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WVCBP: Cracker incentive worth $300 million

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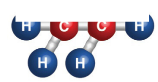
By Taylor Kuykendall, Reporter - email



The fiscal note attached to the ethane cracker tax incentive in the West Virginia Legislature reads $0, but a more accurate number, a progressive policy analyst group says, would be closer to $300 million.

Sean O'Leary, a policy analyst with the West Virginia Center on Budget and Policy, said the siting of an ethane cracker in West Virginia would be great news, but the fiscal note presented to legislators accompanying House Bill 4086 failed to accurately portray the impact of the bill.

"The fiscal note prepared for H.B. 4086 failed," O'Leary wrote in the conclusion to his analysis. "The fiscal note provided no estimate of the tax revenue forgone, had no analysis to justify the assumption that forgone revenue would be offset by economic activity, did not address the infrastructure and other costs created by a cracker facility, did not account for the differences between state and local tax revenue, did not account for existing tax incentives, and assumed that a cracker facility's location decision is driven by property taxes.

"The $0 price tag attached to H.B. 4086 was based on an incomplete analysis. As it stands, the fiscal impact of H.B. 4086 is undetermined, but to say it is $0 is highly misleading."

O'Leary said officials were in a difficult position and may have pushed the legislation through without much time to examine the fiscal impact. Transparency and a real look at the impact of providing a tax break, O'Leary said, needed a closer look that what was given by the state tax department.

"When we're deciding on what kind of strategy we need to take to attract or grow business, we need to make sure we have all of the facts," O'Leary said. "The fiscal note saying that it's a $0 impact just isn't the whole story."

The bill, as requested for introduction by Gov. Earl Ray Tomblin, would have provided a major personal property tax break for a cracker investment of over $2 billion. An ethane cracker converts elements of natural gas, particularly ethane, into materials used as feedstock for various sectors of the chemical industry.

The ethane cracker is projected to create numerous jobs in the state and a revitalize the state's chemical industry. Ethane-rich natural gas from the Marcellus shale formation has been found in relative abundance in West Virginia, Ohio and Pennsylvania.

O'Leary said companies aren't going to turn down free money, but a tax incentive is not likely to be a major factor in their decision to locate.

"No business is going to want to turn down free money," O'Leary said. "Tax incentives, in general, ignore business basics. What really comes down to a business decision? They are going to look at the cost of labor, how educated the workforce is, do we have a proper workforce, do we have the infrastructure to make sure they can get the product they're making to the market?"

O'Leary said one of the best things the state could be doing to attract a cracker would have been further investment in education and workforce development.

All three states have been attempting to attract a cracker within their borders.

"The fiscal note also assumes that a cracker facility would not locate in West Virginia without the tax incentive, due to the state's uncompetitive property taxes," wrote O'Leary, who has produced a number of reports and analyses that indicate severance taxes and other factors play smaller roles in business location than many legislators believe. "This assumption relies on misconception about the state's property tax system and ignores many factors more influential to business location decisions."

O'Leary wrote that about $12.1 million per year, or $303.9 million would be lost in forgone revenue collections over the 25-year life of the tax break. That is also a figure only calculated per ethane cracker facility. If more than one cracker was sited in the state, that forgone revenue could double.

According to O'Leary's analysis, that's about counties where cracker plants have been speculated to locate – Kanawha, Marshall and Wetzel counties – could lose out on $3 to $4 million in county levies, while school districts could miss out on $8 to $10 million per year due to the tax incentive.

O'Leary writes that while this revenue will be forgone, an increase in infrastructure demand is likely as well. He writes that this could result in increased property taxes on other businesses and homeowners to reduce "fiscal strain." Downstream businesses, O'Leary writes, are also likely eligible for existing state tax incentives.

Another problem, O'Leary writes, is the fiscal note assumes the cracker would not have come to West Virginia without the incentive. He said that is a flawed assumption because of numerous factors, including a small amount of importance being placed on property taxes.

"If West Virginia's property taxes are not actually a deterrent and there are reasons other than tax incentives for a cracker to locate in West Virginia, then it cannot be assumed that the fiscal impact is $0," O'Leary said. "A company will rarely turn down free money, but location decisions are rarely made solely on tax incentives. It is possible that the facility would have made its decision with or without tax incentives offered by any state."