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Flowers Responds to Valero Refinery Closing

The following is a statement by Chip Flowers, candidate for the Democratic nomination for Delaware state treasurer, on the announced closing of the Valero refinery in Delaware City:

“As many of you know, I remain committed to my pledge to refrain from major political announcements and statements during the holiday season, as this period should be about family and loved ones, not political campaigns. However, due to the unexpected announcement of the closing of the Valero refinery and the significant loss to the state’s economy and revenue, as a candidate for state treasurer and a Delawarean, I feel it is necessary to provide comment on this unfortunate and unexpected event.

First, I express my heartfelt sympathies to the employees, families, businesses and those members of the Delaware City community that were impacted by the unexpected closing of the Valero facility. Like many Delawareans, my thoughts and prayers are with each of you during this holiday season. As we experience another reminder that our nation’s worst recession since the Great Depression has exacted a heavy toll on our state, I commend the Markell Administration and the members of the General Assembly for responding to this unfortunate event with the full resources of our state government. I am committed to assisting our policymakers through these troubled waters. We must work together in charting a sound economic course for our state.

This morning and throughout the day, in addition to speaking with some families impacted by the Valero closure, I met with senior members of our campaign team to discuss policy recommendations surrounding the closing. To this end, I have requested that my campaign, when possible, release policy considerations for lawmakers and the public to review when major events impacting our state economy occur. Traditionally, campaigns do not release policy

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recommendations, lest they be criticized by their opponents, but due to the current challenges facing our state, I am willing to assume such risks in order to put forward ideas that may help those individuals impacted by the Valero closing.

Below is a list of policy considerations proposed by our campaign relating to the Valero closing.

- **Determine the true economic impact of the Valero closing.** Although Valero has announced the closing of the refinery, it does not necessarily mean that no one will ever again operate a refinery on the Delaware City site. Prior to determining, from the state's perspective, whether it is feasible to close the plant, the true economic impact of the closing must be calculated. Though initial estimates show that the economic impact to the state is approximately \$881 million, the Markell administration and the General Assembly should consider appointing a joint task force to determine the true economic impact of the closing upon state and local revenues, including the additional cost of unemployment and medical benefits paid by the state to those workers impacted. Without this information, it is unlikely that the state can determine whether it is in the state's best interest to allow the plant to close or to acquire the plant in the short term.
- **Determine the value of the facility.** Understanding the facility is losing approximately \$1 million per day and Valero has opted to close the plant with no buyer, the state is likely faced with a seller (Valero) eager to unload an unprofitable asset. While it is tempting to assume that the facility has no value due to the lack of buyers, current economic factors and environmental issues facing the plant, the operating costs are subject to change as the economy improves. By understanding the true value of the facility, the state is better positioned to determine whether the cost of remediating a dormant asset is greater than the cost of acquiring the asset at a depressed purchase price and can then determine if it is economically sound to remediate while the plant is operational.
- **Determine whether the factors impacting the Valero refinery are short-term or long-term in nature.** Despite the current economic conditions (i.e., weakening prices for gasoline and reduced demand for certain refined products), as the U.S. economy improves the cost of gasoline will rise as refiners reach maximum output capacity. Even though the demand for fuel-efficient automobiles and products is rising, the demand for gasoline and other refined products produced by the facility could return to peak levels as the economy improves (i.e., in 2008, gasoline prices were at record levels). Additionally, if the state is better positioned to remediate the facility by having access to federal funds, this additional infusion of capital could assist a future buyer with offsetting the plant's operating costs. Furthermore, an analysis undertaken by an independent panel could determine the role that Valero's management structure, capacity output, cost of capital and other key performance measures have upon the plant's long-term viability.
- **Consider federal stimulus funds for remediation of the Valero facility.** Unlike Valero (a private company), the state may be better positioned to receive federal stimulus money for remediating the facility (even if the plant remains in operation). Using federal funds for remediation could reduce the amount of private funds necessary to operate the plant while complying with environmental mandates – thus allowing the facility to become attractive to potential buyers. This evaluation process will require significant financial analysis different from the analysis conducted by Valero before it decided to close the refinery. As shown by the ability

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of other refiners across the nation to survive the current economic climate through reduced capacity, the high cost of remediation and environmental issues related to the plant are likely the key economic components that have placed the facility in its current situation. Since the environmental work is important and necessary, additional sources of capital must be located to entice a buyer to purchase the plant and operate it for an extended period.

- **Consider all options prior to the Valero closing.** After all the necessary information is obtained, our state would be in an ideal position to determine whether the plant:
 - should close;
 - should be acquired by the state in the short term; or
 - should be acquired as part of a public-private partnership (with the state paying a portion of the environmental costs in exchange for part ownership of the facility).

While the facility may be unprofitable for Valero, it does not mean that the refinery does not have significant economic value from the state's perspective. Despite our current financial condition and the condition of the facility, prior to acceding to the closing of the plant, the economic offices of our state should determine whether the state could acquire and sell the asset for a significant profit in a three- to five-year time frame. While it may not seem plausible in light of the recent string of unsuccessful owners of the refinery, a concerted effort to rehabilitate and convert the facility could serve as the ideal model for an environmentally conscious facility in Delaware. Though the state should not be in the business of operating a refinery, it is conceivable (as evidenced in other projects throughout the nation) that the state could play a strategic and significant role in the future of plant, if it is determined that the plant retains significant economic value to our economy.

By no means is this set of policy considerations comprehensive, but I hope that these suggestions can assist our lawmakers in evaluating the future of the plant. While there are no easy solutions to the economic challenges facing our state, the closing of the Valero plant highlights the importance of economic development and we must ensure that the roles and functions of our state financial agencies and departments are transformed in a manner to focus on this important issue.

Thank you.”

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