

# RatingsDirect®

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## Summary:

# Milwaukee Redevelopment Authority Wisconsin; Moral Obligation

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### Credit Profile

US\$29.555 mil rfdg rev bnds (Wisconsin) (Milwaukee Pub Sch Neighborhood Sch Init) ser 2017 dtd 06/29/2017 due 08/01/2023  
*Long Term Rating* A/Stable New

## Rationale

S&P Global Ratings has assigned its 'A' rating to the Redevelopment Authority of the City of Milwaukee (RACM), Wis.' series 2017 refunding revenue bonds (Milwaukee Public Schools [MPS]—Neighborhood Schools Initiative). The outlook is stable.

The 'A' rating and stable outlook on the bonds reflect our view of the state's moral obligation pledge to replenish any insufficiencies in RACM's special debt service reserve fund (DSRF), and the rating is notched one full rating category off our 'AA' general obligation (GO) rating on Wisconsin, in accordance with our criteria for rating moral obligation bonds.

RACM will lend proceeds of the bonds to the MPS pursuant to a loan agreement. Bond proceeds will be used to refinance the RACM's series 2007A refunding revenue bonds (MPS—Neighborhood Schools Initiative) and pay the costs of the surety bond used to satisfy the special DSRF requirement. The 2007A and 2013A bonds were issued for refinancing, in part, the Neighborhood Schools Plan, which included providing classroom capacity for MPS.

The bonds are limited obligations of RACM secured by the assets pledged under the 2002 indenture, which include all payments made by MPS on the notes pursuant to the loan agreement. The notes are payable from Intradistrict Aid from the state, whose original purpose was to provide funds for a transportation program, principally busing, designed to achieve better racial balance among the various school attendance areas within MPS and is based on a formula related to transfer pupils. The bonds are additionally supported by a special DSRF, which will be funded at maximum annual debt service (MADS) on delivery of the 2017 bonds by a surety bond issued by National Public Finance Guarantee Corp. The state's moral obligation to refill the special DSRF if it falls below the required level of funding supports a rating that is a full category lower than the GO debt rating on the state.

If on any such date, the balance in the special DSRF is below MADS and is not replenished by MPS, the trustee is required, within two business days, to notify RACM in writing of such deficiency and, on receipt thereof, RACM is required to forthwith certify to the secretary of administration, the governor, and the Joint Committee on Finance of the State the amount necessary to restore the balance in the special DSRF to the MADS requirement.

Wisconsin Statutes 66.1333 authorizes the MPS bond issuance, instructs for the creation of a special DSRF and provides for the moral obligation pledge. It states that if at any time, the special DSRF falls below its required level,

RACM will certify to the secretary of administration, the governor, and the joint committee the amount necessary to restore the fund. If this certification is received by the secretary of administration in an even-numbered year prior to the completion of the budget compilation, the secretary will include the certified amount in the budget compilation. In any case, the joint committee will introduce into either house, in bill form, an appropriation of the amount so certified to the appropriate special DSRF of the authority. The legislation expresses the expectation and aspiration that, if ever called on to do so, the state will make this appropriation. We understand the state regularly considers legislation containing appropriations, and we understand that it does not require a budget bill to make a moral obligation appropriation. To date, the state has not been called on to fulfill a moral obligation pledge.

The trust indenture allows for acceleration of the bonds' maturity following an event of default, including uncured covenant defaults, but only with no less than 25% of bondholders' approval. The annual debt service replenishment provision of the moral obligation of the state applies only to the amount in the special DSRF and would not cover the full amount of par under an acceleration. However, we believe that the bondholders would not have an incentive to accelerate the bonds as long as state appropriations and bond payments were current.

For additional information on the state's GO rating, see the full analysis on Wisconsin, published May 1, 2017, on RatingsDirect.

## Outlook

The stable outlook reflects the state's current budget's operating alignment and manageable projected structural gap for the upcoming biennium. It also reflects recently more positive revenue growth trends, despite falling short of originally budgeted figures. Wisconsin's well-funded pension system, that also offers flexibility to reduce benefits in response to investment losses, also cushions the budget.

Wisconsin's reserve balances on a combined basis are at a level that we consider adequate; however, the low balances are out of sync with the mature phase of the economic recovery and pose some risk of downward pressure on the state's credit quality if economic or revenue conditions underperform the budget. If weaker revenue collections or economic growth contributes to what we view as less manageable projected gaps, the rating could also be pressured.

While unlikely over the two-year outlook horizon, if revenue and economic growth accelerate and the state deposits consistently into its budget stabilization fund and builds healthy fund balance reserves, we could see upside potential for the state's rating or outlook.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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