

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: March 30, 2007
TO: Michigan Economic Growth Authority
FROM: Mark Morante, Vice President
Development Finance
SUBJECT: Briefing Memo – Hemlock Semiconductor Corporation
High Technology Credit

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COMPANY NAME AND ADDRESS:

Hemlock Semiconductor Corporation
12334 Geddes Road
Hemlock, Michigan 48626

HISTORY OF COMPANY:

Hemlock Semiconductor Corporation (HSC) was formed as a wholly-owned subsidiary of Dow Corning Corporation in 1979, and in 1984 added partners to become a joint venture of Dow Corning Corporation and two of Japan's largest single-crystal wafer manufacturers: Shin-Etsu Handotai Company, Ltd. and Mitsubishi Materials Corporation. HSC is the leading U.S. supplier of polycrystalline silicon to the semiconductor industry. The company currently has 441 employees in Michigan. In November 2004, HSC received a 100 percent high technology employment tax credits for 10 years, for up to 60 net new employees. HSC also received a 100 percent high technology employment tax credit for 15 years for up to 150 net new employees in November 2005.

PROJECT DESCRIPTION:

The company is considering an expansion of their existing polycrystalline silicon manufacturing facility in Thomas Township. This expansion is intended to primarily serve the growing demand for solar power. The silicon produced will be used as a component of photovoltaic cells used to produce solar energy. The company anticipates a multiple phase expansion with total capital investment of approximately \$900 million to build and equip new manufacturing buildings. The first phase is expected to be fully operational in 2009 with an expected investment of at least \$100 million. The company expects to create a total of 270 jobs paying an average weekly wage of \$893.

BENEFIT TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation, utilizing Regional Economic Models, Inc. software, it is estimated that this facility will create a total of 589 jobs in the state by the year 2023. It is also estimated that the project would create total state government revenues through the year 2023, net of MEGA cost and adjusted for inflation, of \$45.7 million (2007 dollars) due to the location of this facility.

BUSINESS CASE:

The company has also considered locating the expansion in Carrollton, Kentucky. The manufacture of silicon consumes large amounts of electric power and water, and the company estimates that Michigan's high utility costs will add up to \$16 million in operating costs each year. Because the raw materials have to be transported by truck from Midland to the Saginaw location, there will be over \$2.8 million of transportation costs within the first five years of operations. Infrastructure will also need to be improved at the Michigan site, and that will add approximately \$4 million the first year of construction.

OTHER STATE AND LOCAL ASSISTANCE:

The County of Saginaw's Revolving Loan Fund paid the applicant's application fee of \$5,000.

Thomas Township has proposed 50 percent abatement of the company's taxes on new real property for 12 years. The estimated value of the local property tax abatement is \$21 million. The state will also abate 100 percent of the State Education Tax (SET) mills for the length of the real property tax abatement. The value of the SET abatement is worth up to of \$7 million if the community approves a 12-year local abatement.

It is also anticipated that Thomas Township and the City of Saginaw will enter into a PA 425 interlocal agreement which will allow the City of Saginaw to offer 100 percent abatement of the company's taxes on personal property for 30 years. It is estimated that this incentive could be worth up to \$242 million over the life of the abatement, which includes \$26 million of SET.

The company will be eligible for job training assistance of \$500 per worker for 400 workers, or up to \$200,000, under the Economic Development Job Training program.

Hemlock Semiconductor Corporation
Briefing Memo
March 30, 2007
Page Three

The State of Michigan and Thomas Township have offered up to \$4 million for qualifying public infrastructure improvements through the Community Development Block Grant and Michigan Transportation Economic Development Fund programs.

QUALIFYING HIGH TECHNOLOGY ACTIVITY:

The company is a qualified high-technology business, whose primary business activity is alternative energy technology, as defined in the Act.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends a 100 percent high technology employment tax credit for 15 years, for up to 270 net new employees.