

## SECTOR COMMENT

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State and local government – Ohio

## Intel plant will bring jobs, economic boost; state aid to ease infrastructure pressure

On January 21, the [State of Ohio](#) (Aa1 stable) announced that [Intel Corporation](#) (A1 stable) plans to invest a substantial \$20 billion to construct a new semiconductor manufacturing plant in the state. If the facility is developed as proposed, the state will provide to Intel a \$1.3 billion incentive package and, in return, benefit from credit-positive job growth and economic diversification. The local governments, [Licking County](#) (Aa2) and the [City of New Albany](#) (Aaa), also stand to benefit from economic development and tax revenue growth, but rapid population growth may place some strain on their infrastructure. The state plans to reduce local infrastructure pressures with a \$691 million investment in road improvements and water and sewer upgrades, though additional local investment may be necessary.

### Added jobs and sector diversification will bolster state's economy

For the state, the plant will bring economic benefits through the creation of new jobs, with resulting gains in income and sales tax revenue, and through sector diversification. The project includes two new chip factories, to begin production in late 2025, and will lead to the creation of 3,000 permanent positions, according to the company. Intel's plants will also attract suppliers and ancillary business that could add more than 10,000 new permanent positions. Construction is slated to begin in late 2022 and could add 7,000 jobs during that phase. The project could include three additional phases, employing thousands more workers and involving tens of billions of dollars in additional investment, Intel said.

The state's incentive package to Intel includes \$600 million in construction grants and approximately \$650 million of tax credits over 30 years. The incentives will be distributed based on specific performance measures such as construction milestones and number of full-time positions. In addition, the state has committed to \$691 million of infrastructure improvements for the local governments surrounding the new plant. The investments will be focused on water and sewer upgrades (\$101 million), roads (\$300 million) and a new water reclamation facility (\$300 million) to address the significant water needs at the new factories. In addition, the state's economic development arm, [JobsOhio](#), will provide \$150 million in economic development and workforce grants to the project.

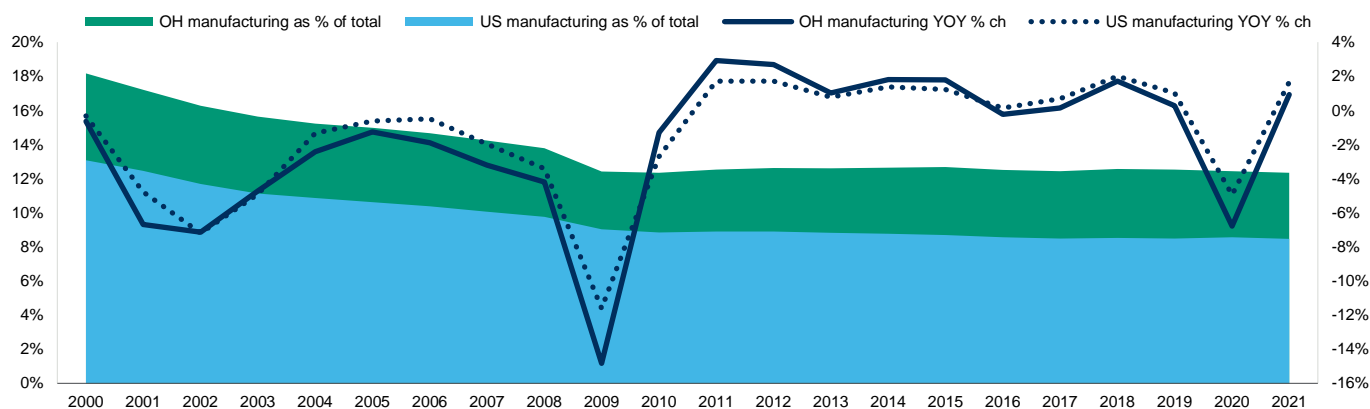
The direct cost to the state of the \$1.25 billion of incentives are affordable to Ohio's large revenue and economic base, though it is high relative to the number of jobs created. If the first phase of the development results in 3,000 permanent positions at Intel, the incentive package is equivalent to \$417,000 per job, but falls to \$65,000 once construction and indirect jobs are included. The total economic value of the development is much larger, however, and the state estimates that the first phase of the facility will add \$2.8 billion to its GDP, which totaled \$675 billion in 2020.

Jobs at the new plant will be relatively high-paying, carrying an average salary of \$135,000 per year, compared with an average annual wage of \$51,510 across the state.<sup>1</sup> In addition to the potential economic boost from higher income tax revenue, the introduction of a well-remunerated employment sector could help to stem outmigration among Ohio's population. That would mitigate a key social risk facing the state. Ohio's population growth of 2.3% over the past 10 years, reported in the 2020 Census, is well below the national average, undermined by negative net migration. Negative net migration has been particularly significant among the working age population (25 to 54), which has declined 5% since 2010 while the group has grown 1.0% nationally.

The arrival of chipmaking will also bring diversification to Ohio's still-important manufacturing sector. Manufacturing, although it has lost 35% of jobs over the past 20 years, plays a significant role in the state's economy: it accounts for 12.3% of employment in the state, compared with 8.5% nationally. Development of the plant stands to bolster the state's role in supporting the auto manufacturing sector, already helped by its central location nationally, strong transportation and trade links, and proximity to car-making hubs in state, and in neighboring Michigan. The use of semiconductors in vehicles is likely to increase sharply, with the chief economist of General Motors, for example, saying that the chip content in the company's vehicles [is likely to double over the next few years](#).

Exhibit 1

### Ohio's important manufacturing jobs have been steadily declining Non-farm employment



Source: US Bureau of Labor Statistics

Ohio's higher education institutions, in particular [Ohio State University](#) (Aa1 stable), would also likely benefit from collaboration with Intel, by partnering for research, experiential learning, and job placement. Although high-tech employment is relatively low in the state currently, at 3.7% of total jobs compared with 5.3% nationally, the state is well-positioned to provide workforce in this new sector. Approximately 38% of the Columbus-area population has a bachelor's degree, higher than the national average, and Intel has committed \$100 million towards partnerships and research programs with regional higher education institutions. In addition, JobsOhio has previously committed to invest \$100 million in Ohio State University's Innovation District to bolster research and development and headcount.

### With state investment, local governments will benefit, though rapid growth could strain infrastructure

For the local governments involved, Licking County and the City of New Albany, the project would bring economic benefits, and the state's \$691 million infrastructure investment would limit the need for local debt issuance. Population growth and the development of real estate to house the facility and its workers would deliver boosts to revenue, primarily from income, sales and property taxes. Property tax growth will be moderated by a 100% abatement on Intel's new buildings in New Albany, however, any ancillary development and residential construction will remain taxable. This will primarily benefit the local school districts, and New Albany has entered into revenue-sharing agreements with the districts to mitigate the negative impact of the Intel tax abatement.

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The size and scope of the new plant, which Intel says could eventually grow to accommodate eight factories, would significantly increase demands on the local infrastructure, including roads, schools and housing. While the state will fund significant local infrastructure development, there may be additional needs that fall on the local governments, particularly school districts that see sharp enrollment increases. To the extent that the city, county or school districts – New Albany Plain Local School District (Aa1) and Johnstown-Monroe Local School District – need to issue debt in order to support new infrastructure, the new plant could increase leverage in the near term.

In other states, some large economic development projects have exposed their local governments to high debt loads and disappointing revenue gains. In [Wisconsin](#), for example, changes in scope of the project and missed job targets by electronics manufacturer Foxconn pose risks to [Racine County](#) (Aa2 stable) and the [Village of Mount Pleasant](#) (Aa3 negative), given their exposure to upfront expenditures and bonding that supported Foxconn's project. The state, while considerably protected given the contingent nature of its support, was also exposed to project failure.

However, the likelihood that Intel's plant will proceed on time and as planned is heightened by the national importance of increased chip manufacturing. Last year, the US Senate approved \$52 billion in funding to support semiconductor research and production, though the legislation still needs approval by the House. Increased manufacturing of chips in the US, which are vital to a broad range of consumer goods and have been in short supply because of global supply chain disruptions, will be credit positive beyond Ohio's borders.

## Moody's related publications

### Issuer Comment

» [Renegotiated Foxconn contract has limited effect on state, local governments](#), 3 May 2021

## Endnotes

<sup>1</sup> According to Bureau of Labor Statistics, as of May 2020.

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