

Purpose

This document provides a high-level overview of the state and local government incentive packages deployed to secure the largest U.S. corporate attraction projects of the last decade. The information that follows is intended to inform the discussion of the incentive package that will be necessary for Wisconsin to win the Foxconn deal.

Project Perspective

Foxconn is a Taiwanese electrical component manufacturer best known as the contract assembler for a host of Apple products, including the iPhone and iPad. Foxconn is among the world's largest companies:

- 1.3 million employees (6th largest private sector employer in the world)
- \$136 billion annual revenue (25th largest corporation in the world – similar in size to GE, Ford and AT&T)

Wisconsin and Michigan are the finalist locations for Foxconn's first U.S. production operation, the scope of which will be unprecedented in scale. M-7's research has verified that the project would not only be the largest greenfield investment by a foreign-based company in U.S. history, but the largest corporate attraction project of any kind in our nation's history.

Foxconn plans to invest \$11 billion in the U.S. by 2020, with suggestions from company executives that the investment could approach \$20 billion. The company intends to build a group of geographically proximate manufacturing facilities – perhaps as much as 6-8 million square feet combined under roof – to assemble LCD panels for a variety of verticals, from automotive to healthcare to defense. The real estate footprint will surpass the size of Boeing's assembly facility in Everett (WA), which is the single largest manufacturing building in the U.S. at 4.3 million square feet (soon to be passed by Tesla's battery factory in Nevada – see page 3).

Wisconsin is poised to capture the signature corporate attraction project of the digital age.

Foxconn expects to employ 20,000 people – thousands of which are engineers and skilled workers – at the chosen location by 2020. This figure includes neither employment generated by an estimated 150 suppliers (e.g., glassmaker Corning, Inc.) that would follow Foxconn to its chosen location, nor multiplier jobs that would ripple across the region and state. Our state's manufacturing pedigree (Wisconsin continues to have the highest percentage of manufacturing employment among U.S. states), host of recent pro-manufacturing public policy measures (right to work, manufacturing and agriculture tax credit, real time market pricing electric tariff), and strong roster of available real estate sites have positioned us to secure this massive investment in an industry that is central to the digital economy of the future.

The deal metrics are considerable, but the Foxconn opportunity represents something larger: the return of electronics manufacturing to the U.S. from Asia. Most of the important technologies embedded in electrical devices we use daily were developed and refined in the U.S., but generations of these devices and products have been produced by workers in foreign locales. Foxconn's investment will change the economic landscape in Wisconsin and establish our state as the electronics manufacturing capital of North America.

Foxconn's investment will create the first LCD factory in the U.S. and the only one globally that is not located in Asia.

Incentives for Mega-Projects

Foxconn and its advisors are well-aware of the positive economic impact the company's operation will have on the location that is chosen. Most of Foxconn's production occurs in China, where the cost of labor, albeit rising, is still a fraction of what the company will experience here. Company officials claim that building in the U.S. will layer \$2.8 billion of capital expenditure over what the company would spend to create a similar operation in China, and that operating expenses will be 30% higher in the U.S. Foxconn

Given the broad similarity of the manufacturing assets found in Wisconsin and Michigan, M-7 anticipates that financial incentives will factor importantly into Foxconn's location decision.

has declined to share its operating expense calculations, but M-7 believes that much of the added expense in the U.S. will be driven by labor cost. We estimate that labor alone will add at least \$230 million of cost to Foxconn's operation every year.

Foxconn's sharing of this information with the Wisconsin economic development team is part of a strategic communication strategy in which the company's executives have made clear that an extraordinary government incentive

package will be needed to secure the project, i.e., we are being challenged to bridge the capital and operating delta. Our incentive offering will be evaluated not only in absolute terms, but in comparison to the offer Foxconn receives from Michigan, a state with manufacturing assets comparable to Wisconsin's and a long history of making lucrative incentive offers for mega-projects. Michigan's team, like ours, has surely recognized that the Foxconn project is a generational opportunity.

How much will be needed? The amount will dwarf anything offered or perhaps even contemplated for previous Wisconsin projects. Wisconsin has seldom competed for mega-projects like the Foxconn deal. Only three Wisconsin projects – Mercury Marine (2009), Kohls (2012) and Northwestern Mutual (2013) – are listed among the 375 largest incentive deals in the U.S. since 1980, the highest of which ranked 190th. None of the three, of course, were attraction projects.

Given that our experience with large projects like Foxconn's is limited, a study of what other states have deployed to secure these deals could be helpful. The remainder of this document summarizes the project metrics and incentive offerings associated with the five largest attraction projects in the U.S. that occurred in the last 10 years. Foxconn personnel have surely studied several of these deals and are calibrating incentive expectations accordingly.

Before proceeding, it's important to briefly note the variability of tools available to states and local government entities in crafting incentive packages, and to differentiate between attraction and

retention/expansion projects. Just as taxing and regulatory schemes vary across states and jurisdictions, so too do incentive offerings, creating an apples-and-oranges dilemma when comparing what corporations receive. Few incentive packages are wholly comprised of direct payments to corporate recipients. The benefits materialize in myriad forms, from tax credits, worker training offsets and utility rate reductions, to provision of infrastructure, free land, and offsets to construction expense, to name a few. The combinations are infinite and vary widely across states.

The analysis that follows will focus specifically on attraction projects. Many of the largest incentive deals in U.S. history involve retention (and sometimes bailouts) of companies in core industries central to a particular state's economic viability. For example, Washington has deployed \$12 billion of incentives over more than a decade to keep Boeing's production operations in the state. Michigan did likewise for the automakers when the 2008 financial crisis was threatening the industry's existence in the U.S. (\$2.33 billion for GM in 2009, \$2.30 billion for Ford in 2010, \$1.3 billion for Fiat/Chrysler in 2010). More instructive for our purposes here is a focus on attraction projects like Foxconn.

Deal Summary

The table below summarizes the key project and incentive metrics for the five attraction deals evaluated by M-7:

Company	Year	State	Capex	New Jobs	Incentive Value	Incentive/Job	Incentive : Capex Ratio
Tesla	2014	NV	\$10.00B	6,500	\$1.29B	\$198,000	.13
Advanced Micro Devices	2006	NY	\$3.20B	1,200	\$1.20B	\$1,000,000	.38
ThyssenKrupp	2007	AL	\$5.00B	2,000	\$1.07B	\$536,500	.21
Boeing	2009	SC	\$0.75B	3,800	\$0.90B	\$236,842	1.20
SolarCity	2014	NY	\$5.00B	1,500	\$0.75B	\$500,000	.15

Note that each of these deals is smaller than the Foxconn deal (a point to which we will return shortly).

Project 1: Tesla

Overview: This deal is perhaps the most relevant to the Foxconn discussion – it is both recent (2014) and involves products (batteries) that have long been manufactured in Asia despite being developed in the U.S. Tesla's vision of mass producing electric vehicles is predicated on mass producing lithium-ion batteries.

The process used by Tesla to arrive at a location decision was similar to what we have learned about Foxconn's approach in another important way: the six states competing for Tesla's battery factory (California, Texas, Nevada, New Mexico, Arizona, and Oregon) were given only three weeks to submit incentive proposals after an initial project briefing. Tesla is currently building a 5 million square foot factory in the Nevada desert and will essentially operate tax-free for 10 years.

Incentive detail: The \$1.2 billion incentive offering was comprised of the following major components:

1. 20-year 100% sales tax abatement (\$725M)
2. 10-year 100% property tax abatement (\$332M)
3. Transferable state tax credits (\$120M)
4. Transferable state tax credits linked to job creation (\$75M)
5. 10-year 100% modified business tax abatement (\$27M)
6. Discounted electricity rates for eight years (\$8M)
7. Free land / 980 acres (value not disclosed)
8. Construction of rail line allowing link to Tesla's Fremont (CA) assembly facility (value not disclosed)

Project 2: Advanced Micro Devices (AMD)

Overview: Not long after AMD announced in 2006 that it intended to build a computer chip production facility in upstate New York, the Silicon Valley firm divested its manufacturing operations. The New York development opportunity was assumed by GlobalFoundries, which broke ground in 2009 on what is today a 2.5 million square foot operation that makes chips for mobile devices. This project has been an unqualified success for all parties involved; GlobalFoundries has invested an additional \$10 billion in the operation. Employment currently stands at 3,000, which is more than double the jobs total anticipated when the incentive package was agreed upon with the State of New York.

Incentive detail: The largest share of the \$1.2 billion incentive package is derived from the following sources:

1. State of New York capital grant (\$500M – largest cash grant in the history of corporate incentives)
2. State of New York R&D grant (\$150M)
3. Empire Zone state tax credits (\$250M)

GlobalFoundries has drawn subsequent incentives above-and-beyond those noted above in support of plant and capability expansions.

Project 3: ThyssenKrupp

Overview: ThyssenKrupp is a large German industrial conglomerate with operations around the world (including current and former subsidiaries located in Wisconsin). Steel production (Europe and U.S.) represents approximately 20% of the firm's global sales. In 2007, the company announced that it selected Alabama over Louisiana as the location for a new 2.8 million square foot facility to produce carbon and stainless steel for a variety of industrial customers. In 2011, ThyssenKrupp sold the plant for \$1.5 billion to a joint venture between ArcelorMittal (Luxembourg) and Nippon Steel (Japan); the subsidies listed below were then transferred to the JV.

Incentive detail: The \$1.07 billion incentive package is derived from the following primary sources:

1. 20-year property tax abatement (\$477M)
2. 20-year sales tax abatement (\$125M)
3. Workforce training (\$461M)

A special act of the Alabama Legislature was required to extend the property and sales tax abatements from 10 to 20 years for the project.

Project 4: Boeing

Overview: With the exception of the automakers, no company has successfully leveraged more incentives from multiple states (Washington, South Carolina, Alabama, Missouri, Illinois, Oklahoma) than Boeing. This project, which placed a new 1.2 million square foot facility in South Carolina for assembly of Boeing's Dreamliner 787 aircraft, is unusual in that the value of the incentive package *exceeds* the project's capital expenditure (\$900M incentive to leverage a \$750M capital investment).

Incentive detail: The incentive package includes of the following elements:

1. 30-year property tax abatement (\$306M)
2. 30-year personal property tax exemption (\$100M)
3. State-issued bonds (valued at \$399M)
4. Training funds (\$33M)
5. State tax credits (\$47M)

Project 5: SolarCity

Overview: SolarCity designs, manufactures, finances, installs, maintains and monitors solar energy systems primarily for residential customers. The company's largest shareholder and chairman is Elon Musk, who is also the CEO (and 20% owner) of Tesla. In 2014, SolarCity acquired Silevo, a panel-maker that was already in deep discussions with the State of New York to build a new factory on a brownfield site in Buffalo. After the acquisition was completed, SolarCity continued those discussions and the incentive package detailed below was announced later that year.

Incentive detail: The \$750 million incentive offering to SolarCity is the most straightforward of the packages reviewed in this document. The package has only two components:

1. \$350 million cash grant from the State of New York
2. \$400 million forgivable loan from the State (forgiveness tied to the creation/retention of 1,500 jobs)

Analysis

How might the information presented in the preceding pages help us to gauge the scale of incentives that will be needed to secure the Foxconn investment, the metrics of which significantly exceed each of the five deals discussed in this document? A quick look at the "Incentive/Job" and "Incentive : Capex Ratio" figures shown in the table located on page 3 help us to establish some crude benchmarks that may be particularly useful in establishing the low end of the range, i.e., securing the Foxconn deal will require *at least* this much.

Assuming an \$11 billion capital investment and 20,000 jobs generated by the Foxconn project, we might expect the incentive value from state and local sources to fall within the following ranges:

<u>Methodology</u>	<u>Incentive Value</u>
Incentive based on range of \$198,000 - \$1,000,000 per job	—————> \$3.96 billion - \$20 billion
Incentive based on incentive : capex ratio of .13 - 1.20	—————> \$1.43 billion - \$13.2 billion

Where within the expansive range of \$1.43 - \$20 billion should the Foxconn project – the largest attraction deal in U.S. history – be placed? The Tesla deal, which is approximately half the size of the Foxconn deal as measured by job count and capex, provides some guidance. By all accounts, the Tesla incentive, valued at \$1.29 billion, was considered an aggressive play for a hot company with skyrocketing valuations in a trendy vertical (electric vehicles). Doubling the Tesla incentive would place the Foxconn package in the range of \$2.6 billion.

The Tesla incentive is a useful starting point, but it is unlikely to get us to the finish line with Foxconn. As noted on page 3, Foxconn has referenced the \$2.8 billion capital delta between building its planned factory in the U.S. v. Asia, as well as a labor-driven operating cost delta estimated by M-7 to be at least \$230 million per year.

If Wisconsin's offer were to be based on offsetting the capital difference (\$2.8 billion), as well as the operating delta for 10 years (\$2.3 billion), the total value of the incentive would be \$5.1 billion.

Wisconsin's incentive offer must come together quickly if we expect to win the Foxconn deal. The company understands the value it will be creating for the location it chooses and has made clear that it intends to move quickly. Foxconn wishes to establish a path to site control by July 5 and presumably will require that the framework for the incentive offering be in place by that time. Our team will need to move fast to win this deal.

Current Capabilities

Do Wisconsin's most powerful existing state and local programs – Enterprise Zone (EZ) and tax increment financing (TIF), respectively – have enough horsepower to generate a \$5.1 billion incentive? The short answer is “no,” but they get us considerably along the path to reaching \$5.1 billion. What is the maximum amount these programs could generate under current statutory and program guidelines?

EZ: Assuming an \$11 billion capital spend, 20,000 employees at an average annual wage of \$40,000, and \$2,000 of annual training expense, M-7 estimates that the EZ program is capable of generating \$2.7 billion of refundable tax credits.

TIF: Assuming 4 million square feet of primarily industrial building footprint on 750 acres of land valued at \$50,000/acre, M-7 expects the assessed value of the Foxconn operation to be \$277.5 million. A TIF project grant equivalent to 30% of assessed value

would generate an \$83.3 million incentive for Foxconn.

The EZ and TIF incentives, as currently constructed, would collectively generate approximately \$2.8 billion of incentives, i.e., more than one-half of the \$5.1 billion target.

How might Wisconsin go about generating an additional \$2.3 billion? Perhaps the most straightforward path is to create a modified EZ for Foxconn that builds upon the existing program structure. This can be done by simply extending the Zone life or raising the percentages upon which credits are calculated. For example, credits earned for capital expenditure are currently capped at 10%. Increasing the cap to 20% would generate an additional \$1.1 billion of tax credits. The same could be done for credits based on wages by extending the number of years for which credits can be drawn (currently 12) or increasing the multiplier upon which wage credits are calculated.

In the weeks leading up to the Wisconsin team's trip to Japan to meet with Foxconn chairman Terry Gou, the productive relationship established between the Wisconsin team and Foxconn will enable us to better gauge the level of incentive that will be needed to bring the company to Wisconsin. The signals being sent by the company suggest that the number will be significantly higher than the largest corporate attraction deals of the last decade. And these same signals are most assuredly being sent to Michigan.

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