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Ratings

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Summary:

Milwaukee Redevelopment Authority, Wisconsin
Milwaukee Public Schools; Appropriations

Primary Credit Analyst:
David H Smith, Chicago (312) 233-7029; david.smith@spglobal.com

Secondary Contact:
John A Kenward, Chicago (1) 312-233-7003; john.kenward@spglobal.com

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Credit Profile		
US$30.625 mil redevelopment lse rev bnds (Milwaukee Pub Schs) ser 2017A due 11/15/2036		
Long Term Rating	A+/Stable	New
Milwaukee Pub Schs federally taxable redev lse rev bnds (Qualified Zone Academy Bonds)		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Milwaukee Redevelopment Authority, Wis.' series 2017 redevelopment lease revenue bonds, issued for Milwaukee Public Schools (MPS). At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the district's series 2016A and 2015A redevelopment lease revenue bonds; the authority's series 2016B and 2016C taxable redevelopment lease revenue bonds, issued for MPS; and the authority's series 2003C and 2003D pension bonds, issued for MPS. The outlook is stable.

The ratings reflect our view of the district's:

- Position at the center of the broad and diverse economy of the Milwaukee metropolitan area;
- Close relationship with the city of Milwaukee, which issues general obligation (GO) debt for the district, holds the school operations fund, and has a history of providing MPS with liquidity;
- Adequate equalized value per capita;
- Adequate level of general fund reserves; and
- Financial management policies and practices that we consider good.

Partly offsetting credit factors are our view of MPS':

- Adequate, but below-average, income levels;
- Recent history of declining enrollment, which is linked to state aid; and
- Moderate to moderately high debt burden.

The series 2017, 2016A-C, and 2015A bonds are secured by the district's rental payments to the authority as lessor pursuant to an amended and restated lease. The lease is not subject to annual appropriation or renewal. Since debt service is paid from legally available funds without a debt service levy, we view the security as a general fund pledge. The leased property consists of a number of school buildings that will be improved with bond proceeds. The buildings are owned by the city and have or will be conveyed to the authority through a ground lease. The authority will then lease the buildings and improvements to MPS, which has the option of purchasing the buildings from the authority for a nominal amount after the bonds are paid. Although the rental payments are not subject to annual appropriation, they are only payable from legally available funds without a debt service levy, and the district is able, but not required, to cancel the lease if it does not have quiet enjoyment of the leased properties. In the event the lease is terminated, the bonds are subject to redemption according to the trust indenture, and the district will have to vacate all the buildings under the lease, which constitute approximately 39% of the district's schools. The series 2017 bonds will be issued to finance the cost of certain energy savings improvements to schools within the district. The series 2016B bonds were issued as qualified energy conservation bonds with principal paid in four scheduled mandatory redemptions. The series 2016C bonds were issued as qualified zone academy bonds with a single bullet maturity and the federal government providing tax credits to bondholders. Management will use bond proceeds to finance improvements to several school buildings.

The series 2016B bonds bear interest a fixed rate and are subject to tender at the option of the issuer on any business day on or after Nov. 15, 2026. The interest rate on the series 2016C bonds is set for a term of seven years, at the end of which MPS will either pay the principal or declare another interest period. The 2016C bonds are subject to mandatory purchase on the business day following the end of each interest period; if remarketing proceeds are insufficient to take out all of the bonds, MPS is required to make up the difference from its liquidity. The series 2016C bonds are also subject to purchase at the option of the issuer on each quarterly tax credit allowance date during the year prior to the mandatory purchase date. All purchases initiated at the option of MPS are conditioned upon the availability of remarketing proceeds to pay the purchase price for tendered bonds.

The series 2003C and 2003D bonds are secured by the district's pledge to make debt service payments, subject to annual appropriation, and by the district's arrangement with the state to intercept state aid funds in order to make up for any debt service deficiencies.

Economy

Milwaukee Public Schools serves an estimated population of 597,802. At 67% and 65% of national averages, respectively, the district's median household and per capita effective buying incomes are adequate in our view. At $45,236 per capita, the 2017 equalized value totaling $27.0 billion is, in our opinion, adequate. The 8.1% increase since 2015 brought equalized value to $27.0 billion in 2017 (the most recent year available). The 10 largest taxpayers make up an estimated 5.3% of equalized value, which we consider very diverse. Milwaukee County's unemployment rate was 5.1% in 2016.

Milwaukee Public Schools provides early childhood and pre-K-12 education to the city of Milwaukee and is the largest school system in the state. MPS' financial powers are limited to budget adoption authority, while the city of Milwaukee levies and collects MPS' property taxes, issues GO debt and revenue anticipation notes for school purposes, and holds the school operations fund on the school system's behalf. The city also provides MPS with short-term liquidity for operations as needed.

Finances

A three-year moving enrollment average is a key factor in Wisconsin school district per-pupil revenue, which is subject to a cap that the state determines. Although annual student count fluctuations do not have a material effect on finances, a trend of increasing or decreasing enrollment could lead to an increase or decrease, respectively, in revenue. Enrollment totaled 78,173 students in 2017. Enrollment decreased in each year from 2013 to 2017.

MPS' enrollment has been in decline for a number of years due to outmigration to the suburbs, charter school growth, and the state-mandated parental choice program. The state expanded the Milwaukee Parental Choice program in 2011 by eliminating the enrollment cap and increasing the family income limitation. However, management expects enrollment to stabilize due to the district's efforts to enhance its programs. Future stable enrollment would help the district maintain balanced operations, since most general fund revenue consists of state equalization aid and property taxes that are subject to the state's per-pupil revenue limit.

The district's available fund balance of $41.5 million is adequate in our view, at 3.9% of general fund expenditures at fiscal year-end (June 30) 2016. The district reported a surplus operating result of 0.1% of expenditures in 2016. The district depends primarily on state aid for general fund revenue (59.5%), followed by property taxes (26.2%).

MPS reported a $662,309 general fund surplus after transfers for fiscal 2016 (June 30). Despite the surplus, the combined assigned and unassigned general fund balance decreased to $41.2 million from $44.5 million at the end of fiscal 2016, primarily due to an increase in the amount of the general fund restricted for prepaid items. For 2017, the district expects to close the year with break-even general fund results after transfers. MPS' proposed 2018 budget calls for another break-even result after transfers.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management provides the board with monthly budget-to-actual reports, and plans each year's budget with the help of five-year enrollment projections, historical trending of revenues and expenditures, six-year financial projections, and a 10-year capital plan. The district's cash is held by the city according to the board's investment policy; management does not provide routine portfolio reports to the board. Although MPS does not have a formal debt management policy, management abides by some written practices when issuing debt. The board approved a formal fund balance policy that calls for MPS to maintain a "fiscally responsible" unassigned general fund balance for cash flow and to cover contingencies.

Debt

At 7.8% of market value, we consider overall net debt moderately high, but at $3,536 on a per capita basis, we view it as moderate. With 41% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 2.6% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider low.

The district has $34.9 million in unused qualified school construction bond authority that it may utilize in the 2018-2019 school year. The district's $130.85 million series 2003D pension bonds bear interest at a floating index rate and are hedged by three floating-to-fixed interest rate swaps with different counterparties. The swaps can be terminated if the bond rating falls below 'BBB+' for one of the swaps and below 'BBB-' for the other two swaps. Given the terms of the swaps, we do not think that they pose a significant liquidity risk to MPS. The series 2003D pension bonds were purchased by a single buyer when the district converted the interest-rate mode from auction rate to the current index rate in 2005. According to the bond purchase agreement associated with the direct purchase, there are no events of default that lead to bond acceleration. For this reason, we do not think that the direct purchase poses a significant liquidity risk to the district. The series 2016C bonds were also issued to a local bank. We do not believe this obligation poses a significant liquidity risk to MPS because the bonds are not subject to acceleration events of default and have a par amount of only $1.5 million.

Pension and other postemployment benefit (OPEB) liabilities

In fiscal 2016, the district paid $47.0 million toward its pension obligations, equal to 99.7% of the full required contribution. The district's full required pension contribution totaled 4.0% of total governmental expenditures. Also the district paid $53.1 million, or 4.5% of total governmental expenditures, toward its OPEB obligations in fiscal 2016. Combined pension and OPEB carrying charges totaled 8.5% of total governmental fund expenditures in 2016.

The district participates in the Wisconsin Retirement System (WRS) and the Employees' Retirement System (ERS) of the City of Milwaukee in addition to providing two supplemental defined-benefit pension plans. The district's proportionate share of the net pension liability for WRS and ERS was $43.7 million and $53.7 million, respectively, as of Dec. 31, 2015. The district makes contributions toward an OPEB trust fund, which reported actuarial assets of $128.8 million and an unfunded actuarial accrued liability of $868.6 million as of July 1, 2015.

Outlook

The stable outlook reflects our view that management will continue to use its planning capacity and conservative budgeting strategy to maintain balanced operations in most years and maintain at least adequate reserves despite declining enrollment. For this reason, we do not expect to change the ratings within the two-year outlook time frame.

Upside scenario

We may consider raising the ratings if MPS' key economic indicators substantially improve while the district builds its available reserves to a strong level.

Downside scenario

We may lower the ratings if MPS experiences a fiscal imbalance that results in the combined assigned and unassigned general fund balance falling to a level that we consider low and inconsistent with those of similarly rated peers.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of May 26, 2017)		
Milwaukee Pub Schs federally taxable redev lse rev bnds QECB-dir pymt subsidy		
Long Term Rating	A+/Stable	Affirmed
Milwaukee Pub Schs redev lse rev bnds		
Long Term Rating	A+/Stable	Affirmed
Milwaukee Redev Auth, Wisconsin		
Milwaukee Pub Schs, Wisconsin		
Milwaukee Redev Auth (Milwaukee Pub Schs) federally taxable redev lse rev bnds QSCB-dir pay subsidy (Milwaukee Pub Schs) ser 2015A due 05/15/2041		
Long Term Rating	A+/Stable	Affirmed

Ratings Detail (As Of May 26, 2017) (cont.)		
Milwaukee Redev Auth (Milwaukee Pub Schs) taxable pension fdg bnds ser 2003 C-D dtd 12/23/2003 due 04/01/2026-2041 & 10/01/2043		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at 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. Use the Ratings search box located in the left column.