**Ideas for Funding a Just Transition**

**Sunday morning**

*Jason Bailey, MACED*

*Ted Boettner, WV Center on Budget and Policy*

*Gerry Roll, Foundation for Appalachian KY*

*Roy Silver, SE Community and Technical College*

**Context:**

Jason Bailey:

“If we’re going to have transition, if we’re going to diversify the economy of eastern KY, we’ve got to have money. Ideas don’t spend.”

There are a couple options for funding a just transition: federal money (e.g. agriculture supports, etc.); Appalachian Regional Commission; state money (coal severance); philanthropic support; and private support.

**Case Studies:**

Jason Bailey: Coal Severance Tax

Jason discussed the idea of creating a permanent fund from the coal severance tax. The coal severance tax is a tax on the value of a severed resource. Raised $298 million in 2012.

Initially, only 7.6 percent of coal severance revenue went back to the coalfields. Around 1992, legislation was passed to send 50 percent back to the region. It was split between a local government pool and an economic development fund with the idea being to diversify the economy. But the only diversification strategy pursued was industrial recruitment and that has failed. More recently, the coal severance tax dollars have been used for earmarks. For education, technology, UNITE, hospitals, ballfields, libraries, etc. It’s a very political process and not very democratic. There hasn’t been a coordinated strategy for diversifying the economy.

We’re in a downward slide of coal production and coal severance tax revenues. But it’s still a lot of money. Legislation passed this session to allow local governments who’ve lost coal severance money to take money from the economic development fund to shore up their budgets.

We need to:

* Create a democratic structure for making and managing a plan.
* Develop a plan(s) that incorporates multiple strategies and sectors.
* Identify resources. One option is to use 1 percent of the severance tax to fund a long-term fund or “future fund”. “We need to take a portion of all the wealth that’s extracted from the region and that will be as coal continues to be mined here to set it aside for long term strategies for diversification.” “Whether it’s $8 million or $80 million or $800 million, the point is that it’s a start.”

Ted Boettner, WV Center on Budget & Policy:

A Sustainable Wealth Fund

Ted talked about the “resource curse”…of being a region rich in a natural resource but then losing the wealth associated with it. To get over the curse, he said, we need good democracy and good institutions.

The best thing we can do is what many nations or states have done that are in similar situations and that’s to create a sustainable wealth fund or future fund. It’s an attempt by governments to replace non-renewable natural resources which are depleted over time with a permanent supply of money that grows bigger over time. Like an endowment, it continues to grow and you can use it to invest in strategies that create jobs.

Why invest in a future fund?

* creates a renewable source of wealth
* witout it the economic benefit from the natural resource extraction declines
* helps even out boom and bust
* boosts a state’s bond rating
* exportable tax; it’s difficult to pass on the tax
* helps facilitate long term economic development and invest in human capitol and infrastructure

It’s another way to build assets. Several states have future funds (Alaska, $42 billion; Montana, $836 million; New Mexico, $3.6 billion; Wyoming, $5.5 billion)

“You have to look at your policy windows for opportunities to do something.”

Why should we consider a trust fund? “It’s where the money is. The tax base is under our feet. The inability to go after that is holding us back.”

If a fund had been created in 1990, in KY by 2010, KY would have about $1 billion from fund. If you look at WV and started a fund now, by 2035 it would be at $3.7 billion and they’d be able to spend about $2 billion back in communities.

They put together a group to help push for this, “Friends of the Future Fund” who are helping build political support for it in WV. [www.wvfuturefund.org](http://www.wvfuturefund.org)

“It’s hard. You’re asking people to look to the future, to their children’s future.”

Gerry Roll, Foundation for Appalachian KY

“It’s really hard to talk about the future when you wonder how your kids are going to have milk today.”

Community Philanthropy: raising resources from a community on behalf of and for that community. That’s what the Foundation for Appalachian KY is trying to do.

The infrastructure for a certified community foundation is expensive. If every county starts one, we’ll be spending lots of money on infrastructure. So they created their foundation and are helping lots of counties and communities through one infrastructure.

Challenges:

* Engaging community leaders. “Getting people to imagine themselves and their communities differently.”
* Critical mass. How to grow the endowment big enough to make a difference

Why it’s important?

There was recently a Transfer of Wealth study. The Transfer of Wealth opportunity over the next 10 years in Appalachia is $2.22 billion. If wealth holders counted their communities among their heirs, at only 5% of their worth, $111 million could be invested in community endowments that would eventually return $5.5 million a year in perpetuity for community priorities in the region.

“This is real money in these counties.” Even in the poorest counties, there is still wealth there. Jackson County would have almost $4 million.

They’ve raised $5 million. The tornado situation was a turning point for them because they raised and turned around a lot of money quickly. People in the community realized, “Oh, that’s what you do.”

“People are starting to see us as a natural part of the infrastructure in the community and we bring the community as a part of everything we do.”

“What if we thought of our community as an heir?”

Roy Silver, SE Community College

Kentucky has a very complex coal severance tax system. We have to figure out how to build allies. Legislators are saying, of the idea of a future fund, “coal revenues are down; we can’t do this now.” But they said that when coal revenues are up.

“Parks and water projects are vital to our community. But they’re not the kinds of things we need to ultimately diversify our economy.”

**Q&A**

*Between climate change and black lung, etc. it seems we have a special case for the future fund.*

 “The transition is not going to happen overnight,” noted Silver. He said we have to be developing a range of alternatives from windmills on Black Mountain to helping people weatherize their homes. “We have to find ways to keep capital here.” “There is potential if we invest.”

*What are the reasons to not pas a future fund?*

 The power of the coal companies has stood in the way. Also, some stakeholders are weary of taking some coal severance tax monies from other areas like education, etc. .

 Gerry Roll said we might appeal to people in the community with a sense of community to work on things they want to work on; working on things not divisive; get folks talking to one another. Then later maybe we can have some of those harder discussions about how to invest in the region with coal severance dollars.

*Process matters. We have to model the process that we want others to follow. Establishing a community foundation is doing that. That’s going to make big change.*

 GR: We didn’t want to be just a bank of donor driven funds. “We wanted to be about community building and capacity building first. Money doesn’t change things; people change things.” It’s happening. Now we have to figure out how to bring that to scale. We have to model—this is how communities behave. Are we investing resources or spending money?

*WKY coal is increasing. In WV, gas is coming on. Do these factors create an incentive for legislators?*

Bailey said, “We need to think of it as matching funds for what’s left in EKY.” If we can show a plan for where we’re headed, we can leverage other money. Boettner added, “It’s about getting it on the agenda. That takes political power.”

*It seems a no brainer that EKY would support a trust fund but some local governments are so dependent on coal severance tax money that they’ll fight any more being taken from the coal severnace tax dollars. Real crisis there now. The idea of shifting out 1% would be a real threat to local governments.*

We made local governments more dependent on coal through the coal severance tax. They’re very sensitive to any further reduction. We have to look at unintended consequences. But we could take a bit from the General Fund, maybe raise the tax a bit, and piece together a 1 percent future fund.