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## Inside Michigan's \$7.3B pitch to Foxconn

Jonathan Oosting - Oct. 19, 2017



*(Photo: Patrick Lin / AFP/Getty Images)*

*Lansing* — As Michigan continues to compete for a Foxconn Technology Group development, a newly released document reveals the state offered the Taiwanese electronics manufacturing giant \$7.3 billion in tax breaks, savings and cash incentives for three potential projects.

Michigan lost out on the biggest target, a \$10 billion flat-screen panel plant the company chose to locate in Wisconsin. But the offer sheet included two other facilities the state may still be in

the running for, including a multibillion-dollar factory that could land in Romulus and a mixed-use, research and development space pitched on behalf of Detroit.

Economic development experts argue Michigan is still well positioned to land some kind of Foxconn facility, a prospect Chairman Terry Gou has openly discussed.

“If indeed Foxconn does its planned second production site, we have no reason to think it will not be in Michigan,” said John Boyd, a principal of The Boyd Company Inc., a corporate site selection consultancy based in Princeton, N.J. “Just the company publicly talking about Michigan is a tremendous victory for the state.”

Michigan’s June 25 offer document, first obtained and reported by the Milwaukee Journal Sentinel, details the incentive offer for what was code-named “Project Flying Eagle.”

The Michigan Economic Development Corporation letter included a \$3.7 billion pitch for the “Project 818” flat-screen panel plant that would have been located at a site in Marshall but instead went to Wisconsin.

At first glance, the offer was richer than the \$3 billion incentive package Wisconsin lawmakers approved in September. But as the Journal Sentinel reported, Wisconsin will provide much larger cash incentives.

Michigan’s offer included automatic tax savings available to any manufacturer in the state and anticipated a larger job-based cash incentive plan than the Legislature ultimately approved. The state would have actually been able to offer roughly \$2.3 billion in cash and tax incentives for the project, according to the MEDC.

The state made a second, \$3 billion pitch for a potential facility dubbed “Project 868” and proposed for the Romulus Metro World site near the Detroit Metro Airport. The state’s offer amounted to nearly \$1.6 billion in cash and tax incentives for a \$4.2 billion Foxconn investment that would create 4,200 jobs.

It’s not clear if Foxconn still plans to build the facility, but both Michigan and Wisconsin continue to vie for additional company investments.

Gov. Rick Snyder met with Gou, who founded Foxconn, during an Asian trade mission in late August. Chinese news outlets reported that Gou described “multibillion dollar” plans for Michigan, including a research and development facility for autonomous vehicle components.

Dan Foster, a national site selector for the Newmark Grubb Knight Frank commercial real estate firm, said Foxconn is actively exploring additional locations in the Midwest. Gou’s comments are “a good sign” for Michigan, he said.

Michigan's offer sheet listed another \$543 million in potential incentives for a mixed-use office and research and development center at an undisclosed location in Detroit, which MEDC submitted on behalf of the city alongside the state bid.

The document did not include additional details about the potential Detroit development. A spokesman for Mayor Mike Duggan, who joined Snyder at a Foxconn meeting in Japan in early June, declined comment.

Despite Gou's earlier statements, Foxconn has not confirmed any concrete plans in Michigan but said it is "one of the states" under consideration as an investment location.

"We are engaged in an ongoing, productive dialogue with the company," Snyder spokeswoman Anna Heaton said Wednesday.

### **Wisconsin wins round 1**

Wisconsin won the first round of the Foxconn sweepstakes after finalizing a \$3 billion incentive plan that will reportedly allow the company to qualify for up to \$2.85 million in cash from that state.

Foxconn plans to build a liquid-crystal display panel plant in Racine County and will qualify for the full state incentives over 15 years if it invests \$10 billion in Wisconsin and ultimately adds 13,000 jobs paying an average salary of nearly \$54,000.

Cash incentives tend to be high on a company's wish list, Foster said. Site selectors who work with companies seeking new locations are "trying to compare apples to apples across the board," he said. "We're going to try to reflect the true cost of doing business in that state."

Michigan's \$3.7 billion pitch for a flat panel factory in Marshall included automatic tax breaks for manufacturers, such as a personal property tax exemption on equipment that voters approved in 2014, to highlight the state's business climate in addition to available incentives.

The offer included \$1.97 billion in tax incentives, including a 30-year "Renaissance Zone" designation, and nearly \$346 million in cash incentives, including performance-based incentives that would have required job creation.

It also listed \$578 million in potential incentives through a "good jobs" tax capture bill that was being considered in the Michigan Legislature. Lawmakers later capped the program at \$200 million before Snyder signed it on July 26, the same day Foxconn confirmed its Wisconsin investment.

"We expect an 80 percent chance these bills will be approved by the legislature," the MEDC said in its June letter to a Detroit-based attorney for the Ernst & Young professional services firm.

Lawmakers say the “good jobs” incentive law, which will allow a qualifying businesses to capture some or all of its new employee income tax, was never intended to benefit a single community or company. Backed by a coalition of statewide business groups, it will allow up to 15 job-based agreements a year through 2020.

“I think it’s good for the whole state, not just that particular deal,” Senate Majority Leader Arlan Meekhof, R-West Olive, said Tuesday.

### **Michigan in hunt**

The Michigan offer sheet included a second \$3 billion pitch for a potential Foxconn development the company has not yet announced. It amounted to more than \$1.5 billion in tax and cash incentives for the Metro World site in Romulus.

The offer included a renaissance zone designation “virtually eliminating state and local taxes,” according to the MEDC, which valued the tax break at more than \$1 billion.

Cash incentives included tax capture revenues under the “good jobs” law, \$30 million in performance-based funding from the Michigan Business Development Program, \$32 million in federal and state workforce funding, \$36.6 million in land and capital investment loans, and a \$20 million transportation grant to make infrastructure improvements near the project site.

Combined, long-term cash and tax incentives for the two major Foxconn projects could have totaled \$3.87 billion, roughly 7 percent of the Michigan’s total annual budget and nearly 40 percent of the annual general fund budget.

The state could not have delivered on its full \$7.3 billion pitch, however, because it included more than \$1 billion in combined incentives through the “good jobs” proposal later capped at \$200 million total.

Incentive skeptics say Wisconsin gave up too much money to land Foxconn and are warning Michigan against following a similar path.

“These are job announcement programs more than job creation programs,” said Michael LaFaive of the free-market-oriented Mackinac Center for Public Policy, who argued Wisconsin voters will “rue the day” their elected officials approved the incentive plan. Snyder has traditionally opposed tax incentives, but his position softened as the state sought additional ways to land major companies beyond business tax cuts he approved in 2011.

Boyd said the Wisconsin incentive plan, like the more modest Michigan legislation, is not a “blank check” for Foxconn. Instead the company will have to create jobs to qualify for the full incentives.

“We call economic development in 2017 the second war between the states,” Boyd said. “That’s how competitive things are today, and for a state like Michigan, incentives are a necessary evil.”