

Memo

To: Joel Brennan
From: Sam Ridders
Date: May 1, 2019
Re: Foxconn Update

This memo summarizes the evolution of Foxconn's planned investment and operations in Racine County's Village of Mt. Pleasant since it executed an agreement with the State of Wisconsin. In November 2017, the WEDC board approved a contract with Foxconn where Foxconn would:

- Build a Gen 10.5 jumbo LCD manufacturing facility across a 20-million-square-foot campus in an enterprise zone (the Zone) located in the Village of Mount Pleasant in Racine County;
- Invest up to \$9 billion in the Zone; and
- Employ up to 13,000 people in Wisconsin, either working directly in the Zone or outside the Zone, but for the benefit of its operations. Initially, Foxconn predicted its Wisconsin workforce would split 75-25 - manufacturing/assembly to engineers/managers.

In turn, the State agreed to provide Foxconn:

- Up to \$1.35 billion in subsidies tied to its capital investment in the Zone; and
- Up to \$1.5 billion in subsidies tied to the jobs it creates.

Furthermore, the State would support the project with additional subsidies totaling approximately \$300 million. These include:

- Foxconn's Sales and Use Tax Exemption - \$139 million;
- State and Local Road Improvements to the development area - \$134 million;
- DWD Worker Training and Employment - \$20 million; and
- DOA grants to local governments - \$15 million.

According to a March 2018 Legislative Fiscal Bureau report, additional local and federal subsidies for Foxconn amount to more than \$1 billion.

Changing Plans

Foxconn's intentions began shifting within ten months of the contract's execution. In August 2018, Foxconn suggested it was jettisoning plans to construct a Gen 10 LCD plant. Foxconn's Louis Woo told the *Racine Journal Times* that by the time it would be built, the market would be glutted by other manufacturers in China. Woo continued that Gen 6 panels might not be manufactured in Racine for long. Rather, Woo said, workers at the Wisconsin plant will be focused on figuring out new ways to use Foxconn's display, cellular, and AI technology, building out an "ecosystem" Woo calls "AI 8K+5G."

Foxconn's August 2018 announcement did not bode well for the promise of manufacturing jobs, a central component of the project's appeal for the State and a main justification for the size and scope of the subsidy. Woo said that because of strides in automation, the makeup of the 13,000 employees would involve dramatically less factory labor than promised. Rather than a 75-25 split between factory and engineering jobs, "now it looks like about 10 percent assembly line workers, 90 percent knowledge workers." Almost all the actual assembly line work, he added, will be done by robots.

November 2018 – February 2019

Between the November 2018 election and early March 2019, work on the Foxconn project in Mt. Pleasant slowed. In late January 2019, Foxconn's Louis Woo told Reuters "In terms of TV, we have no place in the U.S. We can't compete." According to Woo, rather than a focus on LCD manufacturing, Foxconn wants to create a "technology hub" in Wisconsin that would largely consist of research facilities along with packaging and assembly operations. It would also produce specialized tech products for industrial, healthcare, and professional applications, he added. "In Wisconsin we're not building a factory. You can't use a factory to view our Wisconsin investment," Woo said.

March 2019 to present

On March 11, 2019, Woo returned to Wisconsin and confirmed that Foxconn would not be building a Gen 10.5 plant, citing changing market forces. Despite this news, Woo affirmed Foxconn still planned to build a FAB in the Zone. In a meeting with state officials, including Governor Evers, Woo explained that Foxconn planned to build a campus focusing on three business/product lines. He described them generally as follows:

- The manufacture of Gen6 LCD screens for use in the automotive and health care sectors;
- The manufacture and/or assembly of server boards and perhaps the establishment of a data center;
- A medical/healthcare related facility potentially featuring Foxconn's cyber knife.

Woo predicted that Foxconn revised plans would employ up to 1,500 people and amount to an approximately \$2 billion capital investment.

Woo also indicated Foxconn was interested in revising its contract with the State of Wisconsin to 1) substitute reference of its construction of a Gen 10.5 LCD facility with language that reflects its revised plans in the Zone, 2) include additional Foxconn subsidiaries in the contract; and 3) extend the period during which Foxconn is eligible to qualify for capital investment tax credits by two years from December 31, 2025 to December 31, 2027.

Since Woo's March 2019 statements, Foxconn has provided details only about the Gen6 LCD FAB. The design of the Gen 10.5 LCD FAB proposed by Foxconn in 2017 stretched across 20,000,000 square feet campus and included more than 10,000,000 square feet of facilities. By comparison, Foxconn's proposed Gen6 FAB is 860,000 square feet.

Foxconn's has presented an ambitious timeline to construct the Gen6 FAB. Publicly, Foxconn states the FAB will be operational the fourth quarter of calendar year 2020.

Progress

Based on its activity during the last seven weeks, Foxconn is making significant efforts to construct and partially operate a Gen6 LCD FAB by 2020. Specifically, in April 2019, Foxconn,

- Announced \$34 million of contracts to build internal roadways and make connections with utilities brought to the edge of this site;
- Put out bid packages to construct:
 - The footings and foundation of the FAB; and
 - A separate facility on the development site to bring to and regulate power to the FAB.
- Submitted initial design plans to the Department of Safety and Professional Services (DSPS) for review and permitting. DSPS and Foxconn are in regular weekly communication addressing potential issues with the design's code compliance, ultimately expediting the FAB's review and approval.

In addition, Foxconn is hosting an event in early May 2019 to recruit and hire 30 engineers to operate the FAB and train additional employees and is meeting with DWD officials in late May to discuss compliance with federal and state labor laws.

At the same time WisDOT, continues to expand and improve the system of roads servicing the site, while Racine Water, ATC, We Energies, and the Village of Mt. Pleasant continue to bring industrial water, electric, natural gas, and sanitation services the Zone.

Lingering Questions

While Foxconn is actively working to construct and operate a FAB to manufacture Gen6 LCD screens by 2020, it has not publicly disclosed the number of people this facility will employ, the nature of their work, or how Foxconn will recruit and train this workforce. When pressed by the public and the media about the dramatically smaller footprint of its Gen6 FAB in terms of capital investment and workforce demands, Foxconn explains that this facility reflects only Phase 1 of its plans for the Zone, but does not provide further details or a timeline for subsequent phases.