

[<< Back](#)

Report: WV not doing enough to evaluate tax incentives

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A new report from the Pew Center on the States is critical of West Virginia's efforts to track the effectiveness of tax subsidies intended to spur economic development.

West Virginia fell into Pew's group of states that is not doing enough to track whether economic incentives offered to companies are working or worth their value. West Virginia was one of 26 states the center said was "not meeting any of the criteria for scope or quality of evaluation."

"If policy makers do not base their decisions about tax incentives on good information, they could be spending scarce resources unwisely," a cover letter attached to the Pew report states. "On the other hand, if they do not use these incentives or use them well, they could be missing out on opportunities to create jobs and attract new businesses."

Lawmakers across the U.S. are scrambling to attract jobs growth in their home states. Tax incentives for locating major jobs providers are popular in several states, including West Virginia.

"In the wake of the Great Recession, states have to do more with less — so every dollar counts," the letter continued. "Lawmakers are looking to get their fiscal houses in order, deliver critical services more effectively and at a lower cost, and invest where the proven returns are greatest, in areas that will generate dividends over the short and long term."

The Pew Center does not attack or even address whether tax incentives to attract business are "good or bad." The report analyzes each state's effort to inform policy choices, include all major tax incentives in analysis, measure economic impact and draw clear conclusions.

"Deciding whether to make these investments, how much to spend, and which businesses should receive them involves policy choices with significant implications," said Jeff Chapman, senior researcher, Pew Center on the States. "When states forgo revenue by offering economic development tax incentives, they have less money to spend on education, transportation, health care and other critical services. Conversely, if states do not use incentives or use them well, they may be missing opportunities to create jobs and attract new businesses."

The Center gives several examples for meeting each of the four criteria it analyzed.

In Oregon, tax credits expire every six years unless extended by lawmakers. In Washington, nonpartisan analysts work with a citizen commission to analyze incentives. Louisiana reevaluated a credit and determined it wasn't as beneficial as originally believed. Connecticut leaders looked at that state's tax credits and found both low-performing and successful tax credits.

West Virginia, according to the report, failed in all of the criteria measured.

The results of the report largely echo a call by the West Virginia Center on Budget and Policy for more measurement of the fiscal impact of tax incentives in the state. Recently the WVCBP analyzed the fiscal impact of tax incentives the state has offered to companies who locate an ethane cracker in the state, as well as incentive offered to Gestamp Automocion, which announced plans this week to open a automotive part manufacturing plant at the old South Charleston stamping plant.

A fiscal note attached to the cracker deal estimated a zero net impact on the state budget, while the WVCBP calculated the tax break was worth about \$300 million.

It is not uncommon that tax incentives passed by the West Virginia Legislature to have a fiscal note that estimates the state will break even. A bill that passed this session offering a break on electricity rates to Century Aluminum also estimated a zero net impact to the state budget.

Ted Boettner, executive director of the WVCBP, has been calling for a state office that could do full analysis on the fiscal impact of tax incentives so policymakers can make informed decisions.

"I think the report shows a lot of other states are doing more than we are," Boettner said. "We rank at the bottom in terms of whether policymakers have the ability to determine if these are cost effective."

The lack of full analysis, Boettner said raises a lot of unanswered questions in the relationship between economic development and the state government.

"For example, how much has the state spent on purchasing machinery and other equipment that they lease to companies to avoid the personal property tax? How much revenue do we lose every year do to property tax abatements? What is the total value of the tax incentives given to Macy's last year? How many jobs did our business tax credits create last year? Unfortunately, we cannot answer these basic questions," Boettner said. "State and local government officials and the public deserve to know if these investments are good or bad."

Boettner emphasized that the WVCBP is not taking a stance against tax incentives. What the state needs, he said, is take a closer examination of legislative efforts to attract business.

"We just don't know if deals like these are cost-effective," Boettner said. "They might be, and we hope they are. But without the ability to get the data and do the analysis to discern that, it is difficult as a state with limited to resources to say that those are good investment. We really hope they are, but

we need to do a lot more work to figure that out."

He added that the deficiencies described in the Pew report are largely correctable.

"We can review tax incentives as part of the budget process each year, we can require state agencies to disclose company specific data on business subsidies so we can avoid wasteful spending and improve taxpayer confidence, and we can enact claw back provisions that allow us recapture our tax dollars when companies fail to meet job creation or benefit agreements," Boettner said. "The state could also join the over 40 states that have a legislative fiscal office that perform objective analysis on topics such as tax incentives. Currently, there is very little capacity at the legislature to perform objective and rigorous fiscal analysis"

State legislators have examined the possibility of adding an independent budget office. In February, Sen. Herb Synder said, according to the Associated Press, that agencies use fiscal notes to sway policy decisions by overestimating or underestimating the cost of legislation.

The cost of an independent analysis, as estimated in a fiscal note attached to the bill to create an office, was \$720,000 per year. The bill did not pass this session.

A [full PDF of the report](#) is available on the Pew Center On the States website.

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