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## George Hohmann: A closer look at big deal

By [George Hohmann](#)

CHARLESTON, W.Va. -- After details about the incentives Gestamp will receive for re-opening the stamping plant in South Charleston were released by state Commerce Secretary Keith Burdette, West Virginia Center on Budget and Policy analyst Sean O'Leary crunched the numbers to determine how much the incentives are worth.

His estimate: \$84.4 million.

Over the 13-year period covered by the agreement between Gestamp and the state, O'Leary figures Gestamp would pay \$64.5 million in taxes without incentives. But with incentives, Gestamp will pay an estimated \$9.2 million — a savings of \$55.3 million.

In addition to the state and local tax breaks, the state has agreed to extend Gestamp \$25 million in loans, a \$2.5 million forgivable loan, and \$1.5 million in worker recruiting and training benefits.

Although Gov. Earl Ray Tomblin has said Gestamp will create up to 700 jobs, the signed agreement doesn't go as far. It specifies that the company will create "no less than 400 jobs."

If Gestamp does create 700 jobs, the incentives will amount to an estimated \$120,516 per job. If the company creates 400 jobs, the incentives will amount to an estimated \$210,904 per job.

Here are a few observations I believe are worth considering:

\* It can be argued that without incentives, Gestamp would not be coming to South Charleston and the stamping plant would remain idle.

\* The \$25 million in loans the state has agreed to extend to Gestamp presumably will be paid back over time, so they are not a gift.

\* Although O'Leary estimates the incentives will save Gestamp \$12.5 million in property taxes, the company and the Kanawha County Commission will likely come to terms on a payment in lieu of taxes, or PILOT, whereby the company would agree to make payments to the county to help fund essential services like schools.

If Gestamp agrees to pay the county about 70 percent of what it would normally owe in property taxes, to cover schools, the value of the incentive package would be reduced by about \$8.7 million.

\* Gestamp has agreed to invest a minimum of \$100 million. Burdette has said this investment will be in equipment and could go as high as \$150 million.

"We've offered to finance \$25 million," Burdette said. They would self-finance the rest."

So if Gestamp puts \$100 million worth of equipment in the plant and takes the \$25 million in state loans, it will have invested \$75 million.

Based on all of the above, it appears that Gestamp will have almost as much -- and potentially lots more -- skin in the game as local and state governments.

Ted Boettner, executive director of the West Virginia Center on Budget and Policy, said, "It is imperative that policymakers and the public know whether they are getting a strong return on their investment. Unfortunately, under the current system we will not have the ability to evaluate if these state and local tax incentives given to Gestamp are cost-effective or a good use of the public purse."

The analysis is posted online at <http://blog.wvpolicy.org/>

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