Reward Potential Big for Mill, but Risks Exist

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LITTLE ROCK, Ark. (AP) — The planned $1.1 billion steel mill in Osceola carries the promise of a long-term economic boost for northeast Arkansas, but investors — including the state — face a number of risks.

Legislators must decide whether it's worth borrowing $125 million, then giving $75 million of it in grants to Big River Steel LLC. Under Gov. Mike Beebe's enticements, Arkansas would loan the project $50 million but get back only $45 million if the money is repaid on time.

The House and Senate are also being asked to approve the extension of a state tax income tax break offered to businesses that buy recycling equipment. The Big River Steel mill intends to use scrap steel as a raw material and could qualify for a tax credit potentially worth more than $200 million.

In return, the state stands to gain more than 500 permanent jobs paying north of $75,000 per year, plus 2,000 construction jobs while the plant is being built. All would broaden the region's tax base.

"We recognize this is an enormous investment we are asking the people of Arkansas to make," Arkansas Economic Development Director Grant Tennille told legislators last week. "This is not without risk, but we've done our due diligence (and worked) to mitigate risk."

While the project is not guaranteed to be an unqualified success, it does have a solid market analysis behind it, said J. French Hill, the chairman and CEO of Delta Trust Investments Inc. Delta Trust recommended Big River Steel to the Arkansas Teacher Retirement System, which has agreed to put $60 million on the line.

In an appearance before legislators, Hill concluded the business plan developed by John D. Correnti and Global Principal Partners has identified potential buyers for high-end steel for the automobiles, electric motors and transformers for which supply is scarce. The plant is also to supply steel for pipe used in the oil and gas industry.

But, while Correnti's team has developed 15 similar mills, "more ... than any other team in the world over the past 25 years," Delta Trust identified six main risks:

— The plant would use scrap steel for raw materials but costs will rise if the price of scrap steel rises.

— The mill could be subject to long periods of operating at below capacity.

— Correnti's target market of users of high-end steel could find other producers or the mill could take longer than planned to start churning out products of a quality that meet standards set by high-end users.

— Construction costs could come in over budget, leaving equity investors stuck with the bill. (Each has promised to have an extra 10 percent available to cover overruns.)

— Unforeseen environmental problems could develop at the site.

— Since the mill is a stand-alone company, it would rely only on insurance if there is a business interruption. There is no other Big River Steel plant to fill orders if something happens in Osceola.

State money won't be used until investor money is in place — $300 million from Correnti's group and $700 million from other investors. Taxpayer money won't be spent until the venture has spent $250 million on construction, which should reduce any chance that the state could lose its investment and not get a steel mill from the deal.

"If we thought so, we would not sign off on the project," Arkansas Department of Finance and Administration Director Richard Weiss said.

Hill told members of the Senate the mill will make a type of steel for automobile exteriors that's wider than types currently available. The steel is thin, but strong, and as federal standards for auto mileage and pollution control become stiffer, there will be built-in demand for light, tough steel.

The Burlington Northern and Santa Fe Railway is contributing $25 million to ensure rail lines lead right to the plant. Delta Trust's study says the railroads are also "making capital available" to assist in rail-related site development. Big River would also get a critical tax break on utilities — no sales tax on electricity or natural gas, which will supply the tremendous amount of energy needed to fire the plant. And Correnti touts the plant as being the most energy-efficient of its kind.

The assessment by Delta Trust notes the state income tax credit on recycling equipment — if extended by the Legislature — could save Big River Steel as much as $240 million.

"It's an income tax credit so they use it against income tax that they would otherwise pay. It's 30 percent of their investment, so if they buy a $100,000 recycling machine, they take 30 percent off their income taxes, $30,000," said Tim Leathers, deputy director of the Department of Finance and Administration.

But the governor has said that nothing will happen if legislators don't agree to sell $125 million worth of bonds under provisions of Amendment 82, which was approved by voters in 2004 after Arkansas lost a Toyota truck plant to Texas. The amendment allows the Legislature to approve borrowing money in order to fund a "superproject," a big employer that will invest at least $500 million and employ at least 500 people.

Once a bill is introduced to bring the bonds to a vote, the House and Senate have 20 working days to decide whether the state should offer incentives to attract jobs.

Beebe said not everyone agrees with giving businesses incentives but says it's necessary.

"That's the single reason why we win so many of these (economic project) wars," Beebe said. "You're not living in the real world. Other states are doing it."

Beebe has told legislators he expects them to go through the proposal in detail and that if they don't approve borrowing the $125 million, the plant won't be built in Arkansas.

Beebe said that would be unfortunate, as Mississippi County "is a part of the state that needs a lot of help."