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Ratings

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Summary:

Milwaukee Redevelopment Authority Wisconsin; Moral Obligation

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Credit Profile		
Milwaukee Redev Auth, Wisconsin		
Wisconsin		
Milwaukee Redev Auth (Wisconsin) (Milwaukee Pub Sch Neighborhood Sch Init) MORALOB		
Long Term Rating	A+/Stable	Upgraded
Milwaukee Redev Auth (Wisconsin) (Pub Sch Neighborhood Sch Init) MORALOB (National)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on the Redevelopment Authority of the City of Milwaukee (RACM), Wis.' series 2017 debt one notch to 'A+' from 'A', based on the application of its criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness,," published Jan. 22, 2018, on RatingsDirect. The outlook is stable.

The rating on the bonds is two notches off of our view of the state's general creditworthiness (as reflected in the 'AA' general obligation [GO] rating, with a stable outlook) to reflect the moral obligation of the state to appropriate funds toward debt service in the event there is a deficiency in the debt service fund. In our view, the obligation maintains a moderate relationship between the state and the projects being financed. The bonds are being used to fund a neighborhood schools plan, which involves providing classroom capacity for Milwaukee Public Schools (MPS) that, while it does not exhibit significant importance to the basic function and purpose of the state, does serve as an auxiliary facility providing an educational asset to the welfare and benefit of its residents.

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 debt service reserve fund (DSRF), which is funded at maximum annual debt service (MADS) 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 the current rating level. We have determined the intended payment source to be narrow yet reliable government revenue, and we believe the state has considered the affordability of this obligation, and is proactively involved in the projections of pledged revenue to cover the debt payment. Also factored into our analysis is the fact that local and state leaders support the initiative and there is no evidence of political or community resistance.

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, RACM is required to certify to the secretary of administration, the governor, and the Joint Committee on Finance the amount necessary to restore the balance in the special DSRF to the MADS requirement. Wisconsin Statute 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 before 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 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 Wisconsin 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 GO rating, see the full analysis on Wisconsin, published Feb. 27, 2018, on RatingsDirect.

Outlook

The stable outlook is based on the state's general creditworthiness, which we view as unlikely to change in the next two years. We believe Wisconsin has a manageable projected structural gap in the current biennium, and that reserves are likely to remain adequate, based on better-than-budget revenue results. Wisconsin's well-funded pension system, which offers flexibility to reduce benefits in response to investment losses, also provides stability.

Downside scenario

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, this could also negatively pressure the rating.

Upside scenario

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 consider raising the rating.

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.capitaliq.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.