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Less Optimistic Assumptions Illustrate Risk of Never Breaking Even on the Foxconn Subsidies

It could take Wisconsin until at least 2050 to recover the proposed expenditures for Foxconn if the employment by the company levels off at 6,500, according to [a new report by the Wisconsin Budget Project](#). Foxconn has said that the plant it wants to build in southeast Wisconsin could employ between 3,000 and 13,000 workers.

The new analysis follows a report issued last week by the Legislative Fiscal Bureau that summarized Department of Administration calculations that Wisconsin could break even on the Foxconn subsidies in 2043 if the company's workforce in southeast Wisconsin reaches 13,000. In contrast to that "best case scenario," the Budget Project's report analyzes two alternative sets of assumptions that are still within the range of job creation discussed by Foxconn.

"Before state legislators sign off on such massive subsidies for a single company, we should carefully consider the potential costs and risks for state taxpayers based on less optimistic employment projections," said Jon Peacock, director of the Wisconsin Budget Project. "It isn't prudent to focus solely on a Department of Administration analysis that relies on a very rosy set of assumptions provided by a consultant for Foxconn."

The first alternative that the Budget Project considered is that Foxconn employs 6,500 workers and the new business activity results in the creation of an additional 16,500 jobs elsewhere, rather than the increase of 22,000 assumed by the Department of Administration (DOA) analysis. In addition, that alternative scenario assumes that 5 percent of the new sales and income tax revenue generated by the project is reaped by Illinois or other states.

Under those circumstances, the Budget Project concluded that although the cost to the state of the new tax credits would be almost \$500 million less, the reduction in new tax revenue would mean that the state would not break even until at least 2050.

The second alternative analyzed by the Budget Project is that Foxconn would hire 3,000 workers, and there would be an increase of 11,000 jobs elsewhere. Under this scenario, a larger percentage of the indirect employment increase is likely to be among suppliers, some of whom will be outside Wisconsin, so the Budget Project assumed that 10 percent of the tax gains would be reaped by Illinois or other states. Based on those assumptions, the Budget Project calculated that the state would not break even on its subsidies until at least 2058.

"Our calculations help illustrate that it may be wishful thinking to believe that by 2043 the state would break even on the huge subsidies that lawmakers are considering granting to Foxconn," Peacock said. "Our analysis also reveals that if the plant closes much before then, Wisconsin won't

(more)

come anywhere close to recovering the cost of the huge checks that will be sent each year to Foxconn. “

Many commentators have noted that the volatility of the technology sector raises questions about how long the proposed plant will be current and profitable. In light of that concern, the new report examines how much Wisconsin would still be in the hole for its Foxconn spending if the plant ended operations when the subsidies end in 2034, or if it ceases operations 25 years from now.

Even under the best case scenario, if Foxconn ceased operating in Wisconsin in 2034 the state would be in the hole by at least \$922 million. Under the less optimistic scenarios, a plant closing in 2034 would mean the state would fall short of recovering the cost of the subsidies by between \$949 million and \$1.1 billion.

“Considering how many revolutions there have been over the last couple of decades in television and flat screen technology, there’s a very real risk that state taxpayers would never get back all the massive subsidies that have been proposed,” Peacock said.

Table 1: Less Optimistic Assumptions Delay the Breakeven Date

| | Best Case Scenario | Alternative 1 | Alternative 2 |
|------------------------------------|---------------------------|----------------------|----------------------|
| Foxconn jobs | 13,000 | 6,500 | 3,000 |
| Other “indirect” jobs | 22,000 | 16,500 | 11,000 |
| Total ongoing jobs | 35,000 | 23,000 | 14,000 |
| Cost of tax credits | \$2.84 billion | \$2.36 billion | \$1.73 billion |
| New taxes - ongoing | \$115 million/yr. | \$75.3 million/yr. | \$46.7 million/yr. |
| Percent of tax growth reaped by WI | 100% | 95% | 90% |
| Breakeven year | 2043 | 2050 | 2058 |

Table 2: Estimate of the unrecovered subsidies if the Foxconn plant closes

| | Scenario 1 | Scenario 2 | Scenario 2 |
|------------------------------|-------------------|-------------------|-------------------|
| Foxconn jobs | 13,000 | 6,500 | 3,000 |
| Unrecovered subsidies: | | | |
| Foxconn plant closes in 2034 | \$922 million | \$1.10 billion | \$949 million |
| Foxconn plant closes in 2042 | \$1.8 million | \$530 million | \$621 million |

The new report is posted online here: [The Significant Risk of Not Breaking Even on Foxconn Subsidies.](#)

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The Wisconsin Budget Project, an initiative of Kids Forward, is an independent Madison-based research group that focuses on tax and budget policy.