

John Engler, Governor

Doug Rothwell, Chief Executive Officer

MEMORANDUM

DATE: June 11, 1996

TO: Michigan Economic Growth Authority

FROM: Doug Rothwell *D.R. 20211*
Chief Executive Officer
and Department Director

SUBJECT: Briefing Memo - Dow Chemical Company

COMPANY NAME:

Dow Chemical Company
2030 Dow Center
Midland, Michigan 48674

HISTORY OF COMPANY:

The Dow Chemical Company was formed nearly one hundred years ago by a young chemist and entrepreneur named Herbert Henry Dow. Dow was drawn to Midland for its vast underground brine deposits, an essential raw material for his new idea - an economical way to produce bromine by electrolysis. From this original process, many new chemicals have been developed for making medicines, food, synthetic rubber, metals, plastics, lubricants, herbicides, insecticides, and numerous other products. The company has grown to a global chemical manufacturer with annual sales approaching \$20 billion and a worldwide workforce in excess of fifty thousand people. In addition to Midland, Dow operates facilities in Southfield, Auburn Hills, Traverse City, Bay City, Hillsdale and Ludington, Michigan.

PROJECT DESCRIPTION:

Due to expanding research and development needs, Dow Chemical would like to consolidate its fabricated products research and development facility in Granville, Ohio (near Columbus), and Midland, Michigan. The fabricated products group is a discreet unit of Dow Chemical with no specific production facilities attached to either the Michigan or Ohio operation. For this reason, location of the research and development functions could be in either location. If Ohio is chosen, Midland will lose 60 jobs. If the consolidation occurs in Midland, this would create 110 new jobs in Michigan with an average weekly wage of \$1,320. While this move would assist in creating synergy between research and development and other parts of the company, the \$12 million cost of constructing a new facility to house this operation and the subsequent \$10 million in costs of relocation of equipment and personnel makes a relocation decision difficult. The Ohio location has sufficient room in its building for more workers and there would be lower relocation costs because only 40 - 50 people would need to move to Granville, Ohio.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 261 new jobs in the state by the year 2016. Total state government revenues through the year 2016, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation would be increased by \$14,611,000 (1996 dollars) due to the presence of the Dow Chemical facility.

COST ANALYSIS:

As part of the company's decision process, it has undertaken a comprehensive cost analysis between Granville, Ohio, and Midland, Michigan. Based on figures obtained from the company, the annual cost disadvantage for Dow Chemical to establish their facility in Midland, rather than Granville, is approximately \$25 million over the term of the incentive. The cost differential is primarily attributable to costs of constructing a new facility and relocation of equipment and personnel to Michigan. Michigan Jobs Commission staff have examined these numbers and believe they are a fair representation of the cost differential between Michigan and Ohio.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will be providing a 100 percent abatement of the 6 mill school property tax for a period of 12 years worth up to \$551,511. Workforce development assistance at \$2,000 per new employee for up to 110 employees with a total value of \$220,000 will also be provided. Infrastructure development funding of up to \$750,000 may be available to the local community to provide needed services to the site chosen by the company.

Local tax abatements for a period of 12 years, estimated to be worth approximately \$1,750,588 will be offered to the company.

BUT FOR:

Because of the high costs associated with constructing a new facility, and the costs of relocation of personnel, this project would not happen without the incentive offered by the MEGA tax credit. The existing Ohio facility has sufficient room to house the Midland personnel who would move as a result of the consolidation. Relocation costs of Michigan personnel would also be considerably lower because less than half as many would have to make the move to Ohio.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 100 percent for a period of 20 years for up to 110 net new employees and a business activity credit of 100 percent for a period of 20 years.