



KATHLEEN VINEHOUT

STATE SENATOR

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Foxconn: The Hype and the Small Print

By
Senator Kathleen Vinehout

Great News! A big tech company called Foxconn is coming to southeast Wisconsin and bringing with it a lot of new jobs. The new company will build a big factory and make flat screens for computers.

The Governor tells us the company will create 13,000 jobs that pay nearly \$54,000. Other businesses will benefit because the company will buy things from Wisconsin businesses.

But, as Paul Harvey used to say, “Here’s the Rest of the Story.”

For its part, Wisconsin will pay \$3 billion in tax credits and other subsidies over 15 years to the company. Tax credits are refundable – meaning if the company owes nothing in taxes, they will still get a check from the taxpayers of Wisconsin for the amount of the tax credits. It is important to note that manufacturing companies already pay almost nothing in state income tax.

Foxconn announced the company would create up to 3,000 new jobs. Local people will not get any benefit of property tax dollars from the factory for 30 years. We don’t yet know who the local community is but rumors point to Racine.

The bill to authorize the project was made public late Friday.

In the proposed legislation, there is no mention of 13,000 or 3,000 jobs. Tax credits can be awarded for fulltime jobs with a salary of \$30,000 in Racine or \$22,600 for a job in Milwaukee.

At a salary of \$30,000 in Racine for 3,000 jobs, the state would be paying all the salary of the workers for 15 years at a cost of \$90 million a year. At \$3 billion in state dollars, the state will be paying a million per job – more than the total cost of all the new jobs.

Marketwatch, a publication of Dow Jones, analyzed the deal. How, the author asks, will this plant find and keep its workers in an economy with 3.2% unemployment by paying less than state average wages?

The answer may be found in an assumption made in the economic analysis paid for by the company and touted by the Governor's office. Job numbers reflect "job location" and could be filled by residents or nonresidents.

The company will pay nothing in sales tax for building materials, supplies, equipment and services. This provision is directly at odds with the economic analysis. If sales taxes are not paid, the projected state and local tax benefits fall in the short term by half and in the long term by a quarter.

Other details one might ponder.

The bill borrows over a quarter billion to fix the Interstate between Milwaukee and the state border. This move helps finesse the impasse on the state's transportation budget.

The Governor adds five new enterprise zones to be given away. Remember enterprise zones make refundable tax credits – a check that goes to the company's owners even if they pay nothing in state taxes. Some legislators are cautious of these giveaways. Efforts beyond what is needed for the Foxconn deal might be seen as a way to expand giveaways later without legislative oversight.

Nestled in the bill is the authorization for local government to write no-bid contracts; exemptions from state environmental protections including for navigable waters and wetlands. The company is not required to submit an environmental impact analysis to the state. The bill changes the law related to diversion of water under the Great Lakes Compact. Some rules related to permitting utilities do not apply to the project. The claw back provisions are only permissive, not mandatory.

And nothing about the company's obligation to the state is set. The three-page Memorandum of Understanding (MOU) released by the Governor's office ends with a vague paragraph that reads all the terms of the MOU are "subject to final negotiations" with the State and Mr. Gou "acknowledging the importance of finalizing an agreement" by the end of September.

All of the environmental and economic concerns must be taken into consideration in the context of an industry rapidly moving toward automation and robotic workers; a company with a history of not delivering promised jobs. And a company with a history of abusing its relationship with its workers.

All of the details should be public before the legislature approves the project.

We wouldn't want to buy a \$3 billion lemon.