COMMUNITY FUTURES INITIATIVE

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Contact:
Community Futures Initiative
Media/PR: Georgia de la Garza
communityfuturesinitiative2016@gmail.com
618.579.4343

PRESS RELEASE

New Study Calls for Coal Severance Tax: Investing Resource Wealth in Local Communities

A report released today by the **Center for Tax and Budget Accountability** and **Downstream Strategies** estimates that a severance tax could generate new revenue for Illinois communities, potentially generating $141.5 million in annual revenue in 2015 for state and local governments.

The report, **"Capturing Resource Wealth to Invest in the Future: Possible Structures and Potential Benefits of an Illinois Coal Severance Tax,"** comes in the midst of a four-month budget crisis that continues to deteriorate state finances.

Community Futures Initiative (CFI), a statewide effort supporting an Illinois coal severance tax, sees an opportunity to balance our finances while funding job-creating projects to strengthen community economies and help Illinois' hard-working families get ahead.

For communities facing deeper cuts to state services, severance tax revenue can provide economic opportunities downstate that would not risk being undermined by political whims in Springfield or unstable coal company finances.

New Report Supports a Severance Tax for Illinois

The report examines revenue potential in Illinois, one of the only coal-producing states that does not collect a severance tax, and has already foregone substantial revenue as a result.

If Illinois had been collecting a severance tax like other states between 2002-2012, Illinois could have already collected annual revenues between $1.2 million (with a model similar to Indiana) to upwards of $66 million (under West Virginia's existing model).

"Severance taxes are collected for a variety of reasons," said Amanda Kass of the **Center for Tax and Budget Accountability.** "The primary underlying reason is to capture a portion of the value generated by the production of non-renewable resources to ensure that residents benefit from and are compensated for the loss. If used productively, the revenues can benefit both current and future generations."

Collection and Distribution of a Severance Tax

Comparing severance tax structures in other states, the report recommends that Illinois should implement a coal severance tax set at 5% of the gross value of coal produced, distributing the revenues equally between: (1) the General Revenue Fund, (2) a Permanent Mineral Trust Fund (to be created), and (3) local communities where coal is mined.

Under this model, $58 million would enter each of the three funding "buckets" in 2020, projected to increase to $86 million in 2040.

A Permanent Mineral Trust Fund would also extend the impact of the revenue into periods with little or no coal mining, accumulating interest for the benefit of future generations. If a portion of the Permanent Mineral Trust Fund was allocated for economic development initiatives each year, the combined total of the three "buckets" would generate $4.4 billion to support job-creating initiatives through 2040.

Reasons for a Coal Severance Tax: Why Now?

The strongest reason Illinois should institute a coal severance tax, as soon as possible, is timing.

Mining of coal in the United States is shifting away from the Eastern Interior and Northern Appalachian coal basins. States like Illinois, with accessible high-sulfur coal, are expected to see increased production.

As the industry depends more on machines than miners, however, more tons of coal mined does not bring the same amount of revenue back to local communities.

The coal severance tax is an option to provide economic opportunities for hard-working mining communities over the long run. As coal production is projected to increase, the revenues from a severance tax would continue to increase without placing existing jobs at risk.

"Wages and transportation have more of an impact on production than a change in tax rates," said Evan Hansen of **Downstream Strategies**. "In the case of coal, demand and production are predominantly determined by domestic and foreign markets, not taxes."

Illinois is one of the only coal-producing states that does not collect a coal severance tax. With local economies struggling to provide diverse opportunities, now is the time to collect revenue to support economic development and job-creating opportunities for Illinois communities.

View the full report at: http://www.downstreamstrategies.com/documents/reports_publication/illinois-coal-severance-tax.pdf or at shortlink: http://goo.gl/tzscFl

View reports and fact sheets at: ReinvestIL.org

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Evan Hansen
Downstream Strategies
ehansen@downstreamstrategies.com
(304) 292-2450

Amanda Kass
Center for Tax and Budget Accountability
akass@ctbaonline.org
(312) 332-1103

Tyler Rotche
Prairie Rivers Network
trotche@prairierivers.org
(217) 344-2371 x206