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Credit Implications of Current Events

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Volvo's Expansion Plan Is Credit Positive for South Carolina and Berkeley County

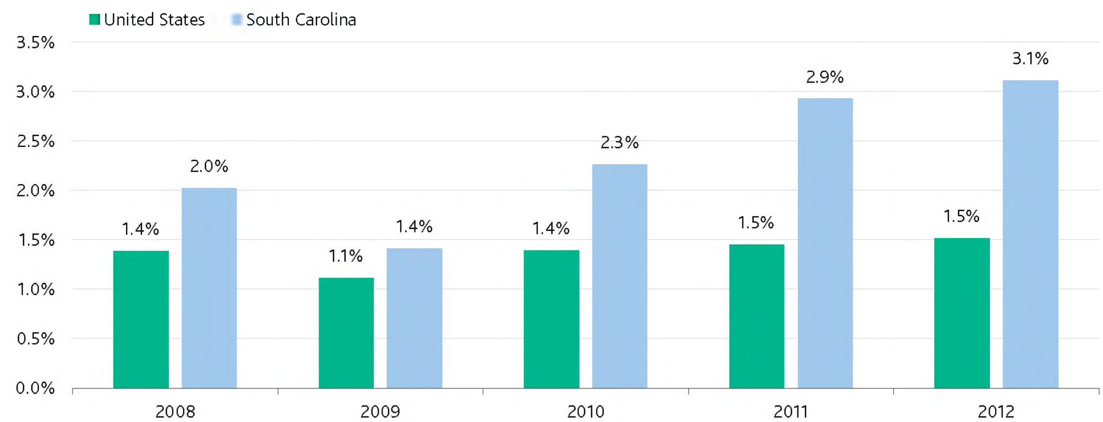
On Sunday, Volvo Car Corp. announced that it had chosen Berkeley County, South Carolina (general obligation Aa2), as the location of its first US factory, where it will invest $500 million in a facility to produce up to 100,000 cars a year. The announcement is credit positive for South Carolina (Aaa stable), Berkeley County and other local governments in the region where the factory will add 2,000 new jobs. The factory will contribute $4.8 billion in economic output per year, according to the state's analysis.

A College of Charleston study estimates that the expansion will generate $11.3 million annually in state and local taxes starting in the fiscal year ending 30 June 2017, rising to $72.3 million upon completion of the project's first phase, which will be no later than 2024, and then doubling to $144.7 million by 2028 once the plant doubles in size.

Construction is scheduled to begin in fall 2015, with the factory to open in 2018; Volvo estimates the factory could expand operations to employ up 4,000 people by 2030. This further strengthens South Carolina's already healthy auto manufacturing sector, which accounts for 3.1% of state GDP, and continues a recent trend of automaker initiatives in the state. BMW AG operates a plant in Spartanburg County (general obligation Aa3) that employs 8,000 people, and recently announced a $1 billion expansion to its plant, the fifth expansion since it opened in 1994, to produce 450,000 vehicles per year (up from 300,000) and to grow its force at the site by 800 new jobs. In March 2015, Daimler AG announced a $500 million expansion near Charleston (general obligation Aaa stable) that will employ 1,300 workers to manufacture work vans.

Volvo's announcement comes as many global carmakers are building new factories in Mexico rather than the US to take advantage of lower labor costs and low export costs through free trade agreements. However, South Carolina is bucking this trend with auto manufacturing growth that has outpaced the national rate since 2008 (see exhibit), in part owing to its low unionization rate, willingness to provide economic incentives and attractive transportation infrastructure. Moody's Analytics reports that South Carolina's employment recovery is outpacing that of the nation and deems the state one of the top performers in employment growth in the South.

Comparison of US and South Carolina's Auto Manufacturing as a Percent of GDP



Source: US Bureau of Economic Analysis

The Volvo facility will be located along Interstates 26 and 95, providing easy access to the Port of Charleston and Georgia's Port of Savannah, a major driver behind Volvo's choice to expand operations in South Carolina. To attract Volvo, we expect the state to provide $120 million of funding for transportation infrastructure, environmental mitigation and site work. The funding is likely to be financed as state general obligation debt through the State Economic Development Bond Act, subject to approval by legislative committee and the State Budget and Control Board. The county incentives include a fee-in-lieu-of-taxes agreement that excludes the plant from property taxes through 2018, and further local tax breaks if the plant meets its investment target of $600 million.

Berkeley County's primary revenues come from property taxes (39.6% of general fund revenues) and sales taxes (17.6%), both of which have been growing modestly in recent years because of tax-base expansion (a five-year average growth rate of 3.0%) and population growth (9.1% increase since 2010). Although the increased activity in the county will immediately benefit sales taxes, Berkeley's property taxes will not be affected for the first three years, and thereafter will vary based on Volvo's level of investment in its plant. An additional benefit for the county is that it will provide water and sewer service to the factory and expects $1.34 million per year in additional operating revenue for the utility starting in 2018, as well as a total of $10 million in impact fees.