

## SECTOR COMMENT

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### Analyst Contacts

**Katie Anthony** +1.312.706.9952  
Associate Lead Analyst  
katie.anthony@moodys.com

**Natalie Claes** +1.312.706.9973  
Associate Lead Analyst  
natalie.claes@moodys.com

**Joshua Grundleger** +1.212.553.1791  
Analyst  
joshua.grundleger@moodys.com

### CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

State and local government - Wisconsin

## Foxconn's missed job creation target is credit negative for Mount Pleasant, Racine County and Wisconsin

On 17 January, electronics manufacturer Foxconn announced it had missed the first job creation target related to the investment and incentive agreement it entered last year with the state of [Wisconsin](#) (Aa1 stable) and some of its local governments. Despite [ongoing investment in facilities and properties throughout the state](#), Foxconn created only 178 of the minimum 260 jobs needed to receive the first round of state tax credits, about \$9.5 million. The missed target highlights the project's risks to [Racine County](#) (Aa2 negative) and the village of [Mount Pleasant](#) (Aa3 negative), given their exposure to upfront expenditures and bonding that support Foxconn's project. The state, while considerably protected given the contingent nature of its support, is also exposed to project failure.

The missed target contrasts the pace at which Foxconn continues construction on the largest economic development project in Wisconsin. The company has completed a 120,000 square foot facility in Mount Pleasant, as well as purchased properties within the cities of [Eau Claire](#) (Aa1), [Green Bay](#) (Aa2 negative) and [Milwaukee](#) (A1 stable). Despite the rapid increase in their footprint across the state, Foxconn's employment figures lag behind expectations.

While the local incentives are not tied to job creation targets, the various local governments providing them have already begun large-scale preparations for an influx of new residents and workers. To incentivize Foxconn, Mount Pleasant created an industrial tax increment district (TID), with both the village and Racine County agreeing to make substantial upfront investment in infrastructure and land acquisition. In return, Foxconn is expected to make up to a \$10 billion private investment statewide over a six-year period. Under its developer agreement with the local municipalities, beginning in 2022, Foxconn must make minimum tax payments regardless of the project's completion status. This minimum payment was sized by the village to cover projected debt service payments.

Over 70% of Racine County's outstanding debt consists of short-term bond anticipation notes (BANs) related to the Foxconn project. All the short-term debt is set to mature in December 2020. Ultimately, this debt is expected to be taken out with long-term general obligation bonds, with debt service to be paid with special assessment payments directly tied to the Foxconn development. Relative to operating revenues and tax base, Racine County's overall debt is more muted in comparison to the Village of Mount Pleasant's obligations. Still, both municipalities carry significant debt burdens with repayment hinging on Foxconn's success.

The state is somewhat protected by the contingent nature of its support: tax incentives based on job creation and a moral obligation pledge on \$125.1 million in bonds issued by Mount Pleasant. Wisconsin nominally benefits from not having to pay the tax credit if job targets are not met. However, the state ultimately wants the economic development that Foxconn's success could bring, and a substantial change in the project from agreed targets could increase pressures for increased state involvement. Additionally, clawback provisions cannot be invoked until 2023, leaving the state exposed during the initial phases of development.

If the Foxconn projects fails to generate sufficient economic growth, and Mount Pleasant has to draw on the state's moral obligation, the village will be required to repay the state. Mount Pleasant, however, may be unable to generate sufficient revenues to do so if the Foxconn project significantly fails to meet targets. Additionally, although Wisconsin has not made any explicit promises to support other Foxconn-related debt, the state may decide to assist municipalities in the event of project failure, given the project's high-profile nature and the associated political realities.

Foxconn originally said it could bring up to 13,000 jobs to Wisconsin, but has been lowering expectations, particularly given continual changes in the scope of the project. Foxconn has indicated it may change the type of products that will be manufactured in Wisconsin or reorient the facility's focus from manufacturing to research. Its agreement with the state requires only a minimum of 10,400 jobs to receive a sizable portion of the incentive package: roughly \$1.1 billion in tax credits. Were it to hit the maximum job target of 13,000, it would stand to receive the full incentive package: \$2.85 billion. Notably, Foxconn could carry forward the unearned \$9.5 million tax credit and still collect the entire amount were it to create a total of 2,080 jobs by the close of 2019.

### Moody's related publications

» **Issuer Comment:** [Incentive package lures Foxconn to Wisconsin and hedges risk](#), 28 July 2017

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