

**EQUALITY STATE
POLICY CENTER**

perspectives **on the issues**

304 Main Street #8 • Lander, WY 82520 • www.equalitystate.org • espc@wyoming.com • May 2003 • Vol. 2, No. 1

Stewardship for the Future: Restore Wyoming Coal Taxes

Last year, Wyoming coal production hit yet another all-time high—but revenues from Wyoming coal have not kept pace proportionately with these record production levels.

While combined revenues from Wyoming's coal severance tax and the state's share of federal coal royalties also stand at an all-time high, the data chart on page three tells the full story. While production has increased by 172% since 1986, combined coal severance and federal royalty revenues have increased by only about 42%.

Revenues lag production for three main reasons:

- (1) lower prices for Wyoming coal;
- (2) the reductions in Wyoming's coal severance tax rate; and
- (3) changes in the way Wyoming sets a value on coal for tax purposes, resulting in lower values.

Coal Prices

Over the past 15 years, prices for Wyoming coal dropped considerably as long-term contracts expired and utility customers chose to purchase more coal on the spot market. Prices reached their low point in the late 1990s and have since rebounded, now averaging \$6-\$7 a ton. Since taxes and royalties are levied as a percentage of value, lower prices resulted in lower revenues.

Coal Severance Tax

Revenues from Wyoming's coal severance tax peaked in 1986, the last year the tax rate stood at 10.5%. The expirations of the 2% coal impact tax at the end of FY 1987 and the 1.5% capital facilities tax at the end of FY 1993 dropped Wyoming's coal sev-

erance tax rate by 33% to its current level of 7%.

The impact of falling coal severance tax revenues was mitigated by the state's share of rising federal coal royalties. The federal government's decisions to substantially increase both the federal coal royalty rate and the state's share of federal coal royalties combined to generate the increase in federal coal royalty revenues to Wyoming. But in the face of state severance tax reductions, the federal royalty revenue increases were not enough to keep coal revenues proportionate to coal production increases.

A substantial increase in coal "bonus" money also has accrued to the state, but these funds are shown separately in the table on page three because, as noted, the bonuses are one-time, competitive payments by coal producers to secure federal leases. Bonuses are not a continuing revenue source, but strongly demonstrate the industry's confidence in the future profitability of Wyoming coal.

Coal Valuation

In 1990, the Legislature changed the way the value of coal is determined for severance and property tax purposes. The Legislative Service Office predicted at the time that coal valuations would go down, consequently reducing tax revenues to both the state and counties.

A recent Wyoming Supreme Court decision will further reduce coal valuations. A bill to restore this loss was defeated in committee during the 2003 Legislature.

Because taxes are levied as a percent of value, lower coal valuations mean lower tax collections.

Severance Tax Study

In 1999, the Legislature authorized a study to see if severance tax breaks help sustain production or keep jobs.

The University of Wyoming Department of Economics and Finance conducted the study and the conclusions were stark: No, severance tax breaks do not save jobs or production. Instead, the breaks cause substantial losses in state tax revenues.

The reasons for the conclusions are common sense and easy to understand:

(1) State taxes are deductible from federal taxes, so if state severance taxes go down, a producer's federal corporate income tax liability goes up.

(2) Severance taxes are not paid until the mineral is actually produced. Production tax breaks are too far down the "food chain" from the point where investment decisions are made to influence those decisions significantly.

The UW study also created a coal industry model to predict the effects of changes in severance tax rates. Model runs requested by legislators in early 2002 showed that restoring Wyoming's coal severance tax to 9% or 11% (over the "base case" of 7%) would reduce employment and production by less than 1%, while generating revenue increases of over 28% (at the 9% rate) or 57% (at the 11% rate).

A model should be viewed as only an approximation of what would happen in real world conditions. However, we have a real-world backup to the model. Wyoming coal production continued to grow by leaps and bounds while higher severance tax rates were in force (see chart on page 3).

Coal industry lobbyists have criticized the UW study as "flawed." But in the two years since its release, they have not put forward any data or analyses to substantiate a different view.

Status of Wyoming's Coal Industry

Nine of the 10 largest coal mines in the United States are located in Wyoming's Powder River Basin. Wyoming production accounted for approximately a third of the nation's coal in 2001, according to the Department of Energy's Energy Information Administration, and is expected to further expand its market share.

PWMTF: Legacy for Wyoming's Future

Like the "temporary" fourth cent of statewide sales tax that was made permanent, the coal impact and capital facilities taxes could have been made permanent and the revenues directed to the Permanent Wyoming Mineral Trust Fund.

How would restoring Wyoming's coal severance tax to 10.5% affect the state's budget situation? The ESPC has prepared the following estimate to show the increased income to the General Fund from depositing all the restored revenue into the Permanent Wyoming Mineral Trust Fund (PWMTF).

Responsible stewardship means saving against the day when the market for coal begins to shrink. The Equality State Policy Center proposes:

- Wyoming's coal severance tax should be restored to 10.5% and the revenues banked in the Permanent Wyoming Mineral Trust Fund.
- The process of determining the value of coal for tax purposes should be closely tracked, and any decrease in values investigated.

Restoring Wyoming's Coal Severance Tax to 10.5% 100% of proceeds to PWMTF/Interest to General Fund

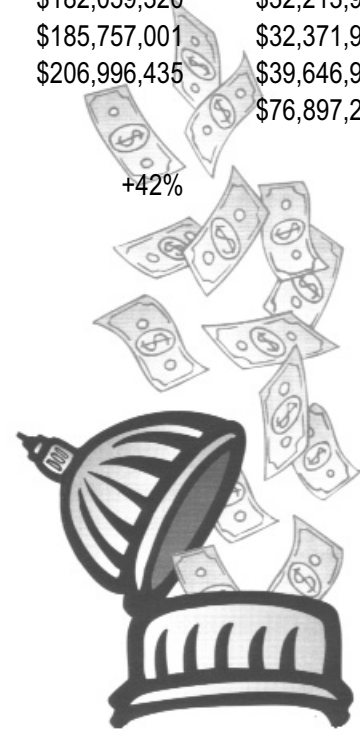
2003	2004	2005	2006	2007	2008	2010	2015	2020
\$3,736,000	\$7,725,000	\$11,114,000	\$14,868,842	\$18,623,684	\$22,378,526	\$29,888,212	\$48,664,068	\$67,399,927

History of Wyoming Coal Production and Revenues

Year	Coal Production (Tons)	Number of Employees	Coal Severance Taxes	Federal Coal Royalties, Wyo. Share	Combined Severance and Royalty Revenues	Coal Bonuses, Wyo. Share*
1980	94,986,433	6,231	\$42,935,199	\$4,350,343	\$47,285,542	\$0
1981	102,695,536	6,015	\$60,128,097	\$8,644,851	\$68,772,948	\$6,400
1982	107,954,583	5,681	\$105,780,128	\$10,665,678	\$116,445,806	\$568,396
1983	112,187,874	5,401	\$113,000,193	\$10,512,055	\$123,512,248	\$13,138,252
1984	130,745,779	5,336	\$121,015,589	\$11,724,946	\$132,740,535	\$10,782,578
1985	140,424,446	5,275	\$125,683,123	\$13,852,971	\$139,536,094	\$5,871,839
1986	135,403,347	4,671	\$131,736,882	\$14,243,389	\$145,980,271	\$194,927
1987	146,488,648	4,423	\$115,475,944	\$30,447,263	\$145,923,207	\$10,593,938
1988	163,588,200	4,533	\$84,075,144	\$45,929,281	\$130,004,425	\$2,233,700
1989	171,140,004	4,560	\$89,123,775	\$50,058,130	\$139,181,905	\$1,107,632
1990	184,005,701	4,623	\$89,108,141	\$55,596,113	\$144,704,254	\$0
1991	193,863,806	4,663	\$93,419,414	\$73,579,270	\$166,998,684	\$824,500
1992	189,470,256	4,648	\$103,815,239	\$71,859,271	\$175,674,510	\$163,474
1993	209,925,826	4,562	\$100,349,235	\$75,254,300	\$175,603,535	\$21,835,720
1994	236,908,067	4,572	\$75,192,986	\$79,604,271	\$154,797,257	\$17,487,914
1995	263,938,023	4,374	\$74,797,503	\$89,101,167	\$163,898,670	\$19,551,196
1996	278,424,956	4,398	\$81,511,782	\$88,327,897	\$169,839,679	\$21,398,236
1997	281,481,516	4,303	\$80,676,620	\$79,159,999	\$159,836,619	\$22,303,698
1998	314,962,091	4,335	\$92,985,342	\$84,115,651	\$177,100,993	\$5,810,132
1999	336,459,938	4,606	\$85,333,688	\$96,725,632	\$182,059,320	\$32,213,968
2000	338,852,148	4,414	\$85,163,673	\$100,593,328	\$185,757,001	\$32,371,983
2001	368,878,135	4,532	\$97,478,127	\$109,518,308	\$206,996,435	\$39,646,955
2002	372,800,000		\$109,711,373			\$76,897,236
% change (1986 through 2001)	+172%	-3%	-26%	+669%	+42%	

*Coal bonuses are kept distinct because they are a one-time, competitive bid payment; that is, companies decide how much it's worth to outbid a competitor for lease. Bonuses are not a continuing revenue source, but strongly demonstrate the industry's confidence in the future profitability of Wyoming coal.

Data sources: Preliminary 2002 production reported 1/5/03 *Casper Star-Tribune*; Coal Production and Employees, Annual Reports, Wyoming State Inspector of Mines; Severance Taxes, Consensus Revenue Estimating Group, January 2003 report; Federal Coal Royalties, Minerals Management Service, U.S. Department of Interior; Coal Bonuses, Legislative Service Office. Mixing of calendar and fiscal years results in small inconsistencies in data. Compiled by the Equality State Policy Center, updated 2/03.




Dear Friends:


Welcome to "Stewardship for the Future: Restore Wyoming Coal Taxes," inaugurating a new publication series from the Equality State Policy Center.

The ESPC's *Perspectives on the Issues* will provide food for thought on a wide variety of public policy questions affecting Wyoming citizens.

Coming issues will examine trends in legislative campaign financing, taxes on other minerals and other types of taxes, and lobbyist reporting.

If you have a suggestion for a topic, please call or e-mail the ESPC office.


Sarah Gorin
Chair


Tom Throop
Director

About the ESPC

The ESPC utilizes research, public education and advocacy to maintain accountability in state government and to substantially increase citizen participation in, and influence over, public policy decision-making.

Contact the ESPC

Equality State Policy Center
www.equalitystate.org (web site)
espc@wyoming.com (email)
332-0156 (office phone)
349-1145 (cell phone)
304 Main Street, #8
Lander, Wyoming 82520



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POLICY CENTER**

perspectives

304 Main Street, #8
Lander, Wyoming 82520

P.O. Box 1999
Laramie, Wyoming 82073

www.equalitystate.org
espc@wyoming.com

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