

## **FITCH RATES MILWAUKEE, WI'S \$180MM SCHOOL RANS 'F1+'**

Fitch Ratings-New York-20 September 2017: Fitch Ratings has assigned a 'F1+' Short-Term rating to \$180 million Milwaukee, Wisconsin school revenue anticipation notes (RANs) series 2017 M11.

Fitch has also affirmed the 'F1+' rating on the city's \$120 million RANs series 2017 R3 and \$180 million RANs series 2016 M8.

The RANs are expected to sell via competitive sale on October 3. Proceeds will be used for school cash flow purposes.

### **SECURITY**

Note principal and interest repayment is secured by an irrevocable pledge of school state aid payments and all school operations fund revenues for the 2017-18 fiscal year that are due and not yet paid to the city or otherwise pledged or applied. Note interest repayment is also secured by a pledge of surplus revenues of the debt service fund of the city.

### **KEY RATING DRIVERS**

**RELATIONSHIP TO CITY:** While the notes are not general obligations of the city, Fitch believes the city's management of the Milwaukee Public Schools' (MPS) funds and provision of liquidity for MPS create a relationship that supports the highest short-term rating on the notes. MPS effectively functions as a department of the city of Milwaukee (IDR rated 'AA') according to state statute.

**CITY LONG-TERM RATING:** The 'F1+' Short-Term rating is directly mapped to the city's 'AA' Issuer Default Rating (IDR), which reflects the city's stable financial performance over time, highest gap-closing capacity, and moderate long-term liabilities level. A demonstrated capacity to cut spending, sufficient financial cushion and low expected revenue volatility offset Fitch's expectation for limited revenue growth.

**SUFFICIENT, TIMELY STATE AID:** Although all available school operating revenue for fiscal 2018 is pledged to note repayment, the authorizing resolution directs city officials to segregate the June 2018 state aid receipts for payment of the full amount of the notes well in advance of the late September note repayment date. Fitch expects a satisfactory level of additional resources would be available to make the repayment in the event of reduced or delayed state aid. Interest on the RANs is additionally secured by surplus revenues of the city's debt service fund. The city historically has had adequate financial resources to cover note interest.

**REGIONAL ECONOMIC CENTER:** Milwaukee serves as the economic engine for the surrounding region and has a fairly diverse economic and employment base, but residents exhibit below-average wealth and a relatively large proportion are below the poverty level. The local economy maintains a reduced but still above-average reliance upon manufacturing that in the past has created vulnerabilities to recessionary employment shifts.

### **RATING SENSITIVITIES**

LONG-TERM RATING: The rating on the notes is sensitive to changes in the city's long-term credit fundamentals. A change in the city's IDR could result in a downgrade of the note rating.

## CREDIT PROFILE

Milwaukee, the largest city in the state of Wisconsin, encompasses a 97-square mile area located adjacent to Lake Michigan, 90 miles north of Chicago. The city's population of nearly 600,000 has shown relative stability since the 2000 census, after experiencing a multi-decade trend of decline. The school system's service area is coterminous with the city.

MPS functions effectively as a department of the city according to state statute, and the city acts as custodian of MPS's funds. It is governed by the Milwaukee Board of School Directors (MBSD), and the city levies and collects the taxes necessary to support the separately adopted MBSD budget. MPS independently provides elementary and secondary education and independently controls the budget but lacks authority to issue debt directly. The city issues on MPS's behalf, including short-term notes to help smooth MPS's cash flow throughout the year. The city also provides liquidity directly, when needed, for school operations. Fitch maintains an IDR of 'A+'/  
Stable Outlook for MPS.

## SUFFICIENT, TIMELY STATE AID FOR RAN REPAYMENT

State aid, including equalization aid, is primarily derived from state income taxes and is generally unrestricted financial assistance to school districts to fund a broad range of expenditures. The aid in any fiscal year is computed using the prior fiscal year's enrollment and equalized property valuations. The state distributes school aid five times a year based on an allocation formula and in fiscal 2017 MPS received 47% of state aid in June, July and September, prior to note repayment.

Pursuant to a city resolution, the city treasurer will segregate the June state aid payment, which represented 31% of fiscal 2017 state aid disbursements, to pay principal of the RANs. Projections show adequate coverage in the June segregation month with available cash balances covering note principal by 1.15x. Note repayment is due on Sept. 27, 2018.

The city has demonstrated willingness and ability to provide operating cash flow support to MPS at multiple points throughout the fiscal year. Fitch expects the city to continue to provide strong liquidity support to MPS in fiscal 2018 and beyond.

For more detail regarding the city's long-term IDR, please see the release 'Fitch Rates Milwaukee, WI's GOs 'AA'/RANs 'F1+'; Outlook Stable' (April 2017), available at [www.fitchratings.com](http://www.fitchratings.com). For more detail regarding the schools' long-term IDR, please see the release 'Fitch Rates Milwaukee Public Schools, WI's \$31MM Lease Rev Bonds 'A'; Outlook Stable' (May 2017), available at [www.fitchratings.com](http://www.fitchratings.com).

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In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### Applicable Criteria

Rating U.S. Public Finance Short-Term Debt (pub. 08 Feb 2017)

<https://www.fitchratings.com/site/re/893974>

U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)

<https://www.fitchratings.com/site/re/898466>

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