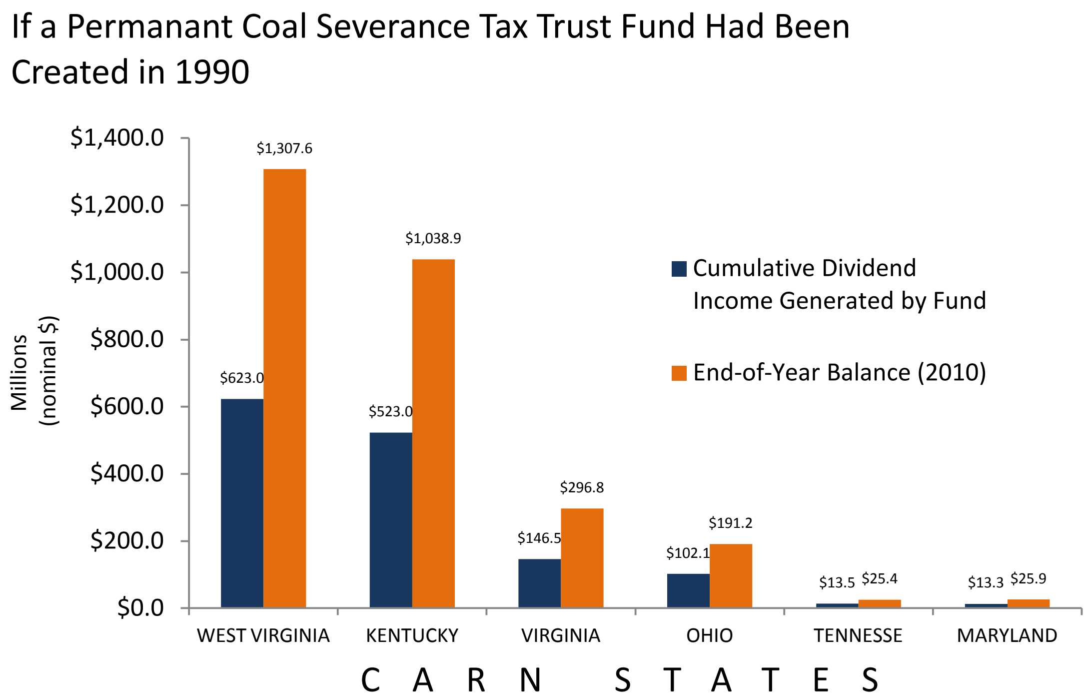
How states choose to use the earnings from their permanent funds varies and is determined by a combination of perceived needs, successful grassroots advocacy and political power. Earnings from the Alaska Permanent Fund are paid out in annual citizen dividend, while Wyoming and New Mexico use their earnings toward general revenue fund operations, such as public education, Medicaid, infrastructure, and other basic needs and general programs. With an eye toward diversifying their economies to sectors beyond nonrenewable resources, Montana dedicates a portion of its trust fund earnings to its Big Sky Economic Development Fund program that is "designed to aid in the development of good paying jobs for Montana residents and promote long-term stable economic growth." Specifically, the Big Sky Economic Development Fund provides planning grants to "high poverty" areas to support entrepreneurs.

Creating Permanent Severance Trusts Fund in Central Appalachia

Considering the significant social and economic challenges facing Central Appalachian states and counties where mineral extraction is most prevalent, the creation of a permanent severance tax trust fund could help build long-term assets. Without a permanent fund to set aside some of today's mineral wealth, states and counties in Central Appalachia are in danger of reducing their economic welfare when the nonrenewable natural resources eventually are depleted. A permanent fund would help ensure a continued source of revenue for state and local governments, and would help build better infrastructure and create programs that build assets in the community.

If West Virginia, Kentucky, Virginia, Ohio, Tennessee and Maryland had adopted and implemented a permanent fund (based on a one percent coal severance tax, an annual investment return rate of 7.5%, and with 5% withdrawn each year for appropriations) in 1990 it would have generated approximately $1.4 billion in allocated earnings over the 20-year period and would have a combined balance of $2.8 billion (**Figure 1**).

FIGURE 1



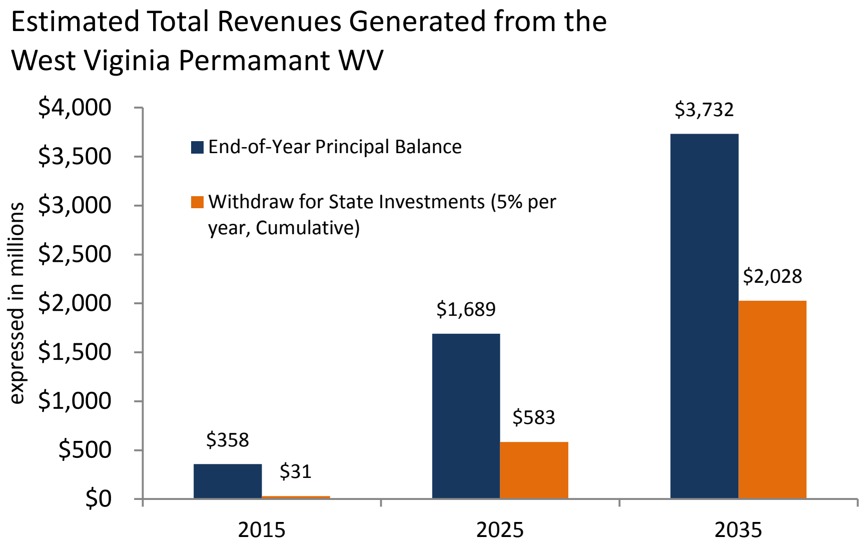
Source: WVCBP analysis of Energy Information Administration Annual Coal Report from 1994-2010.

A Permanent Severance Tax Trust Fund: West Virginia and Kentucky

Recently, the West Virginia Center on Budget and Policy (WVCBP) and the Kentucky Center for Economic Policy (KCEP) have put forth proposals to create and permanent severance tax trust funds in West Virginia and Kentucky. [i] The WVCBP proposal would create a permanent fund financed with a 1% increase in the severance tax on both coal and natural gas, while the KCEP proposal would dedicate 1% of Kentucky's severance tax on coal to a permanent trust fund. Both the WVCBP and KCEP proposals assume a 7.5% annual rate of return, a withdraw 5% of the market value of the permanent fund each year, and propose to dedicate the earnings toward sustainable economic development in each state.

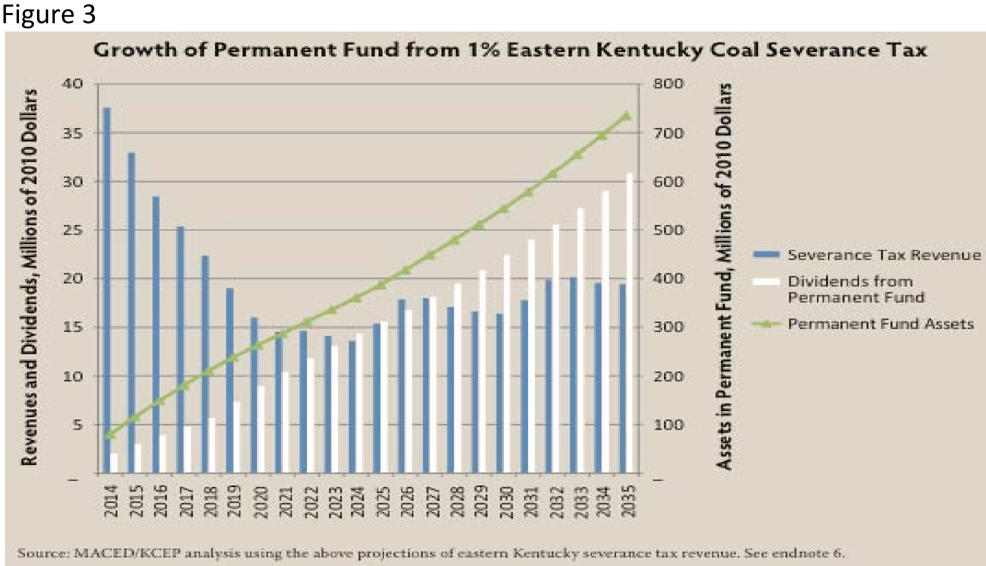
Figure 2 illustrates the total estimated revenues derived from a West Virginia permanent fund on coal and gas from 2014 to 2035. Over the 22-year period, the total earnings generated for allocation would be over $2 billion and more than $3.7 billion would remain in the permanent fund as a result of the revenues generated for the fund from coal and natural gas extraction. **Figure 3** illustrates the total growth of a permanent coal fund in Kentucky from 2014 to 2035. By 2035, KCEP estimates that the fund would have a balance of $735 million and would provide $33 million for education, economic development, human services, infrastructure and other purposes.

Figure 2



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

Figure 3



Conclusion

The Central Appalachian states of Kentucky, Ohio, Maryland, Tennessee, Virginia and West Virginia would benefit greatly from the creation of permanent severance tax trust funds. It would help these states meet some of today's economic challenges, while ensuring that future generations benefit from the mineral wealth of their states. As the Marcellus and Utica Shale gas plays begin to boom in Central Appalachia, these 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 will decline along with the natural resources themselves.

2012 SEVERANCE TAX LEGISLATION

West Virginia

SB 182: This bill creates the West Virginia Futures Fund. The bill provides that funding consist of 25% of the increased revenue received by the state from Marcellus Shale natural gas severance taxes and invites future legislative appropriations or designation of funding sources. Finally, the bill includes a statement of legislative intent not to encumber or otherwise use any principal or interest from the fund for a term of 20 years to the extent the Legislature cannot bind future Legislatures from actions that might otherwise use or encumber the funds. Use of the accumulated fund is left open to address future needs of the state.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=sb182%20intr.htm&yr=2012&sesstype=RS&i=182

SB 537: The bill creates a special revenue fund, the West Virginia Sustainable Wealth Fund, consisting of 25% of the increase in state revenue generated by the natural gas and oil industry. Beginning in 2015, the money in the fund may be appropriated by the Legislature for economic diversification projects, education, workforce developments, federal matching grants and higher education.
http://www.legis.state.wv.us/Bill_Status/Bills_history.cfm?input=537&year=2012&sessiontype=RS&btype=bill

HB 2366: This bill dedicates five percent of the coal severance tax to the counties where the coal was located at time it was removed from the ground, upon which the coal severance tax is based. It provides that the 5% will go to the county commissions, and provides specific uses for the money – including economic development, infrastructure, job creation and road repair.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=HB2366%20intr.htm&yr=2012&sesstype=RS&i=2366

HB 2030: Imposes an additional 5% severance tax on surface mining activities with proceeds dedicated to the Surface Mine Reclamation Fund.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=HB2030%20intr.htm&yr=2012&sesstype=RS&i=2030

HB 2851: This bill permits surface owners to purchase the mineral interests that lie below the property when the mineral interest becomes subject to a tax lien. The bill provides that the price to substitute the surface owner for the tax lien purchaser would be twice the amount owed by the mineral interest owner. The bill sets forth the procedure for clerks and deputy commissioners and establishes a nonrefundable $20 administrative fee to be paid by surface owners. The bill provides a procedure if more than one surface owner desires to purchase the delinquent mineral interest. The bill modifies the notices to redeem that are sent to property owners by identifying the additional rights available to surface owners.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=HB2851%20intr.htm&yr=2012&sesstype=RS&i=2851

HB 4355: This bill requires operators of natural gas wells and surface owners to enter into surface use agreements. The bill sets forth the requirements of an agreement and provides exceptions. The bill sets forth the rights and responsibilities of operators and surface owners. The bill requires operators to give notice of drilling activities. The bill requires a bond or other surety to be posted. The bill establishes a cause of action and permits damages. The bill permits activities necessary to protect health, safety or the environment.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=hb4355%20intr.htm&yr=2012&sesstype=RS&i=4355

HB 4564: The purpose of this bill is to create county endowment funds comprised of a reallocation of 5% of gas severance tax revenues dedicated to gas-producing counties phased in over a 5 year period after accounting for revenues dedicated to other funds; to establish state and local gas county reallocated endowment funds and provide for distribution of the moneys to the county commissions by the State Treasurer; establishing amounts each gas-producing county to receive, requiring the creation of local endowment funds into which moneys to be deposited; requiring moneys be expended solely for economic development projects and infrastructure projects; providing definitions; providing restrictions on the expenditure of moneys; providing duties of State Tax Commissioner; requiring report of expenditures to Joint Committee on Government and Finance; and authorizing legislative and emergency rules.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=hb4564%20intr.htm&yr=2012&sesstype=RS&i=4564

HB 4446: The purpose of this bill is to provide a source of funding for infrastructure projects in those counties that produce natural gas from the Marcellus or Utica shale formations. The bill sets a baseline of tax collections at $64.8 million from oil and gas. The bill provides that ten percent of those funds collected in excess of that baseline will continue to be for the benefit of counties and municipalities. The bill provides that the remaining ninety percent be deposited equally between the General Revenue Fund and the newly created Marcellus Development Account. The moneys from the Marcellus Development Account shall be distributed to counties based on their pro rata share of the gas produced from the Marcellus or Utica shale formations. The bill provides that funds from the Marcellus Development Account may only be used for infrastructure projects
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=hb4446%20intr.htm&yr=2012&sesstype=RS&i=4446

HB 4499: The purpose of this bill is to provide a source of funding for infrastructure projects in those counties that produce natural gas from the Marcellus or Utica shale formations. The bill sets a baseline of tax collections at $64.8 million from oil and gas. The bill provides that ten percent of those funds collected in excess of that baseline will continue to be for the benefit of counties and municipalities. The bill provides that the remaining ninety percent be deposited equally between the General Revenue Fund and the newly created Marcellus Development Account. The moneys from the Marcellus Development Account shall be distributed to counties based on their pro rata share of the gas produced from the Marcellus or Utica shale formations. The bill provides that funds from the Marcellus Development Account may only be used for infrastructure projects.
http://www.legis.state.wv.us/Bill_Status/bills_text.cfm?billdoc=hb4499%20intr.htm&yr=2012&sesstype=RS&i=4499

Maryland

SB 786: Imposing a severance tax of 2.5% on the removal of natural gas from natural gas wells in the State; providing for the calculation of the tax; setting the rate of the tax; providing for the administration of the tax by the Comptroller; requiring persons subject to the tax to file returns and keep and make available specified records and information; providing for the distribution of revenue from the tax; establishing the Natural Gas Impact Fund; providing for the administration and purpose of the Fund; etc.
http://mlis.state.md.us/2012rs/billfile/SB0768.htm

HB 907: This bill establishes, beginning January 1, 2013, a 15% severance tax on the wholesale market value of natural gas, including natural gas liquids, from a well in Maryland, which is in addition to other gas production taxes. The bill establishes specified exemptions from the tax, but it requires the holder of any permit for gas exploration or production to keep records of the amount of gas produced each month, regardless of the status of the well. Severance taxes are paid to a newly established account within the Maryland Department of the Environment's (MDE) Oil and Gas Fund to support specified activities. Finally, the bill allows MDE to recover costs in a civil action from a person responsible for negative impacts of gas exploration and production.

http://mlis.state.md.us/2012rs/billfile/hb0907.htm

Tennessee

(2009) **HB 1274** – Changes the method for computing coal severance tax from 20 cents per ton to 4.5% of the gross value. Creates the Coal Severance Fund for the purpose of disbursing and accounting for coal severance tax revenue. Creates a state sales tax exemption for all sales, and services related to installation, of qualified solar water heating equipment, qualified photovoltaic equipment, qualified wind generators, and qualified backup systems. Requires Coal Severance Fund monies first be allocated to offset the loss of state sales tax revenue resulting from the sales tax exemption proposed, with the remainder being allocated to the State Treasurer for the purpose of providing funding for public policies for the assistance of counties affected by coal mining, the reclamation of land and waters damaged by prior mining, and programs for energy conservation and solar energy generation.
http://wapp.capitol.tn.gov/apps/billinfo/BillSummaryArchive.aspx?BillNumber=HB1274&ga=106

Ohio

N/A

Kentucky

N/A

Virginia

N/A

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[i] Ted Boettner, et al., "Creating an Economic Diversification Trust Fund: Turning Nonrenewable Natural Resources into Sustainable Wealth for West Virginia," West Virginia Center on Budget and Policy, January 2012, http://www.wvpolicy.org/downloads/WVEconomicDiversificationTrustFundRpt013012.pdf and Jason Bailey, "Promoting Long-Term Investment in Appalachian Kentucky: A Permanent Coal Severance Tax Fund," Mountain Association for Community Economic Development and Kentucky Center for Economic Policy, March 2012
http://www.maced.org/files/MACED_Coal_Severance_Tax_Brief.pdf

APPENDIX B: ABOUT THE CENTRAL APPALACHIA REGIONAL NETWORK

The Central Appalachia Regional Network (CARN) is comprised of diverse organizations located in West Virginia and the Appalachian counties of Kentucky, Maryland, Ohio, Tennessee, and Virginia. The network was formed as part of the W.K. Kellogg Foundation's Rural People, Rural Policy Initiative, based on the premise that "rural America has abundant assets and that the brightest potential for rural America emerges when a critical mass of rural people are stronger, more organized policy actors."

Mission Statement
The Central Appalachia Regional Network (CARN) connects diverse organizations to promote policy and action to improve the quality of life available to the people of Central Appalachia.

Vision Statement
The Central Appalachia Regional Network (CARN) envisions healthy and thriving communities throughout the region. These empowered communities engage civic, public and private institutions to create change and ensure a just existence for all Central Appalachian residents.

We Value:

- Appalachian culture, heritage and context
- Education and knowledge
- Environmental integrity
- Empowerment
- Children, families and future generations
- Sustainable place and environment
- Healthy communities
- Equity in access
- Equity in resources
- Stewardship
- Diversity, inclusion and cultural equity

Broad Policy Areas: CARN members identified four broad policy areas on which to focus their efforts for collective action: Education, Health, Environment and Economic Development.

CARN Network Members

Appalshop, Inc. (KY)
Center for Rural Virginia
Council for Rural Virginia
Community Access, Inc. (WV)
Community Foundation of Hazard & Perry County (KY)
Garrett County Community Action Committee, Inc. (MD)
Good News Mountaineer Garage (WV)
Hazard Perry County Community Ministries, Inc. (KY)
Highlander Center (TN)
Ohio Appalachian Educators Institute
Ohio Univ. Voinovich School of Leadership & Public Affairs
Partnership of African American Churches (WV)
People Incorporated of Virginia
Rural Action, Inc. (OH)
Southeast Kentucky Community & Technical College
VA Rural Center
Virginia Economic Bridge, Inc.
Virginia Rural Health Association
Virginia Rural Health Resource Center
WV Community Development Hub

Policy Priorities & Work Groups: During the 2010 Central Appalachia Policy Summit hosted by CARN, participants identified the following three policy priorities on which to focus their efforts: Green Jobs, Local Control of Assets, and Broadband. These priorities were identified because they would benefit the larger region of Central Appalachia rather a single locality and span more than one of the four original policy focus areas of Education, Health, Environment and Economic Development. These policy priorities serve as core issues that provide the basis for discussion as CARN continues its regional efforts to promote a higher quality of life for the people of Appalachia.

From these policy priorities, CARN has established the following Policy Work Groups:

Broadband – Project Leader: Rev. James Patterson, Partnership of African American Churches
Local Control of Assets – Project Leader: Roy Silver, Southeast Kentucky Community & Technical College
Emerging Issues – Project Leader: Rotating leadership depending on issue selected.

For more information about the Central Appalachia Regional Network:
Contact Jenny Lancaster, Network Coordinator at jlancaster@CARNnet.org or visit www.CARNnet.org.

CENTRAL
APPALACHIA
Regional Network

www.CARNnet.org