

SEVERANCE TAX UPDATE

(BUDGET REVIEW SUBCOMMITTEE ON GENERAL GOVERNMENT, FINANCE, AND
PUBLIC PROTECTION)

GREG HARKENRIDER
DEPUTY EXECUTIVE DIRECTOR

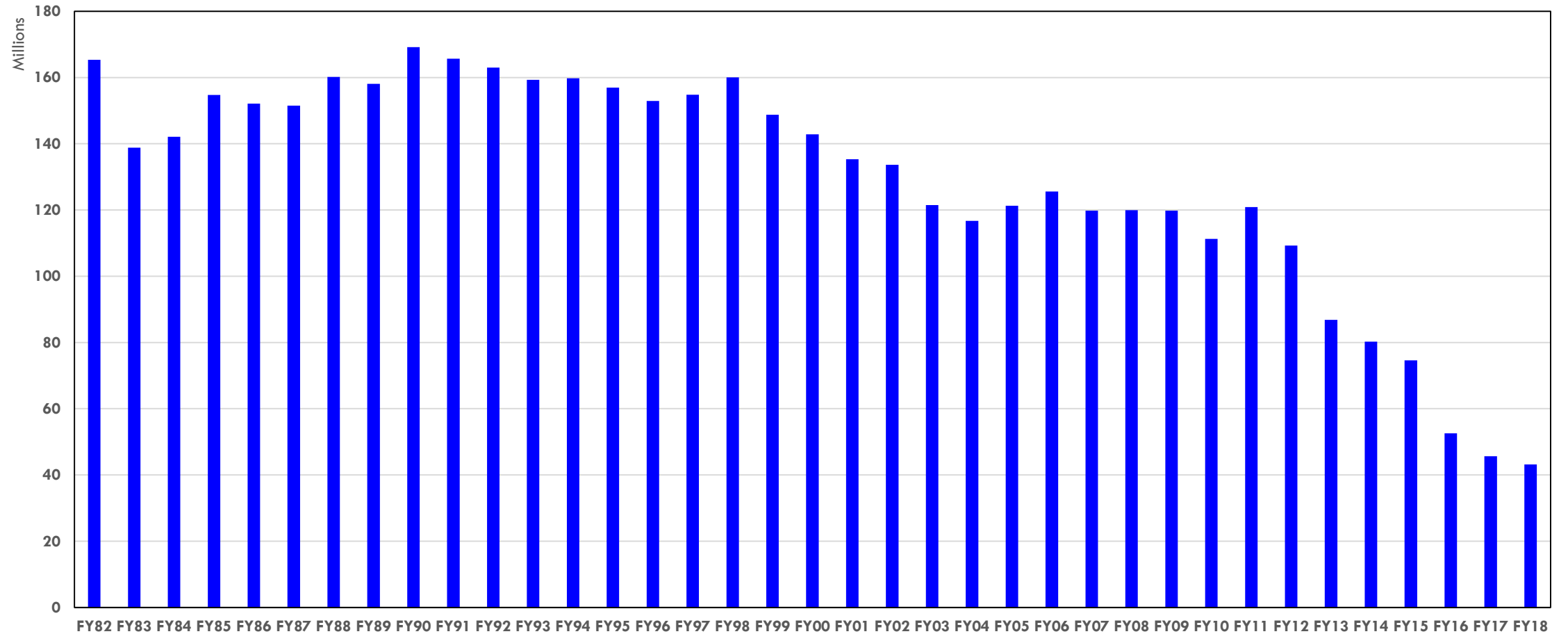
SEPTEMBER 27, 2018

Office of State Budget Director

Coal Severance Tax

- KRS 143.020, effective July 1, 1978
- 4.5% tax on gross value of severed coal
- Gross value embodies price and quantity
- KY is the third largest producer of coal in the US
- In FY18, KY severed 43.1 million tons of coal
- Eastern KY coal is part of the Central Appalachian coal region
- Western KY coal is part of the Illinois Basin coal region
- Union County, KY was the largest coal producer in KY last quarter

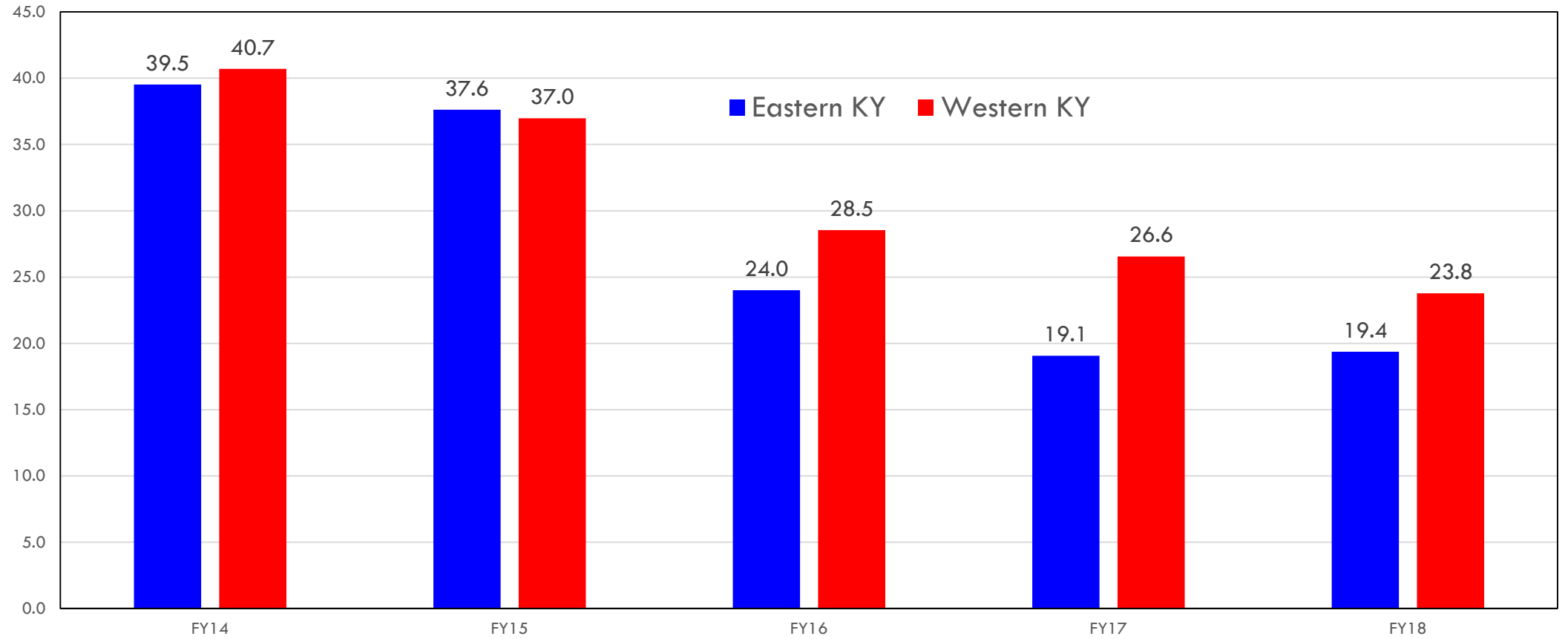
KY Severed Tons



KY Severed Tons (millions, NSA)

DATE	TONS	% CHG		DATE	TONS	% CHG
FY00	142.8	-4.0		FY10	111.3	-7.1
FY01	135.3	-5.3		FY11	120.9	8.6
FY02	133.7	-1.2		FY12	109.2	-9.6
FY03	121.5	-9.1		FY13	86.8	-20.5
FY04	116.7	-4.0		FY14	80.2	-7.6
FY05	121.3	3.9		FY15	74.6	-7.0
FY06	125.6	3.5		FY16	52.5	-29.6
FY07	119.8	-4.6		FY17	45.6	-13.2
FY08	119.9	0.1		FY18	43.1	-5.5
FY09	119.8	-0.1		Q4	9.8	-4.6

Distribution of Severed Tons



NYMEX Spot Prices

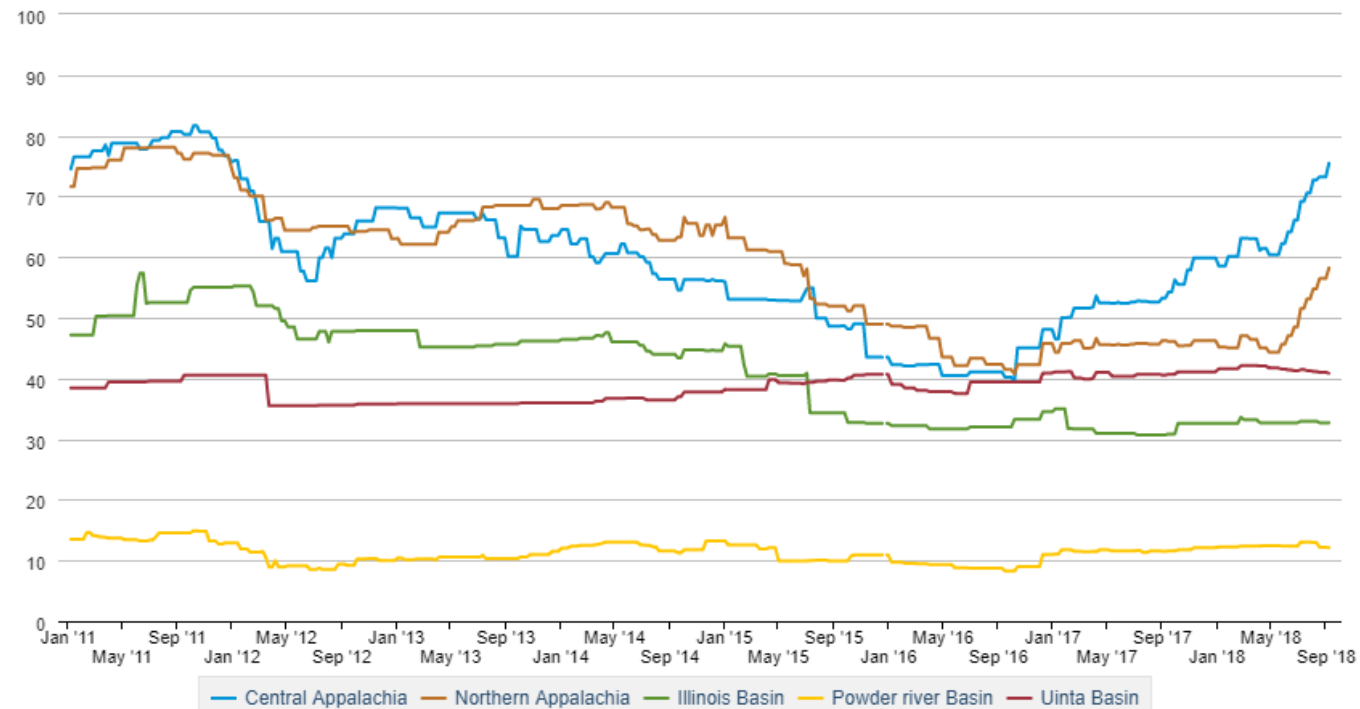
Coal markets archive

Dollars per short ton

Dollars per mmbtu

Historic coal prices by region, 2011-2016

\$ per short ton



NYMEX Spot Prices

(\$ / ton)

DATE	CAP	IB		DATE	CAP	IB
09-16-16	40.20	32.00		01-05-18	58.50	32.60
01-06-17	46.50	35.00		02-02-18	60.10	32.60
02-03-17	50.05	31.75		03-02-18	63.10	33.20
03-03-17	51.60	31.65		04-06-18	61.10	32.70
04-07-17	53.60	30.95		05-04-18	60.40	32.70
05-06-17	52.45	30.95		06-01-18	62.25	32.70
06-02-17	52.35	30.95		07-06-18	69.15	32.95
07-07-17	52.75	30.70		08-03-18	72.70	32.95
08-04-17	52.60	30.70		09-07-18	75.45	32.70
09-01-17	53.25	30.70				
10-06-17	55.50	32.60				
11-03-17	57.85	32.60				
12-01-17	59.85	32.60				

Coal Severance Tax Receipts

(\$ millions, NSA)

DATE	RECEIPTS	% CHG		DATE	RECEIPTS	% CHG
FY00	145.1	-6.0		FY10	271.9	-7.1
FY01	141.6	-2.5		FY11	295.8	8.8
FY02	160.2	13.1		FY12	298.3	0.8
FY03	141.7	-11.5		FY13	230.5	-22.7
FY04	147.5	4.1		FY14	197.5	-14.3
FY05	184.4	25.0		FY15	180.3	-8.7
FY06	224.5	21.7		FY16	120.6	-33.1
FY07	222.0	-1.1		FY17	100.5	-16.7
FY08	233.0	5.0		FY18	89.6	-10.8
FY09	292.6	25.6				

Comments About Coal Severance Tax Receipts

- Since peaking in FY12, the coal severance tax has experienced double-digit annual declines
- In FY12, the coal severance tax yielded \$298.3 million in receipts. In FY18, receipts have fallen to \$89.6 million
- As a share of the General Fund, coal has fallen from 3.3% in FY12 to 0.8% in FY18.
- Severed tons have fallen from 109.2 million to 43.1 million short tons
- Appropriations to the LGEDF and LGEAF have fallen lock-step with the decline in receipts

Coal Severance Estimates

(\$ millions)

Official CFG Forecast (Dec. 15, 2017)

DATE	RECEIPTS	% chg	
FY17	100.5	-16.7	Actual
FY18	88.5	-11.9	Estimate
FY19	77.9	-11.9	Estimate
FY20	65.1	-16.5	Estimate

Remarks about Coal Forecast

- Since rendering the official estimate in December, 2017, spot prices have been on the rise, especially in the east
- The coal severance tax receipts are based on severed tons and the price of coal, so receipts should be positively impacted by the recent uptick in prices
- Last unofficial quarterly report and revenue outlook called for 6.6 percent growth for coal severance taxes (FY19 quarters 1 through 3)
- The improved outlook for coal is purely a function of prices, as the demand for coal has not improved appreciably

Natural Gas Tax Receipts

(\$ millions)

DATE	RECEIPTS	% CHG		DATE	RECEIPTS	% CHG
FY02	12.3	-29.0		FY11	24.9	2.3
FY03	14.7	19.6		FY12	22.5	-9.6
FY04	22.5	53.0		FY13	14.7	-34.9
FY05	25.3	12.4		FY14	19.0	29.8
FY06	36.2	43.0		FY15	15.4	-19.3
FY07	32.3	-10.7		FY16	6.4	-58.0
FY08	33.8	4.5		FY17	7.6	17.3
FY09	42.2	24.7		FY18	9.8	29.4
FY10	24.4	-42.2				

Mineral Severance Tax Receipts

(\$ millions)

DATE	RECEIPTS	% CHG		DATE	RECEIPTS	% CHG
FY02	12.4	-2.8		FY11	13.3	-0.1
FY03	12.6	1.8		FY12	13.3	0.3
FY04	13.7	9.0		FY13	13.3	0.1
FY05	13.5	-1.6		FY14	12.3	-7.6
FY06	14.5	7.5		FY15	15.1	23.0
FY07	14.8	2.2		FY16	17.6	16.3
FY08	16.4	10.4		FY17	16.9	-3.8
FY09	12.8	-21.7		FY18	18.2	7.4
FY10	13.3	3.6				

Oil Production Tax Receipts

(\$ millions)

DATE	RECEIPTS	% CHG		DATE	RECEIPTS	% CHG
FY02	2.6	-22.9		FY11	8.3	9.6
FY03	3.1	20.3		FY12	12.0	44.3
FY04	3.4	8.7		FY13	11.0	-8.2
FY05	4.7	39.0		FY14	13.1	19.6
FY06	6.4	35.6		FY15	9.8	-25.0
FY07	6.2	-2.9		FY16	4.7	-51.7
FY08	10.2	64.6		FY17	5.1	7.8
FY09	8.4	-17.4		FY18	5.4	4.7
FY10	7.6	-10.3				

Closing Remarks

- The coal severance tax has dropped from 3.2% of the General Fund to 0.8% in the span of the last 6 years
- The decline has been primarily attributable to a decline in severed tons
- These declines correspond to additional federal government regulations which made it harder a) to open new coal mines; and b) for power plants to burn coal
- The recent larger drops correspond to the permanent closure of major coal-fired power plants
- While some short-term upside potential exists for the coal severance tax due to a recent increase in coal prices, the long-term outlook remains subdued
- Many market-based and structural considerations will constrain the demand for coal going forward, thus inhibiting future growth in severed tons

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