

AP COVERAGE

Jan 22, 3:06 PM EST

W.Va. seeks edge in 'cracker' plant competition

By LAWRENCE MESSINA
Associated Press

CHARLESTON, W.Va. (AP) -- The Legislature aims to send a major signal this week as West Virginia courts at least two major employers and competes with neighboring Ohio and Pennsylvania for a chemical plant expected to create thousands of jobs.

The House of Delegates is on track to vote on a proposal to slash property taxes for a "cracker" facility for 25 years. The Senate is also moving on its version of this measure from Gov. Earl Ray Tomblin.

"What we're trying to show those parties that are interested in investing \$2 billion in West Virginia is that the state is ready to step forward," House Finance Chairman Harry Keith White, D-Mingo, told The Associated Press after his committee endorsed the legislation on Friday.

A cracker plant converts a byproduct from natural gas wells into a widely used chemical compound. The region's gas-rich Marcellus shale field is producing an ample supply of this byproduct, ethane, operators say. The converted compound, ethylene, is a key component for the plastics industry and also helps make a range of products including tires and antifreeze.

The proposal would apply to any company that invests at least \$2 billion toward a cracker. The American Chemistry Council estimates that it would cost around \$3.2 billion to build one in West Virginia, with the construction phase fueling 8,000 jobs with a combined payroll of \$363 million.

The trade group also pegs the permanent jobs from a West Virginia cracker at 12,271, with 2,484 people employed directly in the chemical industry and 6,262 indirectly through its supply chain, plus 3,524 "induced" jobs triggered by the subsequent increase in consumer spending. The council estimates the total resulting payroll at \$729 million and state tax revenues at \$95 million.

Tomblin's proposal is expected to help his administration negotiate with energy giant Shell and an as-yet-undisclosed employer. Each seeks to build a cracker plant in the Marcellus region, officials say. But that also has Ohio and Pennsylvania assembling and promoting incentive packages as well.

U.S. Sen. Bob Casey, D-Pa., wrote to a Shell executive earlier this month, casting his state as the best site for a cracker. Ohio Gov. John Kasich reportedly made the same pitch for his state late last year when he flew to Shell's U.S. headquarters in Houston.

"Our package is every bit as competitive," Tomblin's Commerce secretary, Keith Burdette, told AP on Saturday. "In my own mind, I am convinced that we've put the best we have on the table."

That includes existing tax credits aimed at economic development that would apply to a cracker, Burdette said. Complementing these are West Virginia's energy and workers' compensation costs, which are lower than Ohio's or Pennsylvania's, he said.

Both those states also owe a combined \$5.5 billion from federal loans required to keep unemployment benefits flowing following the Great Recession. West Virginia never needed those loans, and so will avoid hiking taxes on employers to repay them, Burdette said. West Virginia instead recently cut its business franchise and corporate net income tax rates. And while Ohio and Pennsylvania continue to debate what they may charge Marcellus drillers, West Virginia has already set its permit fees, he added.

"With the Legislature moving so quickly on the tax credit bill, it may come down to the site (location) itself," Burdette said. "It's exciting. It's moving very quickly."

Deputy Revenue Secretary Mark Muchow estimates that a \$2 billion cracker plan would see its taxes cut by nearly \$30 million in the first year alone under Tomblin's proposal.

The measure applies to non-real estate property, in this case business machinery, equipment and inventory. Labeled "personal" property by the West Virginia Constitution, these assets are normally taxed at 60 percent of their market value. The proposal would instead assess this property at 5 percent by declaring it salvaged.

Muchow said that would value a \$2 billion cracker facility at \$100 million for property tax purposes, instead of at \$1.2 billion. The counties considered likely sites for a cracker tax such as an industrial property at 2.5 percent, resulting in a \$1.5 million annual tax bill, Muchow said. A cracker would otherwise be charged around \$30 million that first year, though the amount would gradually drop over time as its machinery and equipment age and lose value, he added.

The West Virginia Center for Budget and Policy has questioned this and other proposals targeting "personal" property taxes. It argues that government spending can play a positive role in economic development, and scrutinizes tax cuts pursued to attract business.

Neither Ohio nor Pennsylvania tax non-real estate property. This has been a key point for those

seeking to lure a cracker. The Center for Budget and Policy contends that taxes on "personal" property are offset by West Virginia's rates for real estate property, which tend to be lower than that of other states. The center estimates that a \$1.2 billion cracker would pay \$34.4 million in property taxes in West Virginia, absent Tomblin's proposal, but nearly \$40 million in Ohio because of that state's higher real estate rates.

Muchow said that while West Virginia tends to charge lower real estate property rates, commercial property is taxed at twice the level as residential property. He also said that more than half of the property of a typical industrial site is machinery, equipment and inventory, not real estate.

"In manufacturing, an overwhelming share of the property is going to be personal," Muchow said. "The tax puts us at a competitive disadvantage."

Muchow also said that even \$1.5 million in annual property taxes would be huge for the host county, and that property would not be subject to depreciation.

"It's not every day that a county gets a \$2 billion-type investment," Muchow said. "That's far above the level of investment we're used to."

Online:

Tax incentive legislation: <http://tinyurl.com/79d7jhc>

American Chemistry Council cracker plant estimates:
<http://www.americanchemistry.com/shalegasimpact>

Lawrence Messina covers the statehouse for The Associated Press. Follow him at <http://twitter.com/lmessina>

© 2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed. Learn more about our [Privacy Policy](#) and [Terms of Use](#).