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WV policy questioned in wake of cracker announcement

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West Virginia seemingly gave all it had to attract a world-class ethane cracking facility within its borders, but the state took a big morale hit Thursday afternoon when Shell Chemicals said it was looking to Pennsylvania instead.

The very first bill of the West Virginia legislative session was a tax incentive worth an estimated \$300 million in property taxes. Gov. Earl Ray Tomblin touted the economic benefit and importance of an ethane cracker since he has been in office.

"Today we are sending a message that West Virginia wants to be a partner with potential investors and bring jobs to West Virginia," Tomblin said in news release celebrating signing of the tax incentive. "I believe this legislation, coupled with the historic Horizontal Well Act relating to Marcellus shale development, speaks clearly to our state's intent and commitment to rebuilding our manufacturing base, right here."

Of course, the release from Shell is not a promise it would build the facility — just an indication of where they may build one.

"This positive development marks another phase as Shell continues to assess the commercial feasibility of a petrochemical complex in the Appalachian region," the release states. "The next steps for this project include additional environmental analysis of the preferred Pennsylvania site, further engineering design studies, assessment of the local ethane supply, and continued evaluation of the economic viability of the project."

Though officials tried to soften the blow of the announcement with assurances that economic revitalization would be regional and other cracker plans may come to the Mountain State, finger-pointing as to why Pennsylvania seemed to win this round began minutes after Shell's announcement.

"We are sad that we were among the first to know this terrible economic news for our state on Wednesday, and that Governor Tomblin simply isn't doing the job," said Conrad Lucas, chairman of the West Virginia Young Republicans, in a prepared statement. "But as an organization we are proud when we can keep our promises as to our 'Major Announcements.' There will be more in coming weeks on the accountability of our incumbent leaders."

In recent months, some within the state had questioned West Virginia's push for tax breaks to woo the cracker plant. One of the biggest challengers was Ted Boettner, the executive director of the West Virginia Center on Budget and Policy.

On Thursday, he stood by statements his organization made in policy briefs and prior interviews. He said while the state was busy touting tax incentives, Shell and other companies were looking at many other factors in assessing a cracker site.

"Our biggest policy failure is not making West Virginia a more attractive place to live, work and raise a family," Boettner said. "This requires investing in our people, universities, parks, infrastructure, and other public structures. Without a well-trained and educated work force, it is hard to compete in a global economy."

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Boettner points to factors such as low post-secondary degree attainment as contributing factors to companies such as Shell deciding to locate operations outside of the state.

"This should be our focus, not engaging in a race to the bottom on who can have the low taxes, bad regulations and a poorer quality of life," Boettner said.

Boettner said that despite offering "an almost tax free climate to Shell," the state still fell short of Shell's expectations.

"This tells us that the state's business tax climate had very little to do with Shell's decision to locate in Pennsylvania," Boettner said. "Businesses locate where they can make money. Aside from this, their location decisions are driven primarily by proximity to markets and raw materials, a productive and skilled work force, and a good quality of life."

Shell makes no mention of tax incentives in explaining its reason for locating in Pennsylvania, though all three states, including Ohio, offered up incentives.

"Taxes are usually a very small part in the decision process because they represent only a tiny part of the cost of doing business," Boettner said. "This is especially true of capital intensive industries, which tend to have disproportionately low tax rates because of tax deductions."

The WVCBP had published materials when the ethane cracker tax incentive was being considered, offering a review of studies suggesting tax breaks had little to do with business location decisions.

"A company will rarely turn down free money, but location decisions are rarely made solely on tax incentives," wrote Sean O'Leary, a policy analyst with WVCBP. "It is possible that the facility would have made its decision with or without tax incentives offered by any state."

Boettner said the state should now look to training programs for improving factors such as work force.

"There may be a silver lining to Shell's decision," Boettner said. "Instead of engaging in a race to the bottom on taxes that puts further strain on our ability to sustain our public structures, West Virginia can now focus its intention on training the best workforce it can to compete for jobs at the plant."

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