Report: Coal industry costs Virginians millions

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The coal industry and coal-related activities cost Virginia $22 million more than was paid by these businesses in taxes, fees and other revenue to state coffers in fiscal year 2009, according to a report released Wednesday that is the first analysis of the full financial impact of the coal industry on the Commonwealth. Given the nature and extent of the costs associated with coal, and the relatively small amount of taxes collected from coal companies, it can be expected that the industry imposes a net cost on Virginia taxpayers in most years.

The single largest cost to the state in supporting the coal industry is roughly $37 million a year in tax breaks, a substantial subsidy for an industry that has been in decline for two decades. The General Assembly established the two largest tax breaks more than a decade ago with the goal of spurring growth in coal jobs and production. The report notes, however, that the credits have failed to achieve that goal as evidenced by the sharp decline in both coal jobs and production. It concludes with several recommendations for shifting the state's funding priorities to diversifying the economy of historically coal-dependent Southwest Virginia, with a projected $320 million or more in additional money over the next two decades that could go to needed community economic development projects.

The report by Downstream Strategies, a West Virginia research and consulting firm, comes a week before the General Assembly's Joint Subcommittee to Evaluate Tax Preferences is scheduled to meet.

"As we have seen in other states, the coal industry provides jobs and revenue for state and local governments, but in all cases, including Virginia, the cost to the state and its taxpayers from supporting the industry far exceed the revenues," said Rory McIlmoil, the report's lead author. "Given the scale of these costs, the decline of the industry and the need to diversify local economies, it is important for Virginia's legislators to reconsider their priorities." Downstream Strategies and others have conducted similar studies on the coal industry in West Virginia, Kentucky and Tennessee.

The report analyzes revenues and expenditures directly associated with the coal industry that have an impact on the state budget. Revenues from the industry include such things as the corporate income tax, and expenses paid by the state include such things as funding the Department of Mines, Minerals and Energy and maintaining roads in the coalfield counties. The report also assesses revenues and expenditures indirectly associated with employment supported by the industry, such as equipment suppliers, local restaurants and other supporting businesses.

The report also details the decline of coal production in Virginia, which has corresponded with a rise in mining costs resulting from the depletion of the thicker coal seams. As a result, coal jobs and production in Virginia have fallen to less than 50% of 1990 levels – despite the hefty tax subsidies. Additionally, the industry's impact on state jobs and revenues is relatively negligible, accounting for less than 0.1% of state-generated revenues and approximately 0.1% of total employment in fiscal year 2009.

The Downstream Strategies report draws in part from a 2011 analysis by the Joint Legislative Audit and Review Commission (JLARC), which examined the effectiveness of tax breaks for a variety of industries. JLARC found that subsidies supporting the coal industry failed to achieve their intended purpose, noting that coal production and employment have both declined at similar or faster rates than was predicted if the credits had not been available. It also found that, on average, the coal subsidies actually allowed companies to collect cash from the state, because the law allows companies to redeem 85% of the value of any credits exceeding their tax liability. Notwithstanding these findings, the General Assembly this year extended one of the credits, the Coalfield Employment Enhancement Tax Credit, to 2017. The other credit, the Virginia Coal Employment and Production Incentive Tax Credit, has no expiration.

Major funding for the Downstream Strategies report came from the Rockefeller Family Fund, with additional funding from the Sierra Club and consultation provided by Appalachian Voices.

"Virginians are paying tens of millions of dollars in corporate welfare to fatten dividend checks for coal industry shareholders, yet what's actually creating jobs in southwest Virginia are local economic development efforts that are woefully underfunded," said Tom Cormons, Virginia Director for Appalachian Voices. "The report's finding that we could more than double funding for these efforts by eliminating the coal subsidies demands that the Commonwealth think much harder about how it's investing taxpayers' dollars."

"Virginia's families can't afford to continue propping up the coal industry through these outdated tax breaks. Instead we should ensure that communities coping with the decline of the coal industry have the resources to build stronger local economies and a brighter, more prosperous future for their children," said Glen Besa, director of the Virginia Chapter of the Sierra Club.

The report makes several recommendations, including:

· Eliminate the two largest tax credits. The Coalfield Employment Enhancement credit and Coal Employment and Production Incentive credit have been found to be ineffective, and therefore represent a substantial loss of revenue for the state;

· Create a permanent mineral trust fund. To prepare for the projected decline in state coal production, the trust fund would help buffer against declines in coal jobs and revenues. The fund could be financed through the elimination of the two tax credits, and/or a state severance tax as other states have done with mineral extraction industries.

· Increase funding for economic development in southwest Virginia. About15% of the redeemed tax credits go to the Virginia Coalfield Economic Development Authority (VCEDA) for economic diversification. While VCEDA has created 18,600 jobs since its beginnings in 1988 (according to the Virginia Coal Association), unemployment in the region remains high. If the savings from eliminating the credits were given to VCEDA, the authority's funding could more than double, to an average of $27 million through 2035. The report suggests requiring that a portion of VCEDA's work focus on developing programs such as early childhood development, education, infrastructure development and workforce training, among others.

McIlmoil said that the report examined but does not account for so-called "legacy costs" resulting from past and future coal industry activity – including things like ongoing water pollution from acid mine drainage and other mining-related runoff, as well as unfunded reclamation of abandoned mines. "Understanding these costs is important because of their potential impact on the state's ability to fund social programs and critical infrastructure, and because of their future impact on local and state economies, the environment, and the health of Virginia residents," he said.

Comments