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WV expects to break even on Century Aluminum tax break

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West Virginia state officials estimated a net zero effect on the general revenue fund for a \$20 million tax incentive for Century Aluminum, leaving a difference of \$14.1 million projected by a 2007 study.

Deputy Revenue Secretary Mark Muchow said the difference is caused because his office went beyond the scope of the economic impact study from a West Virginia University professor and looked at "all state taxes and local taxes as well as any state fees."

"If you add everything in the pot, it can get pretty close to that \$20 million mark," Muchow said.

Another difference, Muchow said, was that his calculations include the increased use of coal because of the tax incentive. The incentive actually goes to the coal suppliers of power plants providing electricity to plants such as Century in hopes of lowering energy costs.

"To go up and operate, they would be consuming more electricity, electricity that would likely be produced from West Virginia coal that would lead to additional coal sales in West Virginia to generate that electricity," Muchow said. "Nearly half, not quite half of the \$20 million would be severance tax, both regular severance tax and worker's comp severance tax."

Muchow said the plant would also increase property tax collections at the Aluminum plant and surrounding businesses.

"The valuation of an operating plant is a lot higher than the valuation of a non-operating plant," Muchow said.

He added that a year ago, he had calculated that "under the most optimistic scenario the feedback is about \$20 million."

Muchow said he believes that may have contributed to the limitation put in the bill that caps the incentive at \$20 million.

Randall A. Childs of the Bureau of Business and Economic Research at the College of Business and Economics at West Virginia University, studied the economic impacts of Century Aluminum in 2008, modeling business activity from 2007.

He calculated that increased business volume from Century Aluminum resulted in an increase of about \$5.9 million in assorted taxes, including personal income taxes, consumer sales tax, use taxes, corporate net income taxes and business franchise taxes.

The difference between the WVU estimate of tax benefit and the upper limit of the allowable tax credit is about \$14.1 million per year.

The incentive, without doubt, makes it more likely Century Aluminum will reopen its doors and create hundreds of jobs. Whether the move truly leaves the state's general revenue fund untouched is questioned by at least one analyst.

Ted Boettner, director of the West Virginia Center on Budget and Policy, said he did not understand how Muchow calculated a \$20 million increase in state tax revenues.

"We're all for creating good jobs and reducing the harmful effects of unemployment, but it's important that the public has a clear understanding of whether the benefits of the \$20 million tax credit outweighs the costs," Boettner said.



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"We hope it was a smart investment, but unfortunately, we are unable to determine whether it was a sound use of public funds because of a lack of transparency in how the Tax Department calculated its fiscal note."

Boettner starts with the nearly \$6 million in state taxes the WVU report said would come from the Century Aluminum plant in the form of personal income taxes, consumer sales tax, use taxes, corporate net income taxes and business franchise taxes. He then adds another \$1 million from property tax collections, a number consistent with media reports of the plant's property tax bill.

"To get (the remaining) \$13 million in new severance tax revenues, it would take 4.2 million tons of coal sold at \$60 a ton," Boettner said. "This is highly unlikely. Sounds like fuzzy math."

The WVCBP calculates that much coal would generate about 11.3 million megawatt hours of electricity, doubling in-state sales of electricity. Boettner said that "would be great, but highly unlikely."

"According to Appalachian Power, in 2009 the smelting plant consumed the same electricity as 325,000 homes in West Virginia - that's about 4.4 million megawatt hour of electricity or a third of the 11.3 million megawatt hours created from 4.2 million tons of coal," Boettner said. "4.4 million megawatt hours is the equivalent of 1.6 million tons of coal."

Boettner said Muchow could have the numbers right, but if so "a lack of transparency" means that the public can't look out how he arrived at those figures.

In February, Sen. Herb Snyder, D-Jefferson, said agencies sometimes downplay or overestimate costs for programs for political reasons. The fiscal note, a document explaining legislation's impact on state budget, for a bill creating an independent fiscal office estimated it would cost about \$720,000 per year to fund such an office.

The incentive bill's fiscal note estimated "minimal" net effect on the general revenue fund. The collected revenue from the aluminum plant, the fiscal note states, will offset the \$20 million in tax credits given to coal suppliers of the company that provides power for Century Aluminum.

"According to our interpretation, the proposed tax credits would be recouped by additional state and local tax collections associated with expanded industrial operations of the tax subsidized energy intensive industrial consumer," the fiscal note states. "The payback level would vary depending upon the unique characteristics of the subsidized industrial consumer, however, it is assumed that the expanded effect on annual General Revenue Fund collections will be minimal (i.e., \$20 million of tax credits offset by \$20 million of additional state and local tax revenue.)"

This is not the first fiscal note produced for the legislature where benefits were projected to be roughly the same as forgone tax revenue. When the state passed an incentive for an ethane cracker, the fiscal note attached said economic development would have a zero net effect on state tax collections.

The West Virginia Center on Budget and Policy analysts found that the cracker incentive would result in \$300 million in forgone revenue.

Boettner said the difference in the WVU economic study and the fiscal note's conclusion highlights a need for an independent fiscal office "that can provide objective evaluation of tax credits and other state investments."

The WVU study also points out that Century's presence in the state is an economic booster. The total business volume impact was estimated to be in excess of \$579 million, supporting 1,600 jobs and \$111 million in employee compensation.

Tax incentives for attracting businesses appear to be shaping up into a campaign issue. When West Virginia learned a major ethane cracking facility was going to Pennsylvania, Republican candidate took a shot at against Gov. Earl Ray Tomblin when he said West Virginia would "just pull our pants down" for an ethane cracker facility.

Maloney said the focus should be on giving everyone the same tax breaks and improving the state's overall business climate by reforming the states courts.

"Plant workers and retirees, the company and the local community, Democrats and Republicans came together to make this restart possible," said Chris Stadelman, Tomblin campaign spokesman said of the move for Century Aluminum. "Bill Maloney's extreme economic policies would stand in the way of helping put people back to work."

In making its decision to not locate a cracker in West Virginia, Shell Chemical cited a number of reasons for going to Pennsylvania - none of which were court reform or business and tax climate.

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