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Moody's Upgrades Wisconsin GO to Aa1; Outlook Stable

Moody's Investors Service has upgraded the state of Wisconsin's General Obligation rating to Aa1. Moody's has also upgraded the state's appropriation backed debt as follows: to Aa2 for Certificates of Participation issued under the state's master lease program; Aa2 for General Fund Annual Appropriation Bonds; Aa2 for Taxable Pension Funding Bonds; Aa3 for Appropriation Revenue Bonds; Aa3 for Milwaukee Public Schools Revenue Bonds Series 2007A and A1 for Milwaukee Public Schools Revenue Bonds Series 2013A. Moody's also affirmed the short-term P-1 ratings on the state's general obligation commercial paper programs based on the bank counterparty ratings and the long-term underlying state rating. The outlook for all the long-term ratings was moved to stable. The upgrade to Aa1 reflects the proven fiscal benefits of the state's approach to granting and funding pension obligations when many other states are experiencing stress from rising costs and heavy liabilities; an economy that delivers steady but moderate growth; conservatively managed budgets; and adequate liquidity. Despite Wisconsin's slightly elevated debt levels, its fixed costs for pensions, debt and retiree health benefits are below the median for Aa1 states and outweigh the credit challenge of the state's negative unassigned fund balances. Appropriation debt is notched off the state's GO rating to reflect risk of non-appropriation since the state is not obligated to appropriate debt service for the bonds. The Certificates of Participation, General Fund Annual Appropriation Bonds, and Taxable Pension Bonds are upgraded to Aa2, one notch lower than the state GO rating, to reflect their average legal structure and essential nature of the projects funded. The Appropriation Revenue Bonds funded a sports facility, which we view as a less essential purpose warranting an upgrade to Aa3, two notches off the state rating. The Milwaukee Public Schools Revenue Bond Series 2007A is upgraded to Aa3, two notches off the GO to reflect the moral obligation of the state to make debt service payments on the bonds. The Milwaukee Public Schools Revenue Bonds Series 2013A is upgraded to A1, three notches lower than the GO rating to reflect weak legal provisions.

Rating Outlook

The stable outlook reflects the expectation that the state will experience moderate economic growth and will continue its prudent fiscal management practices.

Factors that Could Lead to an Upgrade

Established trend of recurring structural budget balance reflected in elimination of the negative unassigned GAAP fund balance

Funding and maintenance of the budget stabilization fund to a level sufficient to provide a meaningful financial cushion in times of revenue volatility

Sustained job and economic growth

Factors that Could Lead to a Downgrade

Departure from prudent fiscal management practices that have aligned spending with the state's moderate economic growth

Return to structural budget imbalance and reliance on non-recurring measures to address budget gaps

Accelerated deterioration of the state’s financial position resulting in weakening of liquidity or larger GAAP-negative fund balances

Legal Security

The state’s general obligation bonds are secured by its full faith and credit.The state’s certificates of participation, general fund appropriation bonds, Neighborhood Schools Initiatives bonds issued by the Milwaukee Regional Development Authority and pension funding bonds are payable from state appropriations.

Use of Proceeds

Not applicable

Obligor Profile

Wisconsin is the twentieth largest state, with a population of 5.7 million. Its GDP ranks twentieth among states.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. The additional methodology used in the lease-backed rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. The additional methodology used in the short-term rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Regulatory Disclosures

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody’s rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider’s credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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