



# Analytics

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**RE: Corporate welfare? Johnson Controls**

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**The state will award \$2.4 million and local officials will provide a ten year property tax break for Johnson Controls to build a second manufacturing and distribution facility in Middletown, Delaware. Is this simply corporate welfare? Well, yes and no.**

**On one hand, giving handouts to Johnson Controls appears to be like making donations to Bill Gates. In the most recent fiscal year Johnson Controls had total sales of \$34 billion from 1,300 locations in 63 countries and 142,000 employees. The return on shareholders' equity was 16%. Sales in the company's American automotive power division (the Middletown plant produces and distributes lead-acid batteries) jumped almost 23%.**

**In addition, no company makes a location decision based upon grants and tax breaks. There are bigger fish to fry such as access to markets, labor costs and utilities.**

**On the other hand the new Middletown plant will add 150 to 200 UAW jobs, and short term construction employment. Manufacturing, and the UAW in particular, and construction have had a tough time recently in Delaware. Assuming an average wage of \$40,000, 20% of the new jobs going to out-of-state residents, a multiplier of 1.5, and an effective state income tax rate of 4.5%, it will take the state about six years to recover its \$2.4 million. That is very likely since it is very unlikely that Johnson Controls will walk away from a \$70 million investment within that time period.**

**Why would chump change and property tax breaks be important to a corporate 100 firm such as Johnson Controls? It is an important indicator that they are welcomed and appreciated. And like taxpayers, businesses will take any breaks they can leverage. All things considered, Johnson Controls is a no brainer.**

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