

Comments on the Economic Impact of the proposed LPG Storage Facility in the Town of Reading, Schuyler County, New York

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Deborah Goldberg of Earthjustice requested that I review the Draft Supplemental Environmental Impact Statement (DSEIS) submitted by Finger Lakes LPG Storage, LLC and prepare comments on the treatment of economic impacts.

Economic impacts are specifically presented in two sections in the DSEIS:

(a) Section 3.3.5 *Economic Benefits of the Finger Lakes Project*, Pages 18-19.

“The total estimated project cost is \$40 million. It is expected that approximately 50 construction jobs and 8-10 permanent full time jobs paying approximately \$40-50,000/job will be created. In addition, the facility will result in indirect job creation, including jobs for railroad employees and trucking industry. Finger Lakes’ operations in Schuyler County and the Town of Reading will also generate real property tax revenues for the County, Town and local school district.”

(b) Section 7.0 GROWTH INDUCING ASPECTS, Page 175-176.

“In terms of economic benefits, the total estimated project cost is \$40 million. It is expected that approximately 50 construction jobs and 8-10 permanent full time jobs will be created. The permanent jobs will pay approximately \$40-50,000/job. In addition, there will be indirect job creation, including jobs for railroad employees and trucking industry. Finger Lakes has had discussions with the Schuyler County IDA (SCIDA) and the Schuyler County Partnership for Economic Development (SCOPED) regarding a Payment in Lieu of Taxes (PILOT) agreement.

All of the above results in positive growth inducing aspects, without an increase in population or reliance on outside services. Additional jobs, even during construction, will result in a demand for local hotel rooms, services to support ongoing operations and increased use of other local vendors.”

The economic assessment presented in the DSEIS is insufficient to reach a conclusion regarding the net economic impact on the region. The analysis of employment impacts is incomplete and appears to be overly optimistic. The potential negative impacts on the region’s wine and tourism industries are not sufficiently taken into account. The likelihood of a threshold level (or tipping point) of industrial development beyond which economic decline will occur in a rural or tourism area has not been considered. In an area that is dependent on scenic and nature-based industries such as winemaking and tourism, it is possible that a tipping point may occur earlier than elsewhere. Likely declines in property values and property tax revenue are not sufficiently addressed. And finally, costs to the impacted region associated with increased demand on infrastructure and emergency services are not reflected in the assessment.

Employment Impacts

The DSEIS states that 8-10 permanent full-time jobs will be created. This level of job creation must be compared to the potential loss of jobs in industries that may be adversely affected. It is possible that more jobs would be lost in winemaking and tourism related industries than the 8 to 10 jobs created by the liquefied petroleum gas (LPG) storage facility.

In addition, it is stated that during construction, about 50 jobs will be created. These are short-term jobs that will disappear when the facility is completed. It is possible that a number of these construction jobs will be taken by imported labor. If the 50, or so, construction jobs are filled by outsiders, the local employment level will not see a short-term increase. If outsiders are brought into town to take these jobs, then there will be short-term benefits to a few local businesses such as restaurants and hotels.

The DSEIS further claims that indirect job creation will occur due to additional jobs for rail workers and truck drivers. Such jobs may not go to local residents. To the extent that the LPG will be produced and/or consumed out of state, out of state trucking companies and their drivers will be hired. On page 122, the DSEIS states that the Norfolk Southern (NS) railroad will be servicing the facility and that "NS will do all the switching in and out of the facility with their locomotives and their own crews." This further suggests that few, if any, railroad jobs will go to locals.

It is well known that oil & gas exploration, development, transmission and storage are all capital intensive and not major contributors to job growth. Alan B. Krueger, as Chief Economist and Assistant Secretary for Economic Policy at the US Department of Treasury, stated, "The oil & gas industry is about ten times more capital intensive than the US economy as a whole[1]." He further explained that encouraging oil & gas industry activities is not an effective strategy for creating jobs.

Importance and Growth of Tourism and Winemaking in the Region

Tourism and the wine industry are vital to the region's economic health, yet the DSEIS does not sufficiently analyze potential impacts on these activities. The region has experienced strong growth both in numbers of wineries and in visitors. The FingerLakes.com website states,

"Seneca Lake has continuously hosted more and more wineries, from an initial two in the mid 1970s to over 40 wineries today. The deepest of the Finger Lakes, Seneca provides particularly good growing seasons, so much so that one section of the vineyards along the lake's western shore is known as "the banana belt," for its unusually lengthy regional growing season. 35 wineries have joined together to create the Seneca Wine Trail, a group that markets and promotes the region, and offers a year round schedule of premium food and wine events" [2].

The wine industry of Seneca Lake has worked diligently and successfully to create a “brand” for the area. Regional brand image is very important in the wine industry [3]. According to the Wine Institute’s list of American Viticultural Areas by State, New York has nine viticultural areas and the three in the Finger Lakes are Seneca Lake, Cayuga Lake, and Finger Lakes, with acreage in the Seneca Lake area by far the largest of the three [4]. The wine industry’s promotional efforts and on-going analysis of advertising impacts has contributed to the region’s success [5]. In 2002, the Finger Lakes Wine Country Marketing Association commissioned a detailed study of the economic impacts of the Finger Lakes wine country [6].

The region has created a desirable brand that is attractive to tourists. Tourists come to the region not only to visit wineries, but also to visit breweries, taste local cheeses, visit farmers markets, stay in charming hotels, and enjoy outdoor pursuits, in particular recreational activities on Seneca Lake. Each of these tourist activities will be threatened by excessive industrialization and the concomitant real or perceived threat of visual and noise disturbances and water, land and air contamination.

Travel expenditures have declined sharply across the United States since 2007, in response to the recession [7]. New York State has been no exception, but of the eleven major tourist destinations in New York State, The Thousand Islands, Catskills and Finger Lakes regions were the best performing by 2009 [8].

Despite declines due to the recession, research by Tourism Economics concludes that direct labor income due to tourism in the Finger Lakes increased from \$665 million in 2005 to \$780 million in 2009, and total labor income (direct, indirect and induced) increased from \$1.1 billion in 2005 to \$1.3 billion in 2009 [8,9]. Another report has estimated that the total earnings impact (direct, indirect and induced) in 2001 of travel spending in three counties of the Finger Lakes, Chemung, Schuyler and Steuben counties, amounted to \$115 million [6]. A comparison of the results from these studies shows that the tourism industry in the Finger Lakes is significant and is experiencing strong growth.

The proposed LPG storage facility may harm the two major industries that have become vital to the economic health of the region, and such potential impacts must be carefully analyzed.

A Tipping Point for Industrialization’s Impact

While it is possible that a small amount of industrial activity in a tourist area can be tolerated without negatively impacting visitation levels, there is likely to be a tipping point or threshold, above which industrial activity may severely impair tourism. There are currently gas storage facilities and other industrial activities in the Seneca Lake area, and as shown above, tourism has grown considerably. Increasing levels of industrial activity will increase the probability of negatively impacting the tranquility and attractiveness of the area. This can lead to brand

tarnishing and a decline in tourism. Oil & gas industry activities, including drilling, fracturing, compressor stations and storage are unattractive additions to rural, agricultural or tourist destinations and impacts on such regions should be carefully studied prior to allowing such activities to come into a region. Additionally, if the Finger Lakes LPG storage facility expands beyond the capacity stated in the DSEIS, it is more likely that the threshold will be reached. While the DSEIS states on Page 6, "LPG (consisting of butane or propane) will be stored in two (2) underground caverns ... One gallery or cavern will store a maximum of 1.5 million barrels of LPG (propane or butane) and the other gallery or cavern will store a maximum of 600,000 barrels of LPG (propane or butane)," there is a significant inconsistency between this statement and an SEC filing which states, "The Finger Lakes LPG expansion project, which is located in Watkins Glen, New York, is expected to convert certain of the caverns at US Salt into LPG storage with a capacity of up to 5 million barrels" [10]. The economic impact on the community and the region's tourism base must be considered on the basis of an accurate assessment of the level of industrialization to be imposed locally. If it is possible that the tipping point may be reached with only 600,000 barrels, then the winemaking and tourism industries may be devastated by a 5 million barrel facility. And it is likely that an industry such as LPG storage, involving large amounts of a highly flammable and explosive product, will cause a tipping point to be reached sooner than an industry focused on a less flammable product.

Property Values

Property values in the region may decline as the area experiences a shift in its image. Research shows that property values have declined in areas near oil & gas facilities [11]. Such research should be conducted specifically for areas near LPG storage facilities.

Regarding increased truck traffic associated with the facility, the DSEIS states on Page 124, "no more than five trucks per hour expected." And "existing traffic volumes are low with less than 100 vehicles per hour in either direction." This implies a 5% increase in traffic, consisting entirely of trucks. Families may be concerned about increased truck traffic when considering the area for relocation.

The threat of contamination from the LPG itself or from failure of the brine impoundment(s) will cause potential home purchasers to think twice before locating in the region. And the potential for explosions and accidents at or near the facility would further discourage both primary and second homeowners. The U.S. Chemical Safety and Hazard Investigation Board reported on explosions and accidents at oil & gas storage facilities, indicating that such an area would not be desirable to raise a family [12].

There is concern that properties on Lake Seneca will have their pristine views and property values destroyed by the proposed LPG storage facility. One academic study of the impact of lake views on real estate values concluded that "in addition to

square footage and lot size, view is the most significant determinant of home value[13].” And a Wall Street Journal report stated, “Academic studies and appraisers note that a pristine view, especially of a lake or ocean, can boost a home site's value by 5% to nearly 300%, depending on the scope of the view and what it contains” [14]. The view of a LPG storage facility on Lake Seneca is likely to negatively impact both property values and the brand image of the surrounding area.

Property Tax Revenue

Of course, if residential property becomes less attractive to potential buyers, not only do home values fall, but property tax revenue follows. In addition to potential declines in residential property tax revenue, the property tax revenue collected from the LPG storage facility will be at a discounted rate.

The DSEIS states that the LPG storage facility will generate real property tax revenues and that Finger Lakes LLC had discussions with Schuyler County regarding a Payment in Lieu of Taxes (PILOT) agreement. PILOT agreements are sometimes to the detriment of the community.

Instead of a PILOT agreement, however, INERGY (parent company of Finger Lakes LPG Storage LLC) requested and received a reduced property tax assessment, resulting in a reduction of \$7 million in property taxes, spread over several years [15]. In light of the potential negative economic impacts that the proposed LPG storage facility would have on residents and existing businesses, a tax break for the proposed LPG storage facility, either in the form of a PILOT agreement or a reduced assessment, is inequitable.

Direct Costs to Communities and the Region

There will be increased direct costs to communities and the region due to increased demands on infrastructure and emergency services. As indicated in the report by the U.S. Chemical Safety and Hazard Investigation Board, there are potential costs to the community due to injury and death that result from explosions and accidents at oil & gas storage facilities [12]. The DSEIS lists on page 165 the potential accidents at salt cavern LPG storage facilities, including surface and subsurface blowouts, wellhead failure, accidents involving truck transport, accidents involving rail transport, and potential general hazards associated with the handling of LPG. Each of these potential accidents would put additional strain and costs on the local emergency response teams. The DSEIS states, “In the case of a fire or accidental release, local emergency responders will be called in to assist plant personnel in controlling the effects and if necessary initiating community emergency action plans.”

Water and air contamination issues and their related costs to the region must be considered. These include costs associated with declines in the health of the

population and costs of mitigation if contamination occurs. In addition, there will be increased costs to maintain and repair infrastructure such as local roads and bridges, which will be impacted by increased truck traffic, as well as additional infrastructure costs due to heavier rail use.

In conclusion, a comprehensive assessment of the net economic impact of the proposed LPG storage facility has not been conducted. Unless and until an adequate assessment is done, it is impossible to determine whether the proposed facility will be a net gain or loss to the region.

References:

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