



WISCONN VALLEY

WILL TRANSFORM THE STATE OF WISCONSIN

Testimony of DOA Secretary Scott Neitzel and WEDC Secretary and CEO Mark Hogan

Assembly Committee on Jobs and the Economy
August 2017 Special Session Assembly Bill 1
August 3, 2017

Secretary Neitzel Comments

Good afternoon, Chairman Neylon and members of the Assembly Committee on Jobs and the Economy. Thank you for the opportunity to testify today on Special Session Assembly Bill 1. I cannot tell you how thrilled I am and proud I am to be here today. This project is a once in a generation and maybe once in a century opportunity for our state. Before us is the opportunity to bring 13,000 new family supporting jobs and a high-tech manufacturing ecosystem to Wisconn Valley. We all accepted the call to public service because we believe in Wisconsin and our state's potential. Now Foxconn has seen this same potential in our great state.

Governor Walker called for this special session of the legislature to enact legislation that will help land the largest single economic development project in the history of Wisconsin. On behalf of Governor Walker, Secretary Hogan and I are honored to present and discuss the creation of Wisconn Valley. With this opportunity, high-tech electronic products we use every day will be Made in America: Right here in Wisconsin.

We want to thank you for all the work you have done to bring 13,000 new family supporting jobs and over \$10 billion in capital investment to Wisconsin. And that is just the beginning.

Wisconsin was chosen for this economic development opportunity because our state is ready. The reforms implemented by Governor Walker and the legislature over the last six years have drastically improved the state's business climate, making Wisconsin a top 10 state to do business. The groundwork was laid for our team to be successful.

This project has been called Flying Eagle from the beginning because of its ability to create a high-tech manufacturing ecosystem in the heartland of this country. Once again electronics products will be Made in America: Right Here in Wisconsin. Wisconn Valley will become the catalyst for electronics manufacturing in this country, which will allow for our great state to soar even higher.

The 13,000 new family supporting jobs and \$10 billion capital investment alone are historic, but what makes this project transformational is the multiple ripple effects of this economic investment across our entire state. Suppliers, and suppliers to suppliers, throughout Wisconsin will benefit from the positive impact of this investment. Beyond the investment by Foxconn, a study by Ernst and Young shows even greater impacts:

10,000 construction jobs will be created over the next 4 years and an additional 6,000 indirect jobs related to construction
22,000 indirect and induced jobs throughout the state

\$1.4 billion in purchases by Foxconn annually from Wisconsin supplier companies

\$7 billion annual economic impact for the State of Wisconsin

With an average salary of almost \$54,000, Foxconn payroll alone will be over \$800 million each year

This historic and transformational investment by Foxconn will propel Wisconsin's economy forward and enhance the opportunities our children and grandchildren have for employment in this state. This opportunity will create a Wisconsin "Brain Gain," which will end our "Brain Drain." We cannot let this opportunity pass us by.

Since our first meeting with the company, we have had one goal in mind: to get a good deal for Wisconsin taxpayers. This goal has been achieved. This opportunity represents the return of electronics manufacturing to the United States from Asia. It will fundamentally transform and enhance the economic landscape in Wisconsin and establish our state as the leader in electronics manufacturing in the United States.

With a strong manufacturing legacy, Wisconsin businesses are ready. Wisconsin's workforce is ready. Wisconsin's talent pipeline is ready. Wisconsin is ready for this transformational opportunity.

This opportunity would not be possible without the incredible teamwork of the state throughout this process. When Foxconn began to research Wisconsin, they found a group of hardworking, dedicated, and talented people all committed to bringing jobs to Wisconsin.

Local governments, economic development partners, the University of Wisconsin System, the Technical College System, businesses across the state, and the legislature, thank you. We would not be here today preparing for this transformational opportunity without you.

Secretary Hogan Comments

Thank you, Representative Neylon and members of the Committee. I appreciate the opportunity to join Secretary Neitzel to provide information on Governor Walker's proposed legislation creating an Electronics and Information Technology Manufacturing Zone.

Foxconn's decision to make an unprecedented \$10 billion capital investment in Wisconsin, creating an incredible 13,000 family supporting jobs, is a once-in-a-century opportunity for our state and our country, and the transformational scope of this project cannot be emphasized enough.

As many of you know, my background consists of 40 years in banking. I use this experience when I review award recommendations and the return on investment (ROI) these projects provide for Wisconsin, and our taxpayers. Having been actively engaged in the Foxconn project from the very first meeting on April 28th in Washington, D.C., I can confidently say this project's impact will be more than just the black and white ROI numbers that I am accustomed to reviewing when analyzing other WEDC awards.

More importantly, Foxconn's impact on Wisconsin will go beyond the 13,000 family supporting jobs and the \$10 billion investment. There will be future opportunities that cannot currently be quantified as it relates to expanded supply chains and talent attraction and retention. My high level of confidence comes from the numerous conversations I have had with a multitude of our economic development partners over the past three months. The input I have received from our partners in academia, industry, government, and local and regional economic development has been clear - the ecosystem that will be generated by establishing Wisconsin Valley will change the trajectory of Wisconsin for generations to come.

And Wisconsin is ready.

Foxconn's Chairman, Terry Gou, has publicly indicated several reasons for his decision to invest in Wisconsin. These include our skilled workforce, the strong university and technical college systems, the proximity of Lake Michigan, and the consistent statewide leadership that has created a pro-business climate, just to name a few. But Chairman Gou also talks about the strong foundation in Wisconsin's advanced manufacturing sector as being critical to his decision. The Foxconn opportunity only comes about because of the thousands of companies, and the hundreds of thousands of employees who, over the past several generations, have helped foster and secure manufacturing's legacy in Wisconsin.

As Secretary Neitzel indicated, this legislation is vital to ensure that Foxconn's first United States production operation will be located in Wisconsin. Foxconn is a global leader in manufacturing services for the computer, communication and consumer electronics (3C) industry, and was recently ranked #27 in Fortune's Global 500 rankings, and #4, right behind Amazon, in Fortune's technology industry segment.

Foxconn's proposed \$10 billion investment will be the largest economic development project in Wisconsin's history. Again, this investment builds on Wisconsin's strengths in advance manufacturing and will include the construction of a 20 million square foot high-tech manufacturing and technology campus. This multi-building campus will house the first Liquid Crystal Display production facility in the U.S. and the only one outside of Asia.

The legislation before you includes Wisconsin's financial commitment necessary to make this transformational investment happen in our state, including the designation of the Electronics and Information Technology Manufacturing Zone, in what will be known as Wisconn Valley. The pay-as-you-grow incentives will be based on the projected 13,000 family supporting jobs, and the \$10 billion of invested capital.

It is estimated the construction will require 10,000 construction workers in each of the next four years, with \$5.7 billion spent on construction and equipment sourced in Wisconsin. Once fully operational, the 13,000 employees will earn an average base salary of \$53,875, plus benefits, and annual Wisconsin supply chain purchases are estimated to be approximately \$1.4 billion.

These credits are performance based and the language is modeled after the existing Enterprise Zone program with a few modifications.

As allowed under the current program, Foxconn will be able to earn credits based on its actual capital expenditures and its job creation activity. This legislation modifies the existing enterprise zone statute to allow for an increase in the earnings percentage for the capital expenditures from 10% to 15%, with this portion capped at \$1.35 billion.

In addition, this legislation increases the job creation earnings percentage from 7% to 17%, with this portion of credits capped at \$1.5 billion, and will only apply to jobs with earnings above \$30,000 and up to \$100,000 annually. Finally, the zone will also be allowed to remain active for a period of 15 years vs. the current 12 years.

I would like to again stress this is a pay-as-you-grow investment - these refundable tax credits will not go out the door until, and unless, the company meets the performance metrics that will be included in its contract with WEDC. Foxconn will not receive any dollars from the state until they begin making the capital expenditures and hiring employees. The tax credits will also be subject to claw back and revocation provisions as under current law. Wisconsin's commitment is subject to WEDC's final underwriting, the satisfactory negotiation of a contract, and approval by WEDC's board of directors.

I've been asked about whether Wisconsin will benefit if Foxconn hires workers who live in Illinois. Let me address a couple of questions, perhaps misperceptions, that are often raised about the tax implications of Illinois residents working in Wisconsin.

We have found, in talking to other employers in the Kenosha and Racine County area, that relatively small percentages of their workforces live in Illinois. People tend to locate close to where they work. When Illinois residents are hired by Wisconsin companies, over time many of them choose to relocate to Wisconsin.

It's important to note that Wisconsin will collect individual income taxes from all Foxconn employees, including any employees who live in Illinois. Employees who live in other states and work in Wisconsin owe taxes to Wisconsin on money they earn here. Because we have an income tax reciprocity agreement with Illinois, Illinois residents who work in Wisconsin only have to file a tax return in Illinois, but we calculate what they would have paid if they filed in Wisconsin and Illinois owes us that amount. So, we collect taxes in Wisconsin for those employees, although they only file returns in Illinois. Right now, because more Wisconsin residents work in Illinois than vice versa, Wisconsin makes a net payment to Illinois every year under the reciprocity agreement.

Establishing Wisconn Valley will help us reverse that trend.

The last piece of the financial incentive package includes a sales and use tax exemption, estimated at \$150 million, which will apply to the purchase of any building materials, supplies and equipment eligible for the capital expenditures tax credit in the zone.

In closing, I would like to briefly address two additional provisions in the proposed legislation that are not directly related to the Foxconn project, but are equally important in supporting the on-going economic development activity underway in Wisconsin.

The first provision would increase the total number of enterprise zones available for designation from 30 to 35. The enterprise zone program is one of Wisconsin's most competitive tax credit programs. As of today, WEDC has designated 24 enterprise zones, two of which are no longer active, and there are 12 potential projects currently in our pipeline. The 22 active zones are expected to result in the creation of over 14,800 new jobs, the retention of almost 24,000 existing jobs, and result in an investment of \$2.2 billion. This increase, along with the provision in Governor Walker's proposed budget to re-designate a zone once it has expired or been revoked, will ensure that Wisconsin can continue to meet the economic development opportunities throughout the state.

The second provision includes a special amendment to the enterprise zone program which will allow WEDC to retain the headquarters, and the accompanying 600 plus family supporting jobs, of a long-time Wisconsin-based financial services company. This company has been heavily recruited by another state for relocation and this amendment will provide for a one-time change in how the company's base number of jobs is established. The recent LFB memo indicated the change would provide up to \$10 million in tax benefits for the company. However, that number is based solely on the number of jobs to be retained. The company will also be able to earn an additional \$2.5 million in credits, as described under existing law, on the proposed \$25 million in capital expenditures it will invest. The combination of the retained jobs and capital expenditures will bring the total amount of state incentives to \$12.5 million. With this change, and along with the incentives offered by our local economic development partners, Wisconsin will make a compelling case for the company to retain its headquarters, and the accompanying 600 plus jobs, in Wisconsin.

These two provisions will support WEDC as it continues to proactively engage with companies considering operations in Wisconsin. That level of engagement by WEDC and the rest of state government was crucial in attracting a global leader like Foxconn to our great state.

Wisconsin is ready. With 13,000 family supporting jobs, a \$10 billion capital investment, and countless opportunities for our academic partners, our existing job creating businesses, and our taxpayers – Wisconn Valley will be transformational for our 21st Century economy.

Secretary Neitzel Comments

The magnitude of a project that creates 13,000 new family supporting jobs and invests \$10 billion presents unique challenges for local units of government. There are areas in which the state needs to provide assistance and offer flexibilities to the local communities who might host the facility, which are included in Special Session Assembly Bill 1.

First, numerous changes are made to general Tax Incremental Financing law for a district that includes an Electronics and Information Technology Manufacturing Zone. These changes will ensure that local governments are able to finance the necessary infrastructure improvements related to the project and include extending the expenditure radius, increasing the life of the TID, and exempting the TID from the 12% equalized value rule.

Second, the legislation establishes an Economic Development Grant Program which will have \$10 million available for local governments to assist with additional costs associated with this development.

Third, the legislation allows a local unit of government to utilize the design-build process for new water treatment or sewage facilities, if the expansion or new facility is a result of development associated with this project.

Finally, the state offers its moral obligation for up to 40 percent of the local government's obligations that were incurred for this project. To protect the state's interest under this provision, any debt that is issued with the state's moral obligation would need to first be approved by the Department of Administration Secretary.

The legislation also allows state agencies the regulatory flexibility needed to allow this facility to be operational in a timely fashion while still protecting the public's interest and the environment. These modifications within the zone do not impact any federal requirements, nor does it change any state air, water quality, or solid and hazardous waste standards and permitting requirements.

Environmental Impact Statements:

Under this legislation, state environmental impact statements that have no regulatory consequence and can be time-consuming will not be required for projects within the Zone. The DNR, however, will continue to evaluate and consider all environmental impacts as part of the permitting process. Federal environmental impact statements will still be required.

Wetlands:

Under this legislation, the state wetland permitting process is waived for federal and nonfederal wetlands located within the Zone. Any permitting for federal wetlands would still need to be approved by the Army Corps of Engineers, pursuant to the federal Clean Water Act.

Further, wetland mitigation is strengthened under this legislation. Any wetlands that are filled within the Zone, must be mitigated at a ratio of two acres for every one acre that is filled. This is a higher ratio than required under current state law, which is a ratio of 1.2 acres mitigated for every 1 acre filled.

Waterways:

The legislation allows similar exemptions related to waterways that are already in statute for Milwaukee County. The DNR retains their ability to require a permit for any structures, deposits, bridges and culverts in navigable streams if there would be a significant adverse impact to the public rights and interests.

Lake Michigan Basin:

The bill allows a straddling community to be included in the relevant water supply service area, but does not impact the current Great Lakes Compact.

Certificates of Authority:

The legislation allows the building of new or the relocation of existing public utility infrastructure within the Zone to occur without obtaining a certificate of authority from Public Service Commission, creating a more streamlined and efficient process for public utility infrastructure.

Market-Based Rate:

The legislation will allow a company located within the Zone to nominate a share of their electricity use for wholesale pricing, subject to approval by the Public Service Commission.

Finally, the legislation includes contingent bonding for the Department of Transportation for the I-94 North/South project of up to \$252.4 million. This bonding will be contingent on receiving funds from the federal government. The additional funds, if received, will help ensure the project is completed on time to accommodate the additional commerce that will occur in the region with this project.

With 13,000 new family-supporting jobs and a \$10 billion capital investment, the incentives included in this legislation will provide significant dividends to the state for years to come. The high-tech manufacturing ecosystem that Foxconn will

develop in Wisconsin will transform our state's economy. The creation of Wisconsin Valley, and all related economic development will be felt for years to come. Let's once again have it Made in America: Right here in Wisconsin.

Thank you for the opportunity to testify today about this exciting and transformational project for our state. We look forward to answering any questions committee members may have.