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U.S.

# Wisconsin's Foxconn Deal Highlights How States Use Cash to Sweeten Bids

As Amazon weighs options for second headquarters, such incentives can be more enticing than tax breaks



From left, U.S. House Speaker Paul Ryan (R., Wis.), Wisconsin Gov. Scott Walker, Foxconn Technology Group Chairman Terry Gou and U.S. Sen. Ron Johnson (R. Wis.) appeared at a White House event announcing the state's deal with Foxconn on July 26, 2017. PHOTO: ANDREW HARRER/BLOOMBERG NEWS

By *Cara Lombardo*

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Wisconsin's \$3 billion bid this summer to land Foxconn Technology Group's first major U.S. factory looked smaller than that of a neighboring state's, but included an increasingly popular feature that likely made the difference: cash.

Cash incentives are likely to come up as Amazon.com Inc. weighs dozens of offers that were due this week from cities eager to house its second headquarters, experts say. It could also be a factor for cities looking to land a possible second Foxconn plant.

Amazon declined to comment, but its request for proposals asked that state and local government bidders indicate whether tax credits offered in exchange for investment and job creation will include cash refunds.

Michigan tried to lure Foxconn, a Taiwanese technology giant, with an incentives package totaling \$3.8 billion, or 27% more than Wisconsin's record-breaking package, according to documents reviewed by The Wall Street Journal. Michigan's offer also would have required fewer jobs to be created than the final offer from its neighbor.

But Michigan's plan relied heavily on credits that would reduce Foxconn's tax bills, an approach that has fallen out of favor as large companies increasingly gravitate toward offers like Wisconsin's that come with cash.

"It's a very shiny component and it's easy to quantify," said Paul Gevertzman, a tax partner at Anchin, Block and Anchin LLP, who specializes in economic development. "Regardless of your situation, even if you have no tax to pay, even if you have a loss, you get a check back."

Ten years ago, few states' primary economic development tools were refundable, a feature that allows businesses to receive cash payments for unused tax credits and incentives, said Jay Biggins, executive managing director at consulting firm Biggins Lacy Shapiro & Co.

Today at least 19 states, including Wisconsin, have such programs, according to research by Mr. Biggins's firm. Michigan doesn't.

"These programs are powerful," said Mark Sweeney, a senior principal at McCallum Sweeney Consulting, whose firm helps negotiate deals for companies including Northrop Grumman Corp. "They impacted the Foxconn decision and they will impact the next Foxconn decision."

Traditional tax credits are valuable only to the extent that a company has a tax liability. Other credits can be sold, but usually at a discount. With refundable benefits, though, states promise cash payments for unused tax credits, making them useful to companies in a wider range of circumstances, including those that show little income or are already eliminating taxes owed through other tax breaks.

Refundable credits, sometimes described as paying for jobs, can be a hard political sell.

Wisconsin's 15-year deal, which could cost taxpayers roughly \$15,000 for each Foxconn employee each year, drew criticism from Democratic lawmakers as well as the conservative group Americans for Prosperity, all of whom said that the cost was too high. And a state analysis found taxpayers wouldn't recoup their investment through increased tax revenues until the fiscal year ending 2043.

Wisconsin State Sen. Jon Erpenbach, a Democrat, said taxpayers may never be fully reimbursed if Foxconn automates jobs in the future.

He cautioned other states against rushing into similar deals.

"You might as well start writing checks and hope that those jobs come in the end," Mr. Erpenbach said. "If they don't, you're going to be out a lot of money to build a really nice facility for robots to work in."

A spokesman for Gov. Scott Walker defended the deal, describing it as "pay-as-you-grow," meaning the state will pay incentives as Foxconn builds facilities and creates jobs.

Foxconn in a statement said many factors guide its decisions about where to do business, and investments made by state and local governments are certainly considered.

Michigan's final offer for Foxconn's flat-screen factory assumed the company would spend \$6.1 billion and create 8,800 jobs, compared with the 13,000 jobs Wisconsin negotiated, according to a June 25 letter from the Michigan Economic Development Corporation obtained by the Journal in an open records request.

Michigan officials proposed building the project in Marshall, a small community about 100 miles west of Detroit. The bulk of the offer's value came from tax credits, some of which are already written into state law, the records noted. Several of the cash incentives, which totaled \$723 million, would have required legislative approval, the records showed.

Wisconsin's final offer promises Foxconn as much as \$2.85 billion in cash refunds over the next 15 years to offset portions of its payroll and building costs. Because Wisconsin already waives many taxes for manufacturers, Foxconn is guaranteed cash payments. Only a small portion of the offer, a \$150 million sales tax exemption, wouldn't be paid in cash.

A spokesman for the Wisconsin Economic Development Corporation declined to comment on the negotiations or say the how large of a role the cash payments played.

"Wisconsin's offer was in the ballpark with other states," he said.

At least one state, North Carolina, had a substantially smaller offer for the project, proposing \$570 million in state incentives, records from that state show.

Several states, including Wisconsin, Michigan, North Carolina and Pennsylvania, also prepared bids for a potential second Foxconn project, according to documents reviewed by the Journal. The location of that project hasn't been announced.

Wisconsin, meanwhile, this week delayed a vote to finalize the project planned for Racine County after an issue surfaced concerning the contract's requirements of Foxconn. Gov. Walker has said he is confident the two sides will reach an agreement.

Competition is fierce among cities across the country for Amazon's second headquarters, estimated to bring up to 50,000 new jobs. As New Jersey Gov. Chris Christie unveiled an offer Tuesday that included \$5 billion in state tax incentives for the company to come to Newark, N.J., the Republican dared other states to top it.

New Jersey doesn't currently have a refundable incentive program. Officials with the governor's office and the New Jersey Economic Development Authority declined to say whether the offer assumed a state legislature would enact one.

*—Coulter Jones contributed to this article.*

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