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MANUFACTURING

What three contenders are offering for Samsung's \$17B chip plant

Huge incentives on the line — but decision could come down to workforce, weather

By James Fink, Corina Vanek, Kathryn Hardison — American City Business Journals
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Samsung's potential \$17 billion chipmaking plant will bring historic investment to whichever city is chosen by the technology giant.

Three U.S. markets — Phoenix, Austin and Western New York — were identified as potential landing spots for its latest production facility in January, when plans were first reported. Korea, where Samsung Electronics Co. is headquartered, is also being considered.

At stake: one of the largest foreign investments in U.S. history, with the potential of at least 1,800 jobs being created, according to documents filed by Samsung in January in the Austin area. Samsung is expected to make its decision by this summer — and the company could even buy land in Arizona at an auction scheduled for late April — with construction possibly starting later this year and the plant becoming operational by mid-2023.

Samsung reportedly wants to build smaller, three-nanometer chips at its next plant — a new product line for the company — which could be used in electronics, aviation and defense applications. Bloomberg reported in January that this investment could win the company more American clients and better compete with industry leader Taiwan Semiconductor Manufacturing Co., otherwise known as TSMC.

And while a new Samsung plant would not do anything to address the current global chip shortage, it aligns with a push by President Joe Biden's administration to boost domestic semiconductor production.

Samsung employs 20,000 in the United States in 46 states. It already has a massive factory in Austin where two fabrication facilities, or fabs, produce semiconductors and employ roughly 3,000, plus thousands of contractors. The company does not have any existing facilities in upstate New York, but there are two Samsung Electronics America operations in the New York City area. Samsung does not have any existing facilities in Arizona.

Here's how the investment would break down. Roughly \$11.4 billion would go toward equipment and machinery, while construction of the 7 million-square-foot facility would cost about \$5.6 billion, according to an incentives application in Texas.

Each of the three states has its own ways of courting major economic development deals, and each has its own pros and cons that could drive Samsung to their market. Samsung identified the following criteria as important: access to talent, existing semiconductor manufacturing ecosystem, speed to market and strong public-private partnerships.

“The single-most important thing inside site selection is understanding the workforce,” said Tom Stringer, New York-based managing director and site selection and incentives service leader for BDO USA LLP. “Everything else – buildings, real estate, taxes, incentives – is a cost to obtain that talent. It’s a balancing act of cost and availability and how you get that workforce. That automatically doesn’t mean, by any stretch of the imagination, that the most incentives wins. In fact, that is very rare.”

Samsung executives continue to be tight-lipped about the process.

"While we do not have specific plans to build a new fab at this time, we are constantly exploring various opportunities for business development so that we are ready when such opportunities arise. No decision has been made at this time," said Michele Glaze, director of communications at Samsung Austin Semiconductor.

Ahead of this multibillion-dollar decision, as well as the awarding of any large incentives packages, the Business Journals in Phoenix, Austin and Buffalo researched the advantages and disadvantages of the sites considered frontrunners for Samsung and asked experts to weigh in on the search.

Arizona

Sources in Arizona have pointed to a 1,100-acre site in Goodyear, a suburb west of Phoenix, and a 915-acre site in Queen Creek, a suburb southeast of Phoenix, as the likely spots for Samsung in the area. The sites, which are managed by the Arizona State Land Department, are both scheduled to be sold at auction April 21. The Goodyear site is priced with a minimum bid of \$127.7 million, and the Queen Creek site is priced at a minimum bid of \$86.13 million.

Both sites were recently rezoned to allow employment uses.

When courting Nike for a manufacturing plant that never opened but was expected to create 500 jobs, the city of Goodyear

offered a reimbursement of \$3,923 per qualified employee. If the same formula were to apply, Samsung's 1,800-employee headcount could qualify for \$7.06 million in job-creation incentives from the city.

Goodyear also offered to waive 75% of non-expedited plan review and permit fees and 100% of expedited portion of plan review fees for Nike.

The city also has designated the site a foreign trade zone, which provides a property tax benefit by reducing the real and personal property tax assessment ratio to 5% from 18%.

The site in Queen Creek was also designated a foreign trade zone, with the same property tax benefits as the Goodyear site.

Municipal incentives would be in addition to incentives from the state of Arizona. The Arizona Commerce Authority, which oversees the state's business incentives, has a variety of credits and funds available to help close deals.

Arizona's quality jobs tax credit offers up to \$9,000 in income or premium tax credits over a three-year period for each quality new job created. In Samsung's case, the company would be eligible for \$16.2 million by creating 1,800 jobs. The Arizona qualified facilities tax credit is generally the lesser of 10% of the qualifying capital investment at the facility or \$20,000 per net new full-time job. The lesser of those two, \$20,000 per full-time job Samsung would create, would yield \$36 million.

The Arizona Competes Fund, a discretionary, deal-closing fund from the ACA, has more flexibility for size. To date, the largest grant from the Arizona Competes Fund has been \$5 million, but Samsung's capital investment would be exponentially larger than any of the previous grant recipients. Arizona Competes Fund grant information for TSMC, which is planning a \$35 billion investment in Phoenix, has not yet been made public.

"Arizona as a whole has a great business climate," said Jay Garner, president and founder of Garner Economics and

founding member of the Site Selectors Guild. He is not involved in the Samsung deal.

The Phoenix area has seen semiconductor manufacturing grow exponentially in the past year. TSMC bought 1,128 acres in North Phoenix in December and plans to build a plant that sources have confirmed will be worth about \$35 billion. Intel Corp., which already had a large presence in the area, announced plans to invest \$20 billion to increase manufacturing capacity at its campus in Chandler, a suburb east of Phoenix.

Garner said the clustering of semiconductor manufacturing in Phoenix could be both a benefit and deterrent to Samsung, depending how close the company wants to be to competitors.

“I’ve worked with companies that say, ‘I do not want to work in the same community as my competitors,’ because they might be competing for labor or they worry about trade secrets if an employee leaves, but some say it is to their benefit to go where an industry cluster already exists,” Garner said, pointing to places like Silicon Valley where technology companies choose to cluster.

Texas and Arizona would be the two strongest competitors, Garner said, in terms of workforce availability and cost. A company such as Samsung will closely investigate the ramifications of the winter storm that knocked out power in much of Texas recently, but also may conclude that such a storm is unlikely to happen again, he said.

“At the end of the day, Arizona and Phoenix are in a competitive and strong position,” he said.

Texas

The buzz from earlier this year about Austin potentially landing the Samsung plant has turned to radio silence in recent months.

Neither Samsung's name nor any of the known project codenames for the chip plant — Silicon Silver, Project Spring

and Project Ajax — have appeared on any local government agendas.

Manufacturing experts have speculated that the February winter storm that shut down operations at the Samsung Austin Semiconductor LLC factory for more than a month could weigh heavily on executives. The decision by Austin Energy to cut Samsung's power during the storm could result in hundreds of millions of dollars in losses for the company, experts have said.

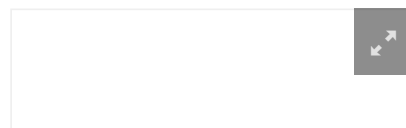
The Wall Street Journal reported in January that Samsung also may be looking in Taylor — a quiet suburb in Williamson County, northeast of Austin — based on Taylor City Council documents that referenced “Project Spring,” a codename also used in Phoenix.

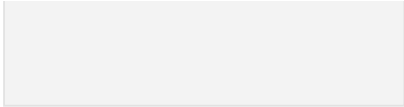
Officials with the city of Taylor, Taylor Chamber of Commerce and Taylor Economic Development Corp. declined to comment or did not respond to requests for comment.

Taylor Independent School District officials said in an April 8 email that there had been no conversations with Samsung about potential incentives and did not respond to inquiries about whether the company was looking in the area. If Samsung does select rural Taylor, there is an abundance of land for the company.

In Austin, Samsung Austin Semiconductor purchased more than 250 acres last year surrounding its current campus, which company officials have said is for strategic planning purposes.

Samsung has been producing semiconductors in Austin since 1997 and has expanded its facility several times since then. Over the years, it has received or been approved for roughly \$380 million in economic incentives, between local tax breaks and grants from the state, according to Austin Business Journal Research — more incentives than any other company in the Austin area.





Samsung Austin Semiconductor has been producing semiconductors for more than 20 years. Its campus now spans 2.45 million square feet.

SAMSUNG AUSTIN SEMICONDUCTOR LLC

“Austin has a proven track record of nearly 25 years of success for Samsung. They’ve worked through economic development agreements with the city, they’ve grown the business, they’ve worked with the local schools [and] they’ve been good community partners,” said Laura Huffman, president and CEO of the Greater Austin Chamber of Commerce. “That’s a long time to have a successful working relationship in a community when you’re thinking about an investment at the magnitude that they’re considering.”

It’s clear from a Chapter 313 application filed with Manor Independent School District in January that incentives play a major role in Samsung's analysis, especially because of Texas' relatively high property taxes.

Overall, the company could be searching for an incentives package valued at more than \$1 billion, including property tax breaks from the city of Austin, Travis County and Manor ISD.

The same requests could be in the cards for Taylor and Williamson County officials, if Samsung pursues that area. Money from the state’s deal-closing Texas Enterprise Fund would also likely come into play.

No negotiations have been made public with any of these governmental bodies. The details of any potential incentives could easily change.

Stringer said Samsung’s long history in Central Texas is a positive for the market.

“Having in-market experience at existing facilities allows companies making these types of investments to have a degree of certainty,” he said. “They know what they’re getting into, so to speak, and achieving certainty in an investment decision is extremely important.”

But so does Arizona, Stringer said: “If you look at what Arizona has done in the last more than half decade now, in terms of attracting new industries and making strategic investments ... they’ve proved it, if you will, and their recent successes over the last six-plus years has really been pretty astounding.”

Ed Latson, executive director of Austin Regional Manufacturers Association, previously told ABJ that Samsung’s potential investment is critical for Austin’s semiconductor industry, which Samsung has shaped for more than two decades.

“This reinvestment would position us to be at the cutting-edge of chipmaking technology for the next 25 years,” Latson said. “And if they don’t invest, then we’ll slowly become more obsolete.”

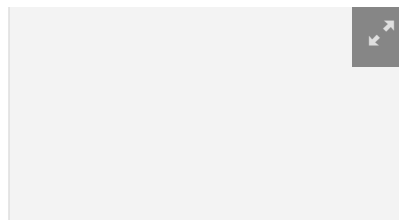
New York

One of the largest state and local incentive packages is being crafted to help court Samsung’s proposed \$17 billion semiconductor production facility in Genesee County, east of Buffalo.

The package is expected to exceed \$900 million with tax breaks, job creation grants, construction of utilities and long-term, locked-in discounted rates for items such as low-cost hydropower and water.

The 1,250-acre Science and Technology Advanced Manufacturing Park on Route 63 in the Town of Alabama is one of the sites considered by Samsung.

“New York is putting its best foot forward,” said Robert Duffy, Greater Rochester Chamber of Commerce president and CEO and former lieutenant governor. “It is clear they are in this to win this.”



A view of the STAMP site in Genesee County, between Buffalo and Rochester.

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The incentives package is 20% more than the \$750 million New York provided to Tesla for its South Buffalo solar panel production plant. At 7 million square feet, the proposed Samsung plant would be seven times larger than the Tesla facility.

The regional incentives package includes about \$100 million in grants and loans from Empire State Development and pledged grants for job creations that will be negotiated to ensure that thresholds are met. A big part of the package is long-term, locked rates for power and water. A chip fab can use up to 10 million gallons of water daily, depending on its production schedule.

“Few states offer as much, in terms of incentives, as New York,” said Gregg Wassmansdorf, Toronto-based Newmark Global Corporate Services senior managing director.

Samsung choosing Genesee County “would be one of the biggest economic development wins in Western New York’s history,” Duffy said. “It would be a great shot for the region’s morale.”

Besides the incentives, Sen. Charles Schumer, the Senate majority leader, has been lobbying Samsung’s executives on behalf of the STAMP site. Schumer’s role should not be underestimated, Duffy said.

“When you have one of the most powerful people in Washington lobbying on your behalf, that can be a real ace in the hole that

Austin and Phoenix doesn't have," Duffy said.

Since last summer, Schumer has been talking with Samsung officials about the STAMP site. Those talks continue.

"The STAMP campus is specifically designed for large scale (chip) fabs and provides maximum flexibility in layout and infrastructure connections," Schumer said.

While Austin and Phoenix both have well-established semiconductor and chip fab ecosystems in place, the Genesee County site would be the first major investment within those industries in Western New York. The Albany area already has an established semiconductor ecosystem.

"Sometimes companies like to be development pioneers where they can chart their own course," Wassmansdorf said.

Genesee County's key selling points, according to Stringer, hinges on utility and infrastructure costs.

"New York's advantages are going to be extremely low cost power – probably the cheapest of the group – and New York will come with by far the largest incentive package," Stringer said.

Or, as Wassmansdorf said, the STAMP site "is not an outlier."

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