

Mitt Romney no stranger to tax breaks, subsidies

Bain Capital profited from a steel company that got them, and he used them to attract business when he governed Massachusetts

By Matea Gold, Melanie Mason and Tom Hamburger

January 12, 2012, 6:14 p.m.

Reporting from Washington—

As Mitt Romney defends his record running a private equity firm, he frequently points to a fast-growing Indiana steel company, financed in part by Bain Capital, that now employs 6,000 workers.

What Romney doesn't mention is that Steel Dynamics also received generous tax breaks and other subsidies provided by the state of Indiana and the residents of DeKalb County, where the company's first mill was built.

The story of Bain and Steel Dynamics illustrates how Romney, during his business career, made avid use of public-private partnerships, something that many conservatives consider to be "corporate welfare." It is a commitment that carried over into his term as governor of Massachusetts, when he offered similar incentives to lure businesses to his state.

Yet as he seeks the GOP presidential nomination, he emphasizes government's adverse effects on economic growth.

"Fundamentally, what happens in America that creates jobs is not government. It has its role. But by and large, it gets in the way of creating jobs," he said during a debate Saturday sponsored by ABC News and Yahoo.

Bain Capital began looking at investing in the steel start-up in late 1993. At the time, Steel Dynamics was weighing where to locate its first plant, based in part on which

region offered the best tax incentives. In June 1994, Bain put \$18.2 million into Steel Dynamics, making it the largest domestic equity holder. It sold its stake five years later for \$104 million, a return of more than \$85 million.

As Bain made its investment, the state and county pledged \$37 million in subsidies and grants for the \$385-million plant project. The county also levied a new income tax to finance infrastructure improvements to benefit the steel mill over the heated objections of some county residents.

"I'm very pro-business, but I'm not pro-business-welfare," said DeKalb County resident Suzanne Beaman, 58, who fought the incentives. Steel Dynamics "would have done fine without our tax dollars, I have no doubt."

Another steel company in which Bain invested, GS Industries, went bankrupt in 2001, causing more than 700 workers to lose their jobs, health insurance and a part of their pensions. Before going under, the company paid large dividends to Bain partners and expanded its Kansas City plant with the help of tax subsidies. It also sought a \$50-million federal loan guarantee.

"This is corporate welfare," said Tad DeHaven, a budget analyst with the Washington-based Cato Institute, which encourages free-market economic policies. DeHaven, who is familiar with corporate tax subsidies in Indiana and other states, called the incentives Steel Dynamics received "an example of the government stepping into the marketplace, picking winners and losers, providing profits to business owners and leaving taxpayers stuck with the bill."

On Thursday, Romney acknowledged that government can help spur private enterprise.

"When I was governor of our state, we competed aggressively to get companies to move to our state and provide benefits to them if they were to decide to bring manufacturing jobs, for instance," he said during a campaign stop in Greer, S.C. "That's the nature of competition between states. I'm happy with competition and do believe in free enterprise."

The outline of the tax subsidies to Steel Dynamics was initially provided to the Los Angeles Times/Tribune Washington Bureau by American Bridge 21st Century, a pro-Democratic "super PAC." The details emerged during a week in which Romney has repeatedly cited Steel Dynamics as an example of his successful job creation while he was head of Bain Capital.

Launched as a start-up at a time when many American steel mills were foundering, Steel Dynamics is the fifth-largest producer of carbon steel products in the country, generating \$6.3 billion in revenue in 2010.

Government support was a key ingredient to getting it off the ground.

When local officials in DeKalb County learned that three veteran steel mill executives were starting the company in 1993 and looking for a home for their new mini-mill, they pulled out all the stops. "These people don't just drive by and choose accidentally to be your neighbor," said Jack Bercaw, a Butler businessman who was co-chairman of the recruitment drive.

The county promised \$23.4 million in property tax abatements and tax increment finance bonds, as well as a new income tax to generate economic development funds. The latter was required by the state, which shelled out another \$13.6 million in tax credits, energy grants, workforce training and funds for roads.

A new quarter-percent tax on DeKalb County residents financed infrastructure improvements such as roads and railroad exchanges that benefited Steel Dynamics, Bercaw said. The county also created a new redevelopment commission and redevelopment authority to oversee the activity.

Steel Dynamics executives did not respond to requests for comment. But in a 1994 interview with a trade journal, then-Chief Executive Keith Busse said the \$4.4 million the company initially received in state tax credits, in particular, helped persuade Steel Dynamics to locate in Indiana. Busse told a business panel that same year, however, that he was opposed to the new income tax levied by DeKalb County, according to the Fort Wayne Journal Gazette.

David Stickler, an investor and advisor specializing in the steel industry who engineered the original financing package that launched Steel Dynamics, said the \$37 million in grants and subsidies was not only a financial boost, but also helped persuade larger lenders to sign on.

"What I've found is that the senior lending banks, especially lenders from overseas, take great comfort in the fact that the local and state government entities are showing a willingness to partner on the project," Stickler said.

Boston-based Bain became involved with Steel Dynamics about two months after the company formed in 1993. At that point, the management team had already sought incentive packages from the state and county. Stickler said Bain executives were well-briefed on the proposed deal and noted that they were particularly thorough in examining the intricacies of the deals' structure.

"They lifted up every rock, they stress-tested every financial scenario," Stickler said. "Before they put their money into a transaction, they wanted to know that as many of the risks have been mitigated as possible."

A spokesman for Bain said Thursday that the private equity firm "has had a 28-year track record of growing great companies, including partnering with the management team to help to launch and grow Steel Dynamics. We are extremely proud of the work our employees have done throughout our history to build our businesses and improve their

operations."

In DeKalb County, the tax incentives rankled some local residents, who protested the deal at county government meetings.

Tim Heffley, then a Democratic county commissioner, was opposed to the new tax but was outvoted. "I was just against any company getting handouts from the government, corporate welfare," said Heffley, who nevertheless praised Steel Dynamics as a good company that has brought jobs to the region.

Nearly two decades later, some are still smarting about the subsidies.

"It was something very upsetting to me," said Beaman, a longtime Republican activist. "I hated to see the people I thought were my friends go toward the liberal socialist mind-set under the guise of creating jobs. Our government shouldn't be in the business of buying or funding companies. That is contrary to the whole conservative mind-set."

Still, Beaman said she didn't hold the incident against Romney, questioning whether he had a "true understanding of economics."

"Did he do that knowing the full ramifications of where that type of government leads?" she said. "Probably not."