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Bad Bet

City lost big on Hynix chips

By Alan Pittman

Eugene bet huge subsidies on Hynix's computer chip plant, but last week the risky bet went bust. Hynix announced that it would close, throwing at least 1,100 people out of work.

In the wake of the economic de-velopment disaster, many questions remain. Just why did they close? How much were the subsidies? Was it worth it? Is there a better way to strengthen the local economy? What follows is an attempt to wring some answers from the secretive world of corporate welfare.

Why did they close?

Hynix's official line, repeated by a host of government officials and the local media, is that the plant was obsolete with a move toward the production of more efficient, bigger chip wafers.

But an article on the closure in the *Wall Street Journal* focused on the end of trade penalties against Hynix for using Korean government subsidies to dump below-cost chips, damaging unsubsidized competitors.

WSJ reported at the top of its story that "the move comes a few weeks after" Hynix learned that tariffs the U.S., Japan and European Union had imposed might end soon. The tariffs had been imposed on Hynix production in Korea, and Hynix had used the Eugene plant to avoid the penalties, the paper and industry publications emphasized.

Without a way to get around the penalties, the 33 to 45 percent tariffs could have cost Hynix hundreds of millions of dollars. With the tariffs gone, the Eugene plant lost a big economic justification.

Hynix (formerly Hyundai) officials announce coming to Eugene in 1995.

Larger 12-inch wafers can reportedly cut per chip production costs by almost half compared to the 8-inch wafers the Eugene plant produced.

Hynix could have upgraded the Eugene plant, as it has done every three or four years with other factories in Asia. But instead of upgrading here, Hynix, like many manufacturers, chose to invest in a country with comparatively non-existent taxes, regulations, land or labor costs. That's right, China.

Hynix recently opened its new 12-inch wafer factory in Wuxi, China after investing $2.3 billion in the facility. The massive China factory now reportedly makes about half of Hynix's DRAM chips. Hynix plans to increase production to two-thirds of its total DRAM by investing another $1 billion in the plant, *Korea Times* reported in May. The Eugene plant

reportedly makes up only about 6 percent of Hynix's chip production.

Many citizens opposed the tax breaks in 1995.

Manufacturing workers in the U.S. earn an average of $21.11 per hour. In China they earn an average of only 64 cents an hour, according to a 2005 study for the U.S. Bureau of Labor Statistics. The study also notes that due to state subsidies, no public schools and other social services and outright corruption, Chinese factories often pay almost no taxes. Land is often seized by the dictatorship and given free to the factory and China has almost no enforced labor, health and environmental regulations, according to the BLS study and press reports.

"To paraphrase Paul Revere: The Chinese chip-makers are coming; the Chinese chip-makers are coming," *Site Selection* magazine recently wrote of the "furious" growth in low-cost Chinese chip plants.

How much were the subsidies?

The total subsidies state and local governments gave to Hynix have never been publicly accounted for.

The company got $66 million in property tax breaks under the controversial enterprise zone program. It got $9 million in tax credits under a controversial program giving credits for pollution control equipment already required by law. Lane County contributed to the factory with about $2 million in roadwork. The state gave Hynix another $2 million in tax credits and $1 million in worker training.

EWEB promised it wouldn't have other ratepayers subsidize the huge power use by the factory. But the public utility revealed in 2006 that it had for five years sold Hynix below-cost power that it could have sold on the market or not bought to keep utility rates down for everyone else.

The Hynix subsidy from EWEB cost other ratepayers an estimated $7 million in 2005, according to a staff memo. EWEB did not release figures on the total loss to ratepayers. But if the loss rate was steady, $7 million times five years is $35 million.

EWEB staff claimed the subsidy was an inadvertent mistake and increased Hynix's rates by $3 million a year. But that still constituted a $4 million loss per year for other ratepayers. At those rates the total EWEB ratepayer subsidy to Hynix could exceed $43 million.

The local sewage treatment plant also subsidized sewer fees for the corporation's river of waste at ratepayer expense. The Metropolitan Wastewater Management Commission gave Hynix a $6 million break on its sewage systems development charges compared to what residential development would pay.

Add this all up and you get a total of roughly $130 million in subsidies, about $118,000 per job. But that may just be the tip of the iceberg.

Less tangible costs include all the hours city and state staff poured into lobbying for the company and securing permits to destroy wetlands. At one point the city of Eugene staffed a "dream team" to serve the corporation and held weekly meetings with dozens of staffers and legal work on overtime, according to city documents.

The state also worked hard for Hynix. When Hynix didn't like paying fees for a local toxics reporting law, state economic development officials lobbied for and passed a bill in the Legislature to lower Hynix fees at the expense of smaller chemical users. When Hynix's tax breaks were threatened by the loss of a record-breaking lawsuit for employment discrimination, state officials lobbied hard to pass a bill to allow tax breaks to continue for corporate lawbreakers.

Other costs include millions of dollars of roadwork to serve an edge location with vast surface parking lots. When Hynix (formerly named Hyundai) came, city public works officials said they would build the West Eugene Parkway and do $38 million of work on Beltline to serve the corporation. The state wasted $15 million on the WEP before the federal government canceled it due to wetlands concerns.

The state recently made PeaceHealth pay $10 million toward road capacity for its new RiverBend project. Hynix paid nothing.

Hynix also spurred costly local population growth. Hynix and its boosters claimed that it was hiring most people locally. But there was never any independent verification or audit of the local hiring and salary claims the corporation made.

State economist Art Ayre predicted that few of the Hynix jobs would actually go to local people. "A new job created in the state would reasonably be expected to add to the state population by 2.3 people," Ayre said five years ago.

Timothy Bartik, a leading development researcher at the Upjohn Institute, reached a similar conclusion in his study finding that only one in five such jobs go to locals.

Ayre predicted with Hynix spurring more immigration, local unemployment wouldn't decrease. "I don't think job creation is a likely effort to reduce unemployment," he said. Indeed, unemployment in Eugene is now slightly higher than just before Hynix came.

At Ayre's 2.3 growth rate, Hynix would have added about 1,000 new houses to the local area. Each house costs a community about $27,000 more in infrastructure costs for schools, roads, sewers, fire houses, etc., than it pays in system development charges, according to a study by local planning consultant Eben Fodor. That's a $27 million subsidy for growth spurred by Hynix.

With Hynix's workforce now about to be unemployed, the state is scrambling to provide unemployment benefits, counseling, retraining and other social welfare services to those workers. The state hasn't provided any accounting, but if costs average $10,000 per laid-off worker, Hynix's closure could cost taxpayers about $11 million in such social services.

At other closed chip plants, taxpayers have also had to foot the Superfund cleanup costs for the huge amounts of chemicals stored on site.

Hynix paid about $3.5 million in systems development charges for its plant. But those SDCs also reimburse only a fraction of the real cost of growth. The SDCs did not pay anything for schools or fire protection, for example.

Many growth costs aren't paid directly. Instead they're paid through reduced services, traffic congestion and other costs to existing residents. Recognizing this and the tax impact of growth, surveys have repeatedly shown that Eugene citizens oppose growth.

There's also evidence that Hynix's big tax breaks, not offered to other people creating equally valuable jobs locally, created a taxpayer backlash. Lane County was a leading defender of the corporate breaks against efforts to reduce them to help fund schools and other services. During the same decade, the county lost a dozen tax votes, with many asking why they should pay taxes if Hynix was getting so much for free.

Was it worth it?

Defenders of the Hynix subsidies include the local Metro Partnership business recruiting association and *The Register-Guard*. The *R-G* has a member of its owning Baker family on the Partnership board and itself received a half-million dollars in tax breaks for a luxury apartment building downtown. Without offering evidence, the subsidy supporters take it on faith that the tax breaks cost nothing because without them Hynix wouldn't have come.

But tax break critics argue that's not reality. They say tax breaks play only a small part in location decisions based mostly on labor, transportation, materials, utilities, market access, quality of life and other business factors.

"The real issues in site location — infrastructure, quality workforce, and quality of life — need the investments that are lost when funds go to tax breaks," Chuck Sheketoff, director of the Oregon Center for Public Policy wrote on a BlueOregon.com blog post in 2005.

Jack Roberts, head of the Metro Partnership and a former Republican state labor commissioner who opposed increasing the minimum wage, shot back with a post arguing Hynix wouldn't have come without the break and calling Sheketoff "snide."

A study by the very state agency that recruited Hynix supports Sheketoff. The extensive 1993 review of tax break programs found "little evidence that they are effective in promoting economic development."

Roberts argues that tax breaks can make a difference when other factors are equal.

But Greg LeRoy, director of Good Jobs First and author of two books on tax breaks, said that's extremely rare and almost every time "the subsidies are just wasted windfalls, paying companies to do what they would have done anyway."

LeRoy points to a 2003 statistical study by a University of Iowa professor estimating that the breaks make a difference in only 4 percent of location decisions.

"Jack Roberts doesn't have a clue," said Ed Whitelaw, a UO professor and one of the Northwest's leading economists in 2003 after Roberts defended $12 million in tax breaks for Sony despite the plant's closure. Study after study has shown that corporate incentives do little to improve local economies, according to Whitelaw. "I can give you chapter and verse."

Hynix itself did not emphasize tax breaks as its reason for picking Eugene back in 1995. “It was not the most important element,” Hynix’s U.S. President Young Kim told the *R-G*, instead emphasizing transportation and other business factors. The *R-G* also reported that other cities had offered Hynix much larger subsidies, but Hynix had still chosen Eugene.

Even assuming the subsidies were crucial, critics have argued that the question remains: Would Hynix have come with half of them, two-thirds, three-quarters?

Critics also argued that if tax breaks are indeed so important, why aren’t they offered to everyone equally? Many companies and individuals that created higher paying jobs in the last decade that didn’t end in layoffs have received nothing.

Roberts and others argue that even with the tax breaks, Hynix ended up paying more in taxes and payroll than it received in government services. But without detailed accounting, critics argue almost any company, or employed individual could make a similar argument.

Local taxes aren’t fees for service, but are based on ability to pay. Hynix estimated that it would make $273 million in profits a year from its Eugene chip plant, according to state documents.

Hynix promised up to 3,000 jobs for its plant and expansions. In 2001 the company laid off most of its workers for six months. Employment topped out at a third of the predicted 3,000 before all the jobs were eliminated.

Critics of the Hynix subsidies repeatedly warned of the uncertainty of jobs in the wildly boom and bust chip industry as early as 1995. That year, the *WSJ* reported industry predictions that chip production could move to China in 10 to 20 years.

Is there a better way?

Sheketoff, LeRoy, Whitelaw and other critics of corporate welfare have long argued that the subsidy money is better spent on government services and education that attract jobs with high quality of life and a high quality workforce.

The UO employs 4,000 people with an annual payroll of almost a quarter billion dollars and attracts students spending $170 million a year off campus. A UO study estimates a $20 boost to the economy for every $1 in taxpayer subsidy.

The 4J School District employs 2,000 people in similar stable, well-paying jobs with great benefits. LCC also employs about 2,000.

College graduates earn an estimated $1 million more than high school graduates over a lifetime, studies have shown. High school graduates earn 30 percent more than dropouts and are half as likely to be unemployed.

But economic development officials eager to give out corporate tax breaks rarely prioritize education as a local economic development strategy. With two-thirds of Oregon corporations paying only the minimum $10 in corporate taxes due to rampant breaks and loopholes, Oregon now ranks 39th in the nation in per capita spending on education.

Corporate welfare critics also argue economic development officials should focus less on big corporations and more on small local companies. Such small companies keep profits local, are less likely to close all at once and are less likely to move for cheaper labor. Federal data show that more than half of the jobs created in America are from small businesses.

The Eugene City Council once passed a per-job cap on Hynix’s future tax breaks, but the County Commission vetoed the measure. LeRoy argues that any tax breaks should include powerful clawback provisions that would recover the subsidy in the event of layoffs. Tax breaks should be clearly justified by comprehensive and independent cost-benefit analysis and disclosed, debated and voted on in public, he says.

That’s what happened in Fort Collins, Colo., in 1995. Hynix asked the city for subsidies. Unlike Eugene, Fort Collins debated and evaluated possible subsidies in public and the City Council voted to reject the Hynix benefits as not worth the unpaid growth costs. Fort Collins lost Hynix to Eugene. But the similar-sized Colorado town now appears better off. According to the U.S. Census, poverty is higher in Eugene and Fort Collins boasts a 26 percent higher average family income than Eugene.

Healthier without Hynix

Is the loss of the semiconductor plant a gain for the environment?

By Camilla Mortensen

The loss of jobs and hit to Lane County's economy are huge problems for the people whose livelihoods are affected by Hynix's impending shutdown, but there may be environmental upsides to the computer memory chip manufacturer's pulling out of Eugene, from less road congestion to fewer toxic chemicals entering into our fragile wetlands ecosystem — as long as Hynix cleans up after itself.

Hynix used a river of toxic chemicals to make its chips and the future disposition of the chemicals still on site is the current toxic question. Hynix reported using 9.2 million pounds of toxic chemicals last year under the city's Toxics Right-to-Know law. That's almost half the total toxic chemicals reported used in Eugene in 2007 from all facilities. At the end of the year, Hynix reported 258,174 lbs of toxic chemicals stored on site.

What will happen to all those chemicals and their storage facilities when Hynix finally shuts its doors? There has been talk of retooling the plant for other purposes, but no matter what happens, Hynix's chemicals must be dealt with.

Faye Forhan of the Eugene Fire Marshall's office says that when the facility closes permanently, the dismantling will be conducted under the requirements of the International Fire Code. Hynix will have to "submit a facility closure plan specifically explaining how they're going to terminate the use of the chemicals," says Forhan. The chemicals must be "transported, disposed or reused in a manner that eliminates the need for further maintenance and any threat to public health and safety," according to the International Fire Code.

"The facility at this point is just saying 'we're stopping production'" says Forhan. "When the facility closes, they'll have to submit a plan." The Fire Code says that the plan must be submitted 30 days before permanent closure.

It's unclear if the city will thoroughly inspect the plant to insure proper chemical disposal or what it will do if Hynix officials leave for Korea without cleaning up. The city apparently has not required Hynix to post a cleanup bond.

Other semiconductor plants in the past such as Fairchild Semiconductor in California did not conduct adequate cleanup of its toxic chemicals and became Superfund cleanup sites. In fact California's Silicon Valley, once silicon-chip central, became the home to the most Superfund sites on the EPA's Priorities List in the 1980s.

When Hynix (then Hyundai) built in the West Eugene Enterprise Zone, the construction of the corporation filled in about 10.4 acres of wetlands. Regulations required Hynix to restore or enhance about twice as many acres as it destroyed. But according to the EPA, it can take 20 years for a restored wetland to even come close to its natural state, though the city only requires monitoring for five years.

According to the Hynix-Eugene website, "Black tail deer, rabbit [sic], nutria and several species of birds can be seen daily on and around the Hynix campus." Nutria are a non-native species and actually quite damaging to Eugene's fragile wetlands, and local environmentalists are less concerned with protecting the local rabbits and more focused on the endangered species that have habitat close to the soon-defunct Hynix plant.

When Hynix applied to increase its toxic output last year, many Eugeneans were concerned about its effect on human health as well as on the nearby endangered plant and animal species.

Hynix, according to the Eugene Toxics Right-to-Know database, used 721,754 pounds of hydrofluoric acid in 2007, and just last year received a permit to release 5 tons of the chemical as hydrogen fluoride into the air.

Hydrofluoric acid is listed by Centers for Disease Control and Prevention as a possible agent for use in chemical terrorism. Acute exposure can cause death from cardiac or respiratory failure, according to the EPA. Chronic inhalation has resulted in "irritation and congestion of the nose, throat and bronchi at low levels."

The area around Hynix is the primary home of Fender's blue butterfly, an endangered species that uses Kincaid's lupine as its food source. It is also home to endangered Bradshaw's *lomatium* and the Willamette daisy. When Hynix applied for its permit to increase its release of acid, UO chemistry professor Paul Engelking pointed out that while studies had been done on the effects of hydrogen fluoride on human health, its effects upon plants had not been adequately studied. Despite hundreds of public comments against the increased release, Lane Regional Air Regulation Authority granted the permit.

Hynix flushed as much sewage as a small town. Ron Morrow of the Metropolitan Wastewater Management Commission says that Hynix pre-treated its wastewater on site and that Hynix "underwent extensive testing" and did "extremely well at meeting requirements" for its wastewater. Hynix put out "just under two million gallons of wastewater a day" and never failed any of its yearly treatability studies, says Morrow. After pre-treatment, the wastewater flowed into the same treatment system as the rest of Eugene's wastewater and then into the Willamette River.

Eugene Water and Electric Board staffer Ron Mitchell says that Hynix was Eugene's largest consumer of water and the second largest consumer of electricity (second only to Weyerhauser). Hynix used enough electricity to power 13,700 residential customers, says Mitchell.

Now that Hynix is leaving, its energy and water use will no longer be an issue. Nor will Eugene's streets and highways be under as much demand by hundreds of Hynix commuters, which could have an impact on current west Eugene transportation corridor planning if new employment is not created at the facility. But the largest unresolved environmental issue could be the toxic chemicals that were used in years of memory chip manufacturing.

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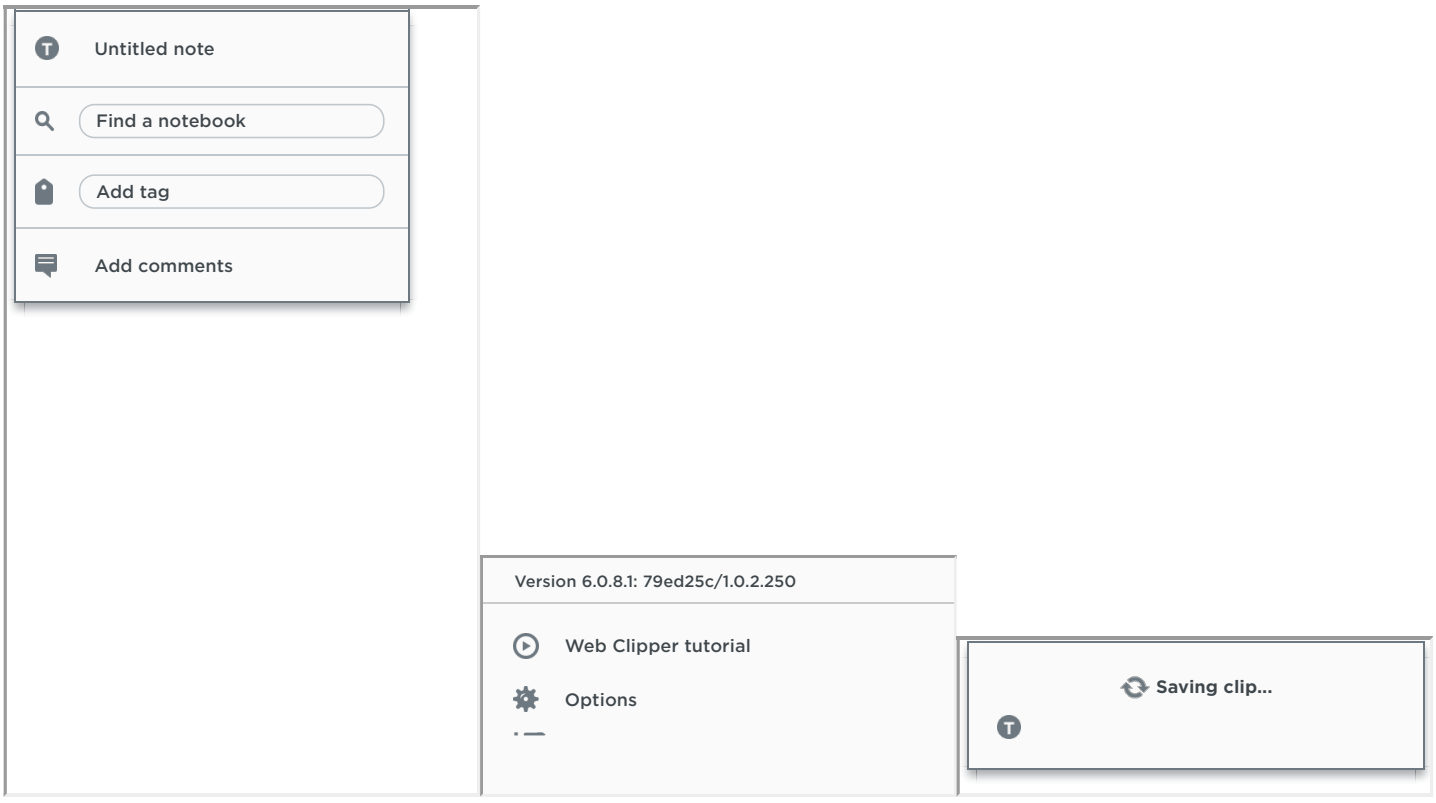

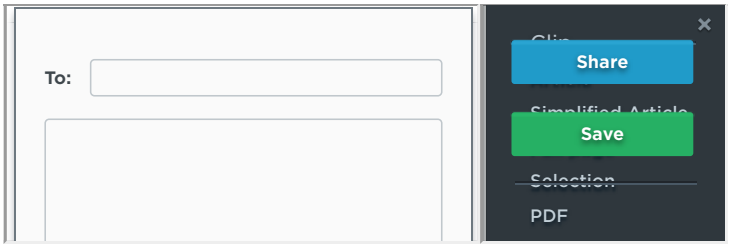
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