

FOXCONN: ECONOMIC IMPACT & INCENTIVE PACKAGE

One of the biggest questions following the announcement that Foxconn is planning to make a massive investment, one of the largest in U.S. history, in Wisconsin, is the “appropriateness” of the corresponding incentive package. A memorandum of understanding that delineates the incentive package and corporate investment was signed by the State and Foxconn.

MMAC and M7 worked closely with the Governor, Wisconsin Economic Development Corporation, and local economic development partners to make the pitch. Several MMAC board members engaged to vet this project. **IT IS OUR ASSESSMENT THAT THE STATE INCENTIVE PACKAGE BEING PROPOSED FOR FOXCONN DESERVES MMAC’S FULL SUPPORT GIVEN**

THE POTENTIAL FROM FOXCONN’S INVESTMENT, INCLUDING THE IMPACT FROM EMPLOYMENT AND CAPITAL INVESTMENT.

To quote, Blake Moret, President & CEO of Rockwell Automation, “this could put Wisconsin at the center of next generation manufacturing for the foreseeable future”. This statement is not a guarantee, but it serves notice that this is a project worth the reach. To this point, Foxconn’s \$10B dollar capital investment, and 13,000 jobs would add \$78B to Wisconsin’s gross domestic product over the 15-year term of an incentive package which would pay out nearly \$3B in state tax credits.

In general, there is risk in granting individual corporate economic incentive packages in a market based economy. For most every state, incentives are a necessary tool in the competition for jobs and capital investment. The challenge is to craft state policy to mitigate, as much as possible, the state’s “risk” in using incentives to foster capital investment and job creation.

MMAC played a significant role in designing Wisconsin’s current incentive tools based on a best practice study of other states. Wisconsin adopted two major incentive tools: A proportional

tax credit on payroll once jobs are filled, with certain claw-back provisions. And a proportional tax credit based on actual capital expenditure. When applied appropriately by the state they do provide protections for the taxpayer.

The Milwaukee 7, our regional economic development arm, has experience with over 80 incentive projects going back more than a decade. With few exceptions, these projects have returned solid job growth numbers and realized capital expansion.

The Foxconn investment is not risk free, but it presents a unique opportunity. The prospect of landing the largest foreign direct investment in U.S. history would be a “game changer”. The investment in a new technology and advanced manufacturing process is an exciting and potentially deeply impactful prospect for the region and state.

The non-partisan Legislative Fiscal Bureau, charged with scoring the state’s financial implications, makes this statement in its assessment, “*the capital expenditure tax credit and sales tax exemption would have a value of \$1.5B, but would induce private investment of \$10B from Foxconn alone, for a leverage ratio of \$6.70 of private investment for each \$1.00 of public outlay. Likewise, the payroll credit implies a leverage ratio of 5.9 to 1, just considering Foxconn’s payroll. These ratios are even higher if the indirect and induced jobs are considered. MOST STATE EXPENDITURES DO NOT RESULT IN PRIVATE INVESTMENTS OF THIS NATURE.* The project would also provide greater employment opportunities for the state’s present and future workforce, and add a new sector to the state’s manufacturing economy”

FOXCONN®



“THIS COULD PUT WISCONSIN AT THE CENTER OF NEXT GENERATION MANUFACTURING FOR THE FORESEEABLE FUTURE.”

- BLAKE MORET
President & CEO
Rockwell Automation

BACKGROUND

Foxconn has proposed a \$10B capital investment to construct a 20M square foot liquid crystal display fabrication facility, related liquid crystal module assembly and final TV assembly operations that are projected to employ 13,000 when fully operational. This investment is part of Foxconn's strategy to develop the next generation technology for an "8K 5G ecosystem". The system involves both broadcast, storage, and presentation. This new platform would serve general consumers, as well as medical, entertainment, sports and various business industries.

In competition with other states to manufacture a technology not currently in the U.S., the state of Wisconsin, as part of its recruitment effort, put together an incentive package for Foxconn. There are two core components to this incentive package, a proportional refundable tax credit for capital investment, and one for job creation:

- **Capital expenditures would receive a tax credit of up to 15% over a 7-year period not to exceed \$1.35B.**
- **Payroll to any employee with at least \$30,000 in wages up to \$100,000 in wages would be eligible for a 17% tax credit over 15-years, not to exceed \$1.5B.**

The following analysis is based on three measures of "return on investment" for Wisconsin. Tax revenue, labor income, and state gross domestic product. Each is made separately for the capital expenditure, the ongoing operation of the plant, and then as a combined total package compared to the incentive credits paid-out.

This analysis draws on the report prepared by EY Quantitative Economics and Statistics, Wisconsin Legislative Council memorandum, Wisconsin Department of Administration fiscal estimates and the Legislative Fiscal Bureau memo.

ASSESSING THE RETURN ON INVESTMENT

Three ways to measure the state's "return on investment" from its incentive package.

1.

STATE TAX REVENUE GENERATED VS. TAX CREDITS PAID-OUT.

This is a valuable but narrow accounting of a statically scored fiscal impact over a fixed timeframe.

2.

LABOR INCOME CREATED VS. TAX CREDITS PAID-OUT.

This measure captures the economic impact of wages and benefits paid largely to Wisconsin workers.

3.

STATE DOMESTIC PRODUCT INCREASE VS. TAX CREDITS PAID-OUT.

This measure captures the broadest impact on Wisconsin's economy. It is a key metric used to assess the health of the state's prosperity.

CONSTRUCTION CAPITAL EXPENDITURE

The 15% tax credit is applied against the capital expenditure over a 7-year period, up to the limit of \$1.35B. Based on a \$10B capital investment, the EY study projects direct employment of 10,234 on the construction site through

prime, sub-contractors, and equipment suppliers. Indirect employment of 1,737 is the result of payments made to suppliers. Household expenditures induce another 4,235 jobs.

In total, the construction provides an "economic shock" that impacts 16,205 jobs a year over the 4-year construction period. Direct jobs have an average wage of \$59,629 and total labor income

- Continued on page 3

CONSTRUCTION CAPITAL EXPENDITURE

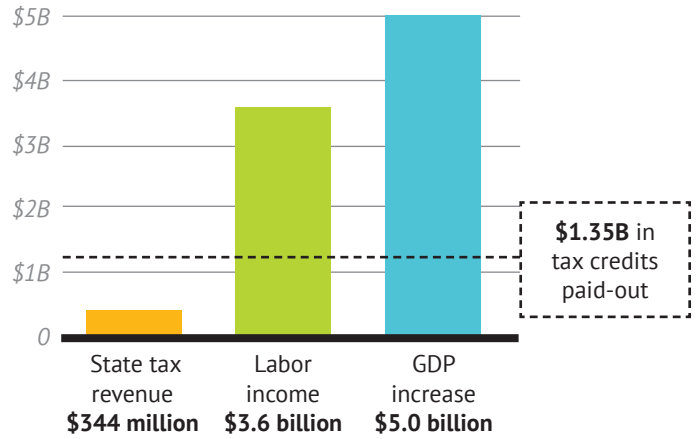
- Continued from page 2

of \$2.4B. Labor income is \$433M on indirect jobs averaging \$62,000. Induced jobs have a 4-year labor income total of \$734M. For a total of \$3.6B in labor income.

The Gross Domestic product during construction is pegged at \$5B. GDP is the value added, including labor income, indirect business taxes, consumption of fixed capital (depreciation) and mixed income.

For ease of comparison, both the economic benefits and the tax credit paid-out are condensed to the 4-year construction time frame. During the 4-year construction period, total state taxes are estimated to equal \$344M.

Comparison (4-year total)



ONGOING PLANT OPERATION

The 17% jobs tax credit applies only to direct payroll over 15 years, up to \$1.5B in tax credits. To qualify for the credits, jobs must pay \$30,000 year and payroll qualifies up to \$100,000.

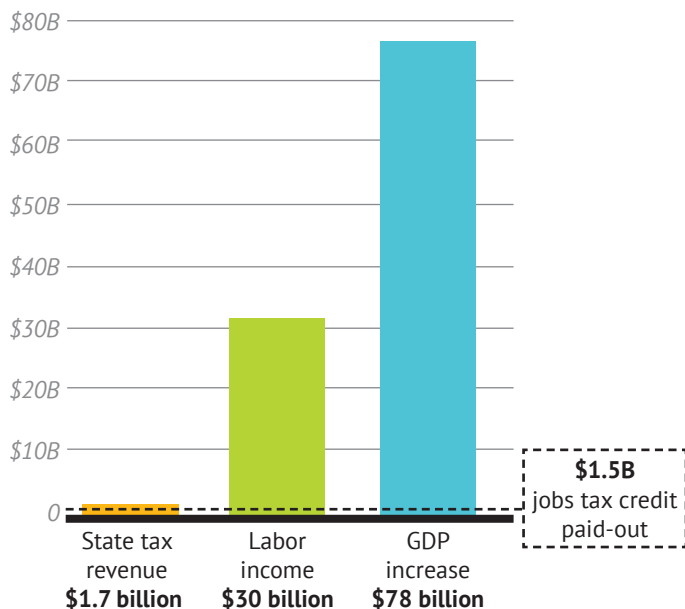
The EY study projects direct Foxconn employment of 13,000 from ongoing operations. 11,453 indirect jobs are attributed to suppliers, like Corning Glass (400 jobs). The household spending from

these direct and indirect jobs induce another 10,792 jobs. The total ongoing job impact is estimated at 35,245.

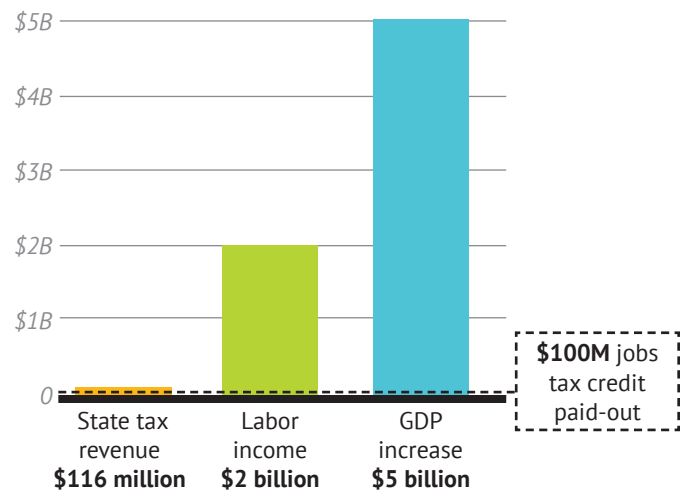
Foxconn's 13,000 employees are projected to average annual total compensation of \$73,500 per year, providing annual labor income of \$956M. Indirect labor income from 11,453 additional jobs would be \$643M. Induced labor income from 10,792 jobs would total \$469M.

For a total of \$2B in annual labor income. The job multiplier of 2.7 was based on semiconductor and other electronic component manufacturers currently operating in the state, which have a range of 1.8 to 4.3, per the EY report. State GDP is estimated at \$5.2B per year from ongoing operations, State tax is estimated at \$116M per year.

Comparison (15-year total)



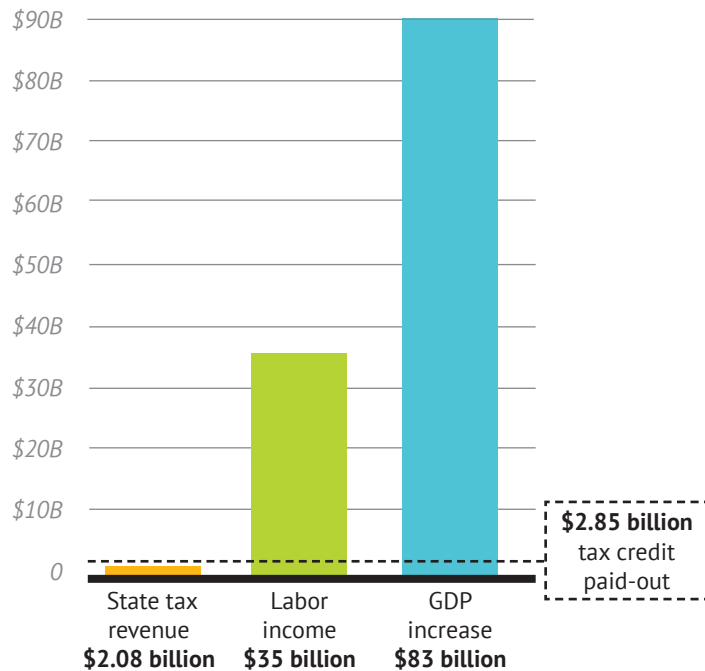
Comparison (15-year annualized)



COMBINED TOTAL PACKAGE

In this example, we add the separate comparisons of the capital expenditure and the ongoing impact from plant operations into a combined package. The reality is the construction and operational employment would likely overlap.

Comparison: Combined Construction & Operation



Footnotes

*Gross metropolitan product is a key metric of economic progress in MMAC’s Blueprint for Economic Prosperity. Foxconn’s project is estimated to increase GDP by \$5.2B annually, per EY report. If much of this impact occurs in the region it could raise our gross metropolitan product by \$2,320 per capita. A 4% increase would put us at \$60,320 per capita, pulling us into 3rd place out of 20 peer metro areas. This would place the region almost even with Minneapolis, as we move up from 7th to 3rd.

*In this comparison, at the end of the 15-year period there would be a “tax deficit”. The same would be true with an actual ramp up of employment. This comparison shows a state tax deficit of \$770M at 15 years. The projected incremental tax revenue increase of \$116M/year would mean an additional 6.6 years to break even on tax revenue vs. tax credits or a tax scored “payback period” of 22 years.

*Local tax revenue generated adds to the equation. The 4-year construction impact on local taxes is \$153M, and from operations, \$65M on an ongoing basis. In this example totaling \$1.128B over the 19-year scenario (4yrs. to build, 15yrs. of operations)

*All estimates are made in 2017 dollars, this comparison does not use a discount rate for future cash flows, nor does it account for any future tax changes, or does it assume any wage inflation (which would result in greater future cash flows to the state).

*Claw back provisions allow for the state to contractually secure a return of state incentives if job targets are missed by the company receiving the incentives.