



# Revitalizing Appalachia

## How to Strengthen Kentucky's Industrial Economy

February 9, 2015

Kentucky's economy is still working to recover from the Great Recession, only recently returning to its pre-recession job levels.<sup>1</sup> While the state has shown small signs of economic growth, state revenues grew at half the rate needed to meet budget requirements in 2014, leaving the state with a \$91 million deficit.<sup>2</sup>

As the Kentucky economy works to get back on its feet, a main concern is the state's industrial economy—in particular, the coal sector. The Appalachian coal community has been facing a steady decline, in part due to the country's increased reliance on natural gas. While some are quick to argue that the barriers facing this community are driven by federal regulations to clean the air, a government policy that artificially props up coal production on federal lands has long undermined coal production in Kentucky. By ensuring that coal companies mining on federal lands pay their fair share, the federal government could generate millions in new revenue that could be directed toward revitalizing Appalachian communities.<sup>3</sup>

---

### Kentucky's economy is still working to recover from the Great Recession

- **Kentucky's economic growth has lagged behind the national average for the past decade.** An analysis of data from the U.S. Bureau of Economic Analysis found that Kentucky's economic growth rate has lagged behind the national rate for eight of the past nine years. Notably, the state's growth rate from 2011 to 2012 was 24 percent worse than the average growth rate of all 50 states and the District of Columbia, and the gap barely shrunk to 22 percent from 2012 to 2013.<sup>4</sup>
- **Kentucky is faced with a \$91 billion budget shortfall.** In 2014, Kentucky's economy grew at 1.1 percent, but in order to keep up with the state's budget, revenues needed to grow at 2.2 percent.<sup>5</sup> This left the state with a \$91 million budget shortfall.<sup>6</sup>
- **In Kentucky, wages have decreased for the past decade.** According to the Kentucky Center for Economic Policy, real wages in the state have been “falling for more than a decade.”<sup>7</sup>

- **In Kentucky, education cuts have been severe.** Between 2008 and 2015, per-student investment in K-12 schools was cut by 11.4 percent.<sup>8</sup> Cuts to higher education have been even more devastating: Kentucky's public universities suffered a 25.4 percent drop in funding between 2008 and 2015. That amounts to \$2,649 less funding per student.<sup>9</sup>

---

## Appalachian coal communities face unique barriers

- **Between 1983 and 2012, Kentucky lost 21,000 coal jobs.** The decline in coal jobs began decades ago. According to the Mine Safety and Health Administration, Kentucky has lost more than 21,000 mining jobs since 1983.<sup>10</sup>
- **Between 2011 and 2014, Kentucky lost nearly half of its coal jobs.** A report from the Kentucky Center for Economic Policy found that Kentucky lost more than 6,000 coal jobs between 2011 and 2014, or nearly half of its coal employment.<sup>11</sup>
- **Appalachian coal is facing a steady decline.** The richest, easiest-to-mine seams have been developed, making it more affordable to extract coal from other U.S. basins, especially those in the West.<sup>12</sup>
- **Idling even a single mine can have a huge impact on the local economy.** Some counties in this region are overwhelmingly dependent on the coal industry for jobs and tax revenue. As a result, closing or idling even a single mine in one of these communities can have a ripple effect that is felt across the local economy.<sup>13</sup>

---

## A new opportunity to help Appalachian coal communities

Federal policy currently subsidizes coal extracted from public lands by allowing mining companies to pay royalties on a below-market coal price. If, over the past five years, coal companies had been required to pay royalties on the true market price of coal, the federal government could have collected up to \$1 billion more in royalty revenue each year.<sup>14</sup> Roughly half of this money would have gone to the states where the coal was mined, while the other half—or an estimated \$500 million—would have gone to the federal government.<sup>15</sup> Congress should fix the coal royalty system and invest this new federal revenue in struggling Appalachian coal communities. If just \$50 million was directed toward Kentucky's coal communities, the state could potentially:

- **Hire more than 1,400 teachers:** The average starting salary for a teacher in Kentucky is \$35,166. With \$50 million, Kentucky could hire more than 1,420 new teachers.<sup>16</sup>

- **Revitalize more than 1,000 miles of bridges:** According to the American Society of Civil Engineers, 8.7 percent, or 1,234, of Kentucky’s bridges are structurally deficient and 22.7 percent are considered functionally obsolete.<sup>17</sup> As calculated in the Reason Foundation’s 21st annual highway report, the average cost of reconstructing or improving a bridge in Kentucky is \$45,624 per state-owned mile.<sup>18</sup> With \$50 million, more than 1,000 miles of bridges could be revitalized.
- **Invest in 150 more small businesses:** The U.S. Small Business Administration’s average loan was \$337,730 in 2012. With \$50 million, Kentucky could invest in almost 150 more small businesses.<sup>19</sup>

---

## Endnotes

- 1 Jason Bailey, Anna Baumann, and Ashley Spalding, “The State of Working Kentucky: 2014” (Berea, KY: Kentucky Center for Economic Policy, 2014), available at <http://kypolicy.org/dash/wp-content/uploads/2014/08/State-of-Working-KY-2014-final.pdf>; Bruce Schreiner, “Kentucky nears full job recovery from recession,” Associated Press, September 18, 2014, available at <http://www.cincinnati.com/story/news/2014/09/18/kentucky-nears-full-job-recovery-recession/15828753/>.
- 2 Tom Loftus, “Budget shortfall raises spending cut fears in Ky.,” *The Louisville Courier-Journal*, June 23, 2014, available at <http://www.courier-journal.com/story/news/politics/2014/06/20/budget-shortfall-raises-spending-cut-fears-ky/11108715/>; Jonathan Meador, “Kentucky’s Budget Deficit Partly Fueled by Decline in Capital Gains Tax Receipts,” WKU Public Radio, July 11, 2014, available at <http://wkyufm.org/post/kentuckys-budget-deficit-partly-fueled-decline-capital-gains-tax-receipts>.
- 3 Gov. Ted Strickland, Greg Dotson, and Matt Lee-Ashley, “Revitalizing Appalachia: How Congress Can Correct Distortions in the Coal Market and Invest in Struggling Coal Communities” (Washington: Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/green/report/2015/01/27/105494>.
- 4 Bureau of Economic Analysis, “Regional Data: GDP & Personal Income,” available at <http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=1#reqid=70&step=10&isuri=1&7003=200&7035=-1&7004=naics&7005=1&7006=01000,02000,04000,05000,06000,08000,09000,10000,11000,12000,13000,15000,16000,17000,18000,19000,20000,21000,22000,23000,24000,25000,26000,27000,28000,29000,30000,31000,32000,33000,34000,35000,36000,37000,38000,39000,40000,41000,42000,44000,45000,46000,47000,48000,49000,50000,51000,53000,54000,55000,56000&7036=-1&7001=1200&7002=1&7090=70&7007=2013,2012,2011,2010,2009,2008,2007,2006,2005,2004&7093=percentchange> (last accessed February 2015).
- 5 Loftus, “Budget shortfall raises spending cut fears in Ky.”
- 6 Meador, “Kentucky’s Budget Deficit Partly Fueled by Decline in Capital Gains Tax Receipts.”
- 7 Bailey, Baumann, and Spalding, “The State of Working Kentucky: 2014.”
- 8 Michael Leachman and Chris Mail, “Most States Still Funding Schools Less Than Before the Recession” (Washington: Center on Budget and Policy Priorities, 2014), available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=4213>.
- 9 Michael Mitchell, Vincent Palacios, and Michael Leachman, “States Are Still Funding Higher Education Below Pre-Recession Levels” (Washington: Center on Budget and Policy Priorities, 2014), available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=4135>.
- 10 Patrick Reis and Stephanie Stamm, “Who Killed All the Coal Jobs?,” *National Journal*, November 4, 2013, available at <http://www.nationaljournal.com/pictures-video/who-killed-all-the-coal-jobs-20131104>.
- 11 Baily, Baumann, and Spalding, “The State of Working Kentucky: 2014.”
- 12 Strickland, Dotson, and Lee-Ashley, “Revitalizing Appalachia.”
- 13 Ibid.
- 14 Headwaters Economics, “An Assessment of U.S. Federal Coal Royalties: Current Royalty Structure, Effective Royalty Rates, and Reform Options” (2015), available at <http://headwaterseconomics.org/wphw/wp-content/uploads/Report-Coal-Royalty-Valuation.pdf>.
- 15 30 U.S.C. § 191, available at <http://www.law.cornell.edu/uscode/text/30/191>.
- 16 National Education Association, “2012–2013 Average Starting Teacher Salaries by State,” available at <http://www.nea.org/home/2012-2013-average-starting-teacher-salary.html> (last accessed February 2015).
- 17 American Society of Civil Engineers, “State Facts: Kentucky,” available at <http://www.infrastructurereportcard.org/a/#p/state-facts/kentucky> (last accessed February 2015).
- 18 David T. Hartgen, M. Gregory Fields, and Baruch Feigenbaum, “21st Annual Report on the Performance of State Highway Systems (1984–2012)” (Los Angeles: Reason Foundation, 2014), available at [http://reason.org/files/21st\\_annual\\_highway\\_report.pdf](http://reason.org/files/21st_annual_highway_report.pdf).
- 19 Small Business Administration, “General Small Business Loans: 7(a),” available at <https://www.sba.gov/content/7a-loan-amounts-fees-interest-rates> (last accessed February 2015).