

# THE BOND BUYER

## Racine County, Wisconsin, bringing deal for Foxconn project

By

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Racine County, Wisconsin, will sell \$110 million of taxable general obligation refunding bonds this week to take out interim financing for its financial obligation toward a Foxconn Technology Group manufacturing complex.

Proceeds of the bonds that mature in 2039 will provide permanent financing for taxable bond anticipation notes sold in 2017 and 2018 that financed land acquisition for the project in the village of Mount Pleasant.



An August view of the planned Foxconn site in Mount Pleasant, Wisconsin. **Adobe Stock**

Doubts linger about the Taiwanese firm's commitment to the original \$10 billion project and the number of anticipated jobs after reports of changes to the scope and type of LED products to be manufactured. The county intends to repay the GOs with revenue generated by a special assessment that will be levied in the Foxconn site area.

The offering statement notes the risks. "There can be no guarantee that Foxconn will construct the facility in accordance" with the state development agreement, it says. "No assurance can be provided as to the specific type, size, scope or generation of the facility that ultimately will be constructed by Foxconn."

Morgan Stanley and Baird are the lead managers, PFM Financial Advisors LLC is advising the county, and Quarles & Brady LLP is bond counsel. The underwriting team is taking indications of interest on Tuesday with the pricing set for Wednesday.

While the manufacturing plans have been altered, Foxconn has told local officials it remains committed to a \$10 billion investment.

Moody's Investors Service, which cut the county's rating by one notch to Aa2 in late 2017 citing the project's fiscal risks, affirmed its rating but remains on alert over Foxconn-related challenges and assigns a negative outlook on a total of \$168 million of general obligation unlimited tax bonds.

"The negative outlook reflects the county's exposure to the Foxconn development and the risks and uncertainties surrounding the project," Moody's wrote. "While we expect the county's operations to remain satisfactory over the next two years, the scaling back of the original development raises concerns that revenues to be derived from the project may deviate from projections."

Foxconn remains on track to open a manufacturing facility in late 2020 and related facilities but any "delays or further changes to size and scope may have a detrimental impact on the county's ability to keep pace with growing fixed costs and expenses related to the development," Moody's added.

The Aa2 rating reflects a large tax base that has seen multi-year valuation increases and average residential income indices, a healthy financial position relative to operations and retains moderate revenue raising flexibility in its ability to implement a 0.5% sales tax which could further bolster revenues. Factors that offset the rating strengths include a high overlapping debt and elevated other post-employment benefit liabilities.

S&P Global Ratings assigned the deal its AA rating and stable outlook. "The rating reflects our view of the county's very strong financial profile, evidenced by adequate performance results in most years and maintenance of very strong available operating reserves," said S&P analyst Andrew Truckenmiller.

"The stable outlook reflects our expectation that the county's reserves and liquidity will remain very strong, and we expect its overall credit profile to remain stable through the next two years given the county does not have any additional debt plans that would worsen the debt profile," Truckenmiller said.

Racine County is located in southeastern Wisconsin north of the Illinois border and about 30 miles south of Milwaukee and has a population of 195,000.

The company's choice of Wisconsin for the plant was announced by then Gov. Scott Walker, President Donald Trump and Foxconn leaders at a White House ceremony in July 2017.

Walker had argued the \$3 billion in incentives over a 15-year period — if financial targets are hit — was worth the thousands of jobs and economic development. The project had been billed as the largest economic development project in the state's history. It's also the largest subsidized incentive package ever awarded by a state.

Local subsidies and incentives total \$764 million to help cover the costs of public improvements, land acquisition and other expenditures for the project.

Mount Pleasant was also hit with a one-notch downgrade by Moody's Investors Service to Aa3 from Aa2 last year due to the financial risks.

Local officials have said the project is worth the credit strain because they expect significant long-term fiscal benefits. Moody's has noted in its rating reports that the county's economy is expected to grow due to the development and its financial position remains strong.