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Tech firm wooed with \$357M tax credit

Electricity deal aims to win \$1.4B expansion of Dow Corning subsidiary.

Mark Hornbeck and Gary Heinlein / Detroit News Lansing Bureau

LANSING -- Michigianians struggling to pay their own electric bills could be stunned to learn they may have to help pick up a multimillion-dollar power tab in a few years for a highly successful silicon manufacturer in the Saginaw Valley.

Hemlock Semiconductor is in line for a state tax credit against its Michigan Business Tax bill for a dozen years starting in 2012, a break that could cost the state's general fund as much as \$357 million, according to a Senate Fiscal Agency analysis. The tax-supported general fund, the state's main checkbook, pays for universities, prisons, human services and other state programs and services.

Should the tax credit outstrip the company's business tax liability, the state would cut Hemlock a check. Midland-based Dow Corning is the controlling partner in the Hemlock venture, along with two Japanese firms.

The House and Senate have passed similar bills approving the tax break to defray power costs for Hemlock, a major user of electricity, as long as the world's leading producer of pure silicon for solar panels and computer chips locates its \$1.4 billion expansion project in Michigan.

While some question whether forking over general fund dollars to help pay a company's electric bills is wise tax policy, Gov. Jennifer Granholm and a majority of lawmakers say the project is vital to the economically challenged state.

Hemlock promises to be the hub of Michigan's own version of California's renowned Silicon Valley.

"This is a big deal, it's a real big deal," said Sen. Roger Kahn, R-Saginaw. "Hemlock Semiconductor expands opportunities for all of us here in Michigan."

The tax break is an indicator of how far states must go these days to lure coveted high-tech jobs in a down economy.

Officials for the fast-growing, high-tech company -- which employs 345 people at its sprawling plant west of Saginaw and will add 200 employees after a current \$1 billion expansion is completed -- say

they won't build the next phase in Michigan without the tax break. Without the help, the high cost of power here eliminates this state as a serious contender, officials say.

Granholm and state development officials say that proposed plant expansion would lead to 270 new plant jobs for workers making more than \$60,000 a year. It also would create 319 related jobs, not to mention 1,000-1,500 construction jobs, they say.

Liz Boyd, spokeswoman for Granholm, said this isn't the first time the state has helped a business with its energy costs.

"The difference in this case is the degree of assistance," Boyd said. "This facility represents a big building block in the governor's strategy to diversify our economy. It's unique and an opportunity that will knock just once."

Passage of the tax break wouldn't guarantee Hemlock would continue to expand here. The credit would put Michigan in the ballpark with states that have lower electricity costs. Michigan is competing with several states, including Tennessee.

Lawmakers are hustling to get this done as soon as possible, because Dow Corning officials are surveying spreadsheets containing proposals from other regions and have no final action on the tax abatement from the Michigan Legislature.

The tax credit bills are tangled up in energy reform legislation in the House, which may not be resolved until June, at the earliest.

But some are concerned about the precedent the state would be setting by helping a successful company pay its power costs -- an offer not available to other Michigan businesses.

"The generosity here is beyond anything we've ever seen before and could put a hole in the state budget," said Senate Finance Committee Chairwoman Nancy Cassis, R-Novi, one of two "no" votes on the Hemlock tax break package in the Senate.

"I don't want to go as far as to say corporate welfare, but it's on the brink," Cassis said. "What about all of the companies not as large as Hemlock Semiconductor that are the backbone of our communities that are going to employ people right here and right now?"

Dow Corning had sales of \$4.9 billion and net income of \$690 million last year, and company officials cited Hemlock Semiconductor as a major reason for growth.

Demand for the silicon Hemlock makes is growing at a rate of 30 percent to 40 percent a year, according to company officials. When the expansion is finished, the Hemlock plant will produce 19,000 metric tons of pure silicon a year, all of which has been sold. Cassis said the state, with its tax credit, would be paying \$900,000 a job for the 400-500 jobs the proposed expansion is expected to add.

In contrast, she said, tax credits granted to other companies cost about \$13,000 per job.

She said this new tax credit combined with previous and potential breaks to the company add up to about half a billion dollars.

But Rep. Kenneth Horn, R-Frankenmuth, said that doesn't take in the big picture.

He said if Michigan fails to win this expansion project, the next several build-outs for Hemlock also will go elsewhere.

In addition, the company will attract spin-off businesses that would create jobs in Michigan. Cassis' math doesn't include 1,500 construction jobs.

The Michigan Economic Development Corp., which has arranged an array of tax credits to keep all of Hemlock Semiconductor's operations in Michigan, has estimated the plant's growth would generate 1,174 new jobs for the state and \$699 million in personal income over the duration of the agreement.

"I'm not a big fan of tax credit carve-outs, but this is an unusual case," Horn said. "We see Hemlock Semiconductor as the core of a new growth industry. And this was the only way to get at their energy problem."

Mary Lou Benecke, director of government affairs for Dow Corning, said Michigan has the world's largest factory producing silicon for solar energy and has an opportunity to capture other parts of the solar industry.

Most of Hemlock Semiconductor's product is shipped to other states and countries, including Germany, where solar panels are more common.

"The upside for Michigan is that, because we have the world's largest producer of silicon for the solar industry, we can attract the rest of the supply chain in the industry," Benecke said.

She said Michigan was not in the running for the expansion until a local development agency and the governor's office put together the tax credit plan.

"It was very innovative and creative to make this option against the Michigan Business Tax," Benecke said.

Russ Harding at the Midland-based Mackinac Center for Public Policy, a free-market think tank, said the Hemlock credit is bad tax policy.

"We gave them incentives to get them here. Now they've got leverage and they say they'll leave without more incentives. Where does it stop?" Harding said. "We should deal with the fundamentals and make this state generally more attractive to business."


Barry Cargill, executive director of the Customer Choice Coalition, a group of businesses and organizations advocating for lower-cost energy, said the Hemlock legislation indicates electricity costs are out of line.

"Energy costs are so high, we have to give companies \$20-\$40 million a year to get them to locate here," Cargill said. "This is a sign that we need to deal with energy policy in this state."

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