Fab 8: Town of Malta Property Tax Assessment

Background
In June 2009, GLOBALFOUNDRIES acquired from Luther Forest Technology Campus 222 acres located in the Towns of Malta and Stillwater and started construction on Fab 8, the company's newest 300mm semiconductor wafer manufacturing facility. The fab is currently under construction and is expected to be completed in 2012. As of March 1, 2010, GLOBALFOUNDRIES had expended a total of approximately $160 million on construction.

On May 1, 2010, the town of Malta filed a tentative property assessment for the facility at 100 percent of the $160 million cost incurred to date on the project. Release of the tentative assessment figure starts a public review process that will lead to a final assessment being established by July 1st.

As part of this public review process, GLOBALFOUNDRIES has decided to challenge the tentative assessment. We believe the tentative partial assessment is too high and that the partial assessment should be based on the fair market value – which should be approximately 35 percent of $160 million based on professional analysis of comparable sites around the world.

Why is GLOBALFOUNDRIES challenging the town's property assessment?
GLOBALFOUNDRIES believes the Town of Malta's initial tax assessment of the partial completion of the Fab 8 project is unreasonable given available data on the comparable "fair market value" of other similar sites around the country. As part of the initial tax assessment review process, we are challenging the assessment. Like any property owner, GLOBALFOUNDRIES is prepared to pay its tax obligation based on a fair and reasonable assessment of its property.

A reasonable assessment should be based on the fair market value, what a buyer would be willing to pay for the property in its present state, not on the total amount paid for construction.

Semiconductor wafer fabs like Fab 8 serve as the hub of high-tech clusters of successful economic ecosystems - creating jobs, spurring innovation and improving the quality of life in communities around the world. This is the fundamental reason why this community has worked for years to attract such a project. In order to create a positive environment for additional investment from GLOBALFOUNDRIES and other high-tech companies that are evaluating this region, we must ensure fair, reasonable and predictable interactions with local government.

What does GLOBALFOUNDRIES think the fair-market value of the fab is for this year and how was that figure determined?
GLOBALFOUNDRIES has presented to the town assessor information on cost recovery on the sale of comparable U.S. semiconductor fabs which were sold in arms length transactions over the last ten years.

The data indicates a downward trend in cost recovery as a percentage of the original cost. For instance, several transactions in 2000 resulted in 35-38 percent recoveries. Since then, the percentage has generally declined, such that by 2007, cost recovery was less than 20 percent on selected comparable facilities and in 2010, cost recovery on selected comparable facilities had fallen further to less than 6 percent. Based on this data, we are challenging the assessment to change it from 100 percent to 35 percent of costs. We believe that setting the current tentative assessment to 35 percent of costs is more than reasonable given that the highest percentage of original costs paid for a completed fab in the past 10 years was significantly less than this amount.

What were the comparable facilities that GLOBALFOUNDRIES analyzed as part of the process to determine the fair-market value?

The most recent example of the sale of a completed fab is the sale of a Qimonda semiconductor production facility in Richmond, Virginia. The facility was closed in April 2009 and recently sold for $12 million (excluding the purchaser's agreement to be responsible for all costs associated with decommissioning and decontaminating the facility).

The facility is 1.3 million square feet and includes a 200mm fab, a 300 mm fab and support buildings located on a 210 acre campus. The facility was purchased by an entity for redevelopment, including possibly for use as a data center. While we do not have the actual figures on the cost of construction, we do know that the 300mm portion of the facility was not placed in service until 2005 and that in total, the facility likely cost hundreds of millions of dollars to complete.

How much tax would GLOBALFOUNDRIES pay if the assessment is not changed?

Under the tentative assessment, town officials estimate the Ballston Spa Central School District would receive approximately $2.1 million in property taxes.

The Stillwater Central School District would share $660,000 in tax revenue with the town of Stillwater, while Saratoga County would receive $360,000.

How much tax would GLOBALFOUNDRIES pay if the assessment is changed to $55 million instead of the current $160 million?

If the tentative assessment where to be at $55 million, GLOBALFOUNDRIES would pay approximately $1.2 million in new taxes. This means the Ballston Spa Central School District would receive approximately $750,000 in new, incremental property taxes. The Stillwater Central School District would share $250,000 in new tax revenue with the town and village of Stillwater, while Saratoga County would receive $125,000 in new, incremental tax revenue.

A $55 million partial assessment for this year would still make Fab 8 the single most valuable piece of property in Malta. The State Farm Insurance headquarters complex near Northway Exit 12 is next-highest, valued at $44 million in 2009. The total value of all property in town is currently about $1.5 billion and the Fab 8 facility represents the largest single tax payer and a significant portion of new tax revenue for the area.

These new tax payments coming from GLOBALFOUNDRIES will increase in the coming years as the facility is completed and put into service. This new revenue will help local governments and school districts that have seen revenues fall and state aid diminish because of economic pressures.