

MOODY'S

INVESTORS SERVICE

Rating Action: **Moody's downgrades Milwaukee, WI's GO to A3; outlook negative**

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New York, September 01, 2022 -- Moody's Investors Service has downgraded to A3 from A2 the general obligation unlimited tax (GOULT) rating on the City of Milwaukee, WI. The city has approximately \$1.2 billion in GOULT debt outstanding. The outlook is negative.

RATINGS RATIONALE

The downgrade to A3 reflects the city's persistent structural deficits, compounded by its limited revenue-raising flexibility, extremely high leverage and fixed costs, and pension costs which are expected to grow significantly. Operating reserves are currently satisfactory but partially reflect the conversion of short-term cash flow borrowing to a long-term note. Federal coronavirus aid has provided a degree of budgetary relief, however strict property tax constraints will cause reserves to deteriorate rapidly without higher state aid or substantial expenditure cuts, neither of which is certain. The rating also acknowledges the city's large and diverse tax base which serves as an economic hub for southeast Wisconsin (Aa1 stable), as well as its below average resident wealth and income.

RATING OUTLOOK

The negative outlook reflects the expectation that limited revenue-raising ability, coupled with high leverage and growing pension costs, will continue to place downward pressure on the city.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Return to structural balance which supports sustained strengthening of operating reserves
- Moderation of total leverage and fixed costs

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to absorb increased fixed costs without significant service reductions
- Narrowing of operating reserves

LEGAL SECURITY

Outstanding GOULT debt is backed by the city's full faith and credit pledge. Debt service is payable from a designated property tax levy that is unlimited as to rate or amount.

PROFILE

Milwaukee is the largest city in Wisconsin. It provides comprehensive municipal services, including health and human services, recreation, transportation and public safety, to approximately 590,000 residents.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in January 2021 and available at <https://ratings.moody.com/api/rmc-documents/70015>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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