Mark R. Hogan Secretary and CEO



June 26, 2017

Mr. Brian R. Smith Ernst & Young, LLP 155 N. Upper Wacker Drive Chicago, IL 60605

Dear Mr. Smith:

Clearly there has been significant activity over the past eight weeks around **1999** 818 **1999** for Project Flying Eagle ("the Company"). On behalf of Governor Scott Walker and the various members of the State of Wisconsin ("Wisconsin") team, including those of us at the Wisconsin Economic Development Corporation ("WEDC"), let me express my sincere appreciation to the Company's executive leadership team as well as to you and your Ernst & Young ("EY") associates. This is a significant investment on the part of both the Company and Wisconsin, and the cooperation and communication at all levels gives us confidence this will result in our achieving mutually beneficial long-term goals.

As the Company commences the process of reviewing its alternatives, and acknowledging there is additional information required for Wisconsin to create greater certainty around our proposal, I believe this is the appropriate time to summarize these discussions regarding the Company's process and Wisconsin's proposal. The following attempts to briefly highlight the primary topics of these conversations:

## (1) Site Locations

The Company has identified that could possibly be used for <b>1999</b> 818 <b>1999</b> . They	/
are the	
have parcels of contiguous land that exceed 1,000 acres	3.
EY recently received a request for more detailed project information for <b>EXECUTE</b> 818. This	5
information is necessary for the second second second to refine and detail their respective	
proposals for the Company as well as outline specific requests each site will have for the state.	

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## (2) Incentives & Special Legislation

In my letter to you dated June 2, 2017, I indicated Wisconsin's proposal included state and local incentives of up to \_\_\_\_\_\_ and \$1.25 billion for \_\_\_\_\_\_ 818 \_\_\_\_\_ 818 \_\_\_\_\_. Although not noted in my letter, of these amounts, approximately \$100 to \$150 million was attributed to local incentives.

As discussed in #1 above, the local incentives will continue to evolve as the Company's needs are better defined. As a result, I believe at this point it would be constructive to separate the local from the state incentives for the purpose of simplifying the analysis. In doing so, the state-based incentives for **18** would have been calculated at approximately **18** and \$1.1 billion, **18** for the purpose of my June 2<sup>nd</sup> letter.

WEDC would utilize the Enterprise Zone ("EZ") as the program under which the incentives would be authorized. Although current Wisconsin statutes allow for refundable tax credits of up to 7% for eligible wages and 10% for capital expenditures, the proposal outlined in my June 2<sup>nd</sup> letter considered an increase in the advance against eligible wages to 10%.

Subject to our satisfactory review of the required information requested in #3, Wisconsin would consider a further increase of the advance percentages made against either, or perhaps both, the eligible wages and capital expenditures. This could potentially increase the incentives for 818 approximately and \$200 million.

As noted in my June 2<sup>nd</sup> letter, Wisconsin's proposal would require legislative action to establish a special "manufacturing zone" dedicated to meeting the specific needs of the Company. A primary purpose of the special legislation would be to modify and expand the EZ's earnings' formula currently maintained in the statutes. This special legislation would also address the specific requirements of **EXECUTE**. As we have discussed, from the point the Company gives Wisconsin the authorization to move ahead, we would anticipate the special legislation would require four to six weeks to finalize.

## (3) Additional Required Information

The Company has identified Cost, Speed and People as the primary factors that will drive the Company's decision as to where to locate its new facilities. Governor Walker, WEDC, and our local and regional partners have clearly responded to the Company's desire to move quickly through the process. We also remain confident the Wisconsin model for addressing workforce requirements will be successfully implemented for the Company. Cost then becomes the critical factor in the Company's decision-making process as it attempts to level the playing field with its competitors.

Similarly, and as we have discussed on several occasions, Wisconsin and WEDC are also focused on making investments that provide a return ("ROI") to the state's taxpayers. The Company's location decision will have a tremendous impact on Wisconsin for generations to come. This is why it is essential for the state to understand how our investments in the Company (e.g. refundable tax credits) will impact the fiscal health of Wisconsin, and our taxpayers, going forward.

WEDC typically uses an industry-accepted ROI model that focuses primarily on the state individual income tax revenues that will be generated from the direct and indirect jobs created by the Company. Given the magnitude of the Company's investment and the corresponding potential size of the incentives, it is important for WEDC to consider other factors in how it determines its ROI.

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As we have discussed, WEDC's ability to review EY's economic impact analysis is critical for the state to substantiate the incentive proposals outlined in my June 2<sup>nd</sup> letter (and certainly any possible increases to those amounts). The economic analysis should provide a wide view of the impact the Company's presence will have in generating additional sources of revenue for the state. For example, it would be extremely helpful for this analysis to provide specifics on the positive impact the Company's presence will have on attracting additional supply chain companies to the state. Discussions around the supply chain's potential capital investment and employment levels would provide invaluable information that would support the elevated incentive levels.

It should be noted one of the requirements of WEDC's application process will be for the Company to provide financial projections outlining the impact the projects will have on the Company's operating revenues and expenses. Providing these financial projections now will give the state meaningful information that will identify and quantify other sources of revenues (e.g. sales tax) which in turn, will allow us to better identify appropriate levels of incentives.

Please note, WEDC's ability to continue to meet the Company's accelerated timelines warrants our receiving EY's impact analysis and the financial projections as soon as possible.

Governor Walker's active engagement over the past eight weeks has been critical in our ability to establish a strong relationship with the Company's leadership team. The Governor's strong interest should provide the Company a comfort level that you have the full support of Wisconsin's government, academic and business partners, all of whose involvement will be essential for the Company's ongoing success.

A prime example of the level of attention the Company's projects are receiving is the ad hoc group of Governor Walker's cabinet secretaries who are now meeting weekly to identify and address any issues that may arise from the proposed projects. Under the direction of Wisconsin's Department of Administration Secretary Scott Neitzel, this group includes executive level representatives from the state agencies responsible for natural resources, transportation, housing, workforce development, regulations, and revenue.

The accompanying information represents preliminary estimates, contingent upon the receipt of your completed application, WEDC's underwriting and review, the availability of funds, the legislative actions discussed earlier, and the approval of WEDC's Board of Directors.

Thanks again to you and the Flying Eagle team for the cooperation and collaboration we have enjoyed in recent weeks. I look forward to continuing to expand our relationship in a manner that will make these projects a reality and at the same time, help move Wisconsin Forward.

With best regards,

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Mark R. Hogan Secretary and CEO

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