

City of Waukesha

Bond Ratings

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Overview

- Waukesha's Bond Rating
- What Do Bond Ratings Mean
- Moody's Rating Definitions
- How Does Moody's Determine a City's Bond Rating?
- Waukesha's Historical Bond Ratings
- Specific Observations
- The Impact of Bond Ratings on Interest Expense
- Where Have Interest Rates Gone?

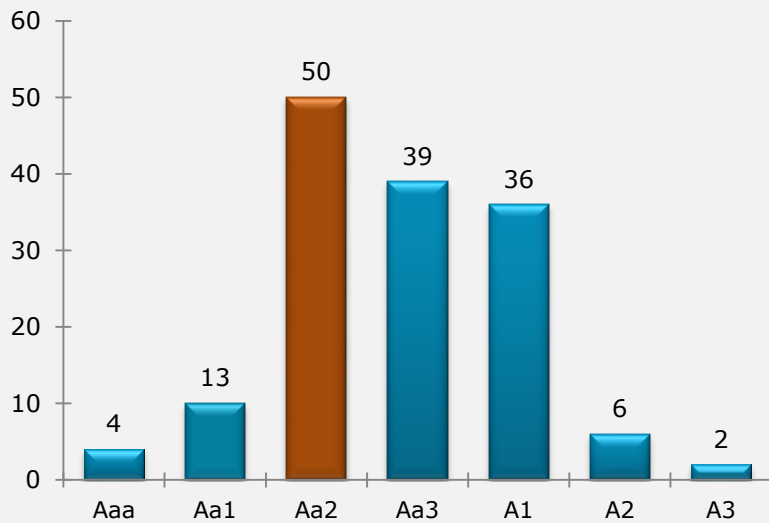
Waukesha's Bond Rating

Moody's changed Waukesha's bond rating from "Aa1" to "Aa2" on March 22, 2016.

- "Aa2" is the third highest rating Moody's assigns.
- Other Aa2 rated Wisconsin communities with characteristics similar to Waukesha include Menomonee Falls, Green Bay and Wausau.
- Waukesha's rating was never higher than **Aa2** until Moody's "recalibrated" its rating scale in June of **2010** at which time Waukesha was assigned a Aa1 rating.
- Moody's did not view the change from Aa2 to Aa1 as an upgrade, only a recalibration.
- Moody's changed the weighting of its rating factors in **2014**. The weighting of economic factors was *reduced* by 10% (to 30% of the overall score) and the weighting of *debt* factors was increased by 10% (to 20% of the overall score).
- Moody's Credit Committee (the committee which assigns ratings) has become even more cautious in **2016** and now views general fund advances to TID as a credit negative.
- Two other Wisconsin issuers were recently downgraded with Moody's stating similar reasons for the downgrade as the reasons for Waukesha's rating change.

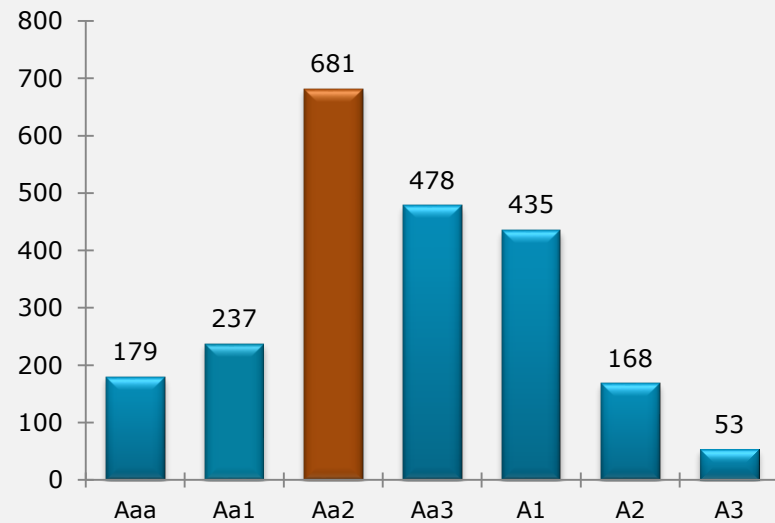
Waukesha's Bond Rating

Moody's Ratings – Wisconsin Cities



Aaa through A3

Moody's Ratings – Cities Nationwide



Aaa through A3



What Do Bond Ratings Mean

- Bond ratings provide the market (investors) with a framework for comparing the credit quality of debt securities.
- The higher the rating, the lower the interest rate.

Moody's Rating Definitions

Moody's ratings are intended to provide capital market participants with a framework for comparing the credit quality of debt securities. A credit rating compresses an enormous amount of diverse information into a single symbol. Bonds with the same credit rating, therefore, may be comparable with respect to overall credit quality but may differ with respect to specific credit quality characteristics.

Aaa

Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A

Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Baa

Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Ba

Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

B

Obligations rated B are considered speculative and are subject to high credit risk.

Caa

Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.

Ca

Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C

Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

The logo for BAIRD, featuring the word "BAIRD" in white, bold, sans-serif capital letters on a blue, tilted rectangular background.

How Does Moody's Determine a City's Bond Rating?

1. Economy/Tax Base (30%)

- a. Tax Base Size (full value) – 10%
- b. Full Value Per Capita – 10%
- c. Wealth (median family income) – 10%

2. Finances (30%)

- a. Fund Balance (% of revenues) – 10%
- b. Fund Balance Trend (5-year change) – 5%
- c. Cash Balance (% of revenues) – 10%
- d. Cash Balance Trend (5-year change) – 5%

3. Management (20%)

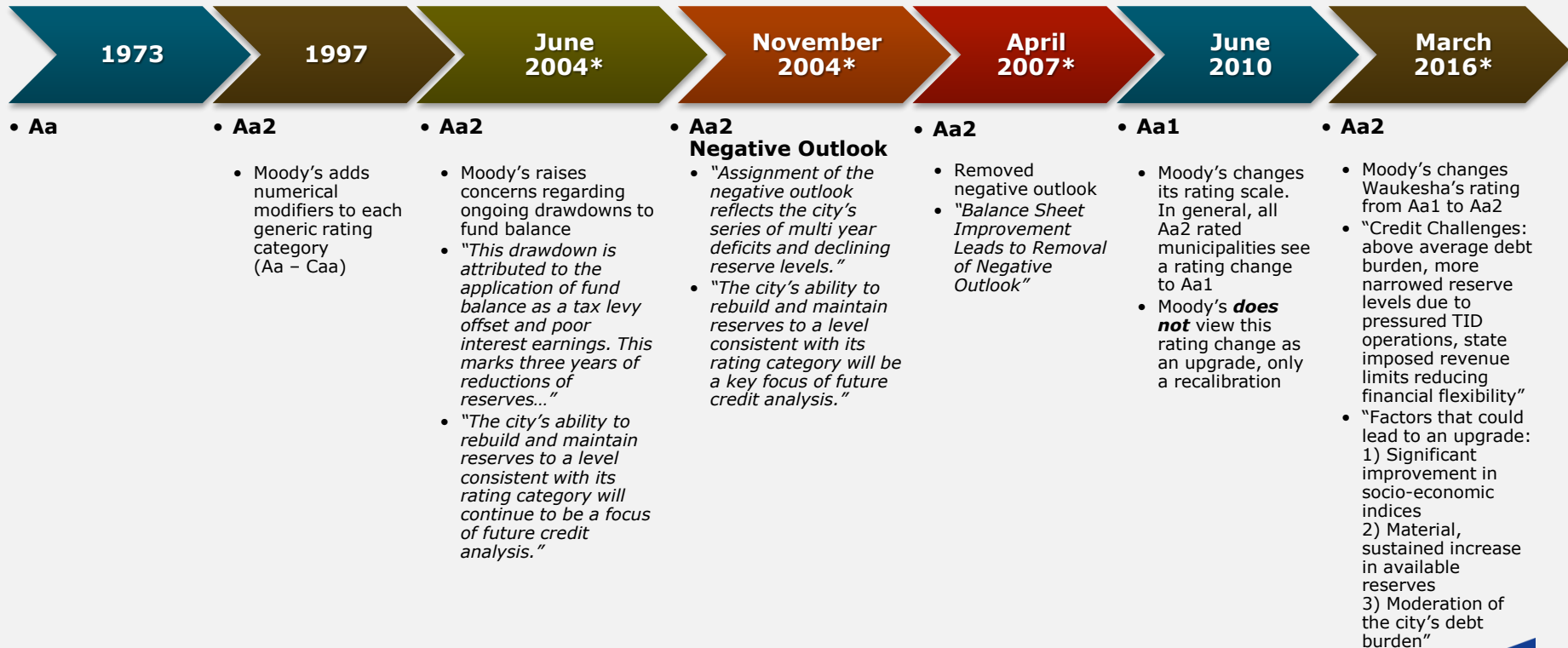
- a. Institutional Framework – 10%
- b. Operating History – 10%

4. Debt/Pensions (20%)

- a. Debt to Full Value – 5%
- b. Debt to Revenue – 5%
- c. Moody's-adjusted Net Pension Liability (3-year average) to Full Value – 5%
- d. Moody's-adjusted Net Pension Liability (3-year average) to Full Value – 5%



Waukesha's Historical Bond Ratings



Specific Observations

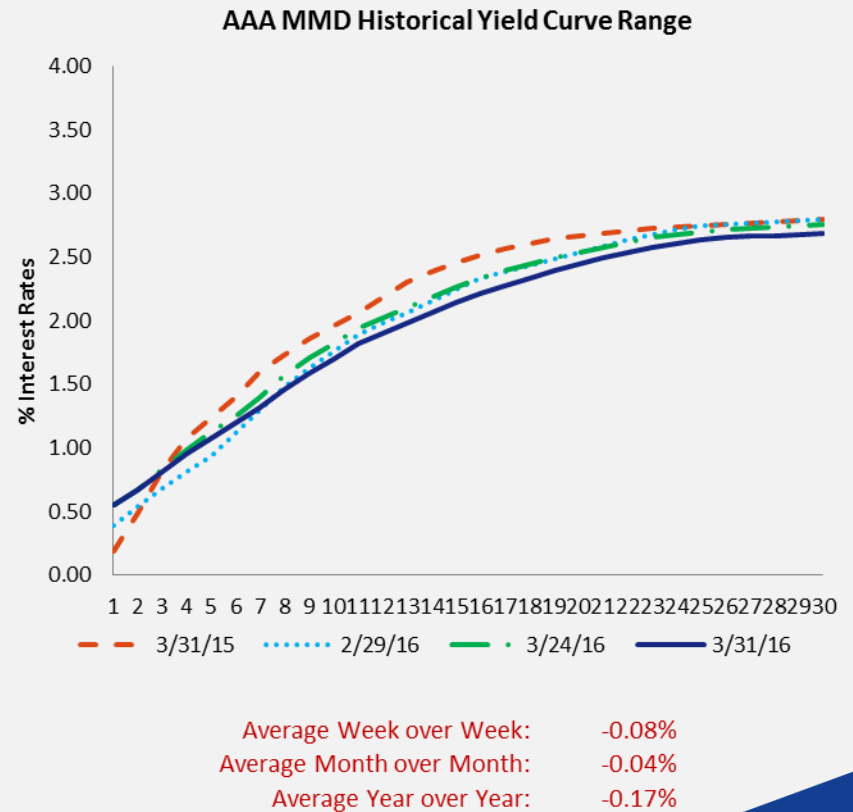
- A **2010** change in DOR valuation methodology had a negative impact on older (longer-lived) TIDs
- A statutory change in **2014** (Act 145) increased state aid to Technical College Districts and reduced all future TID tax revenue by approximately 4% annually.
- Moody's recognizes the steps Waukesha has taken with regard to TID #11 cash flow
- Moody's cites the positive impact of utilizing pay-go and/or developer agreements for future TIDs.

The Impact of Bond Ratings on Interest Rates

- Interest rates increase as bond ratings decrease
- The interest rate difference between ratings changes with market conditions
- In today's market, the impact of a one notch change from Aa1:
 - approximately 0.05% (5 basis points)
 - approximately \$2,500/\$1 million borrowed over a 10-year period
 - approximately \$3,500/\$1 million borrowed over a 15-year period
- The estimated annual impact on the City's upcoming levy supported debt issue is \$5,050

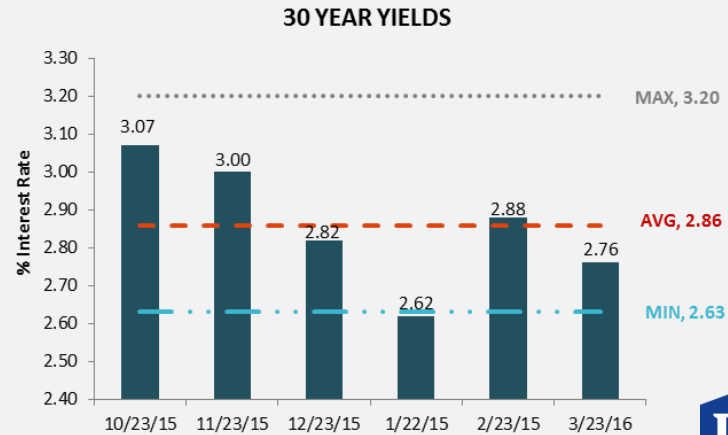
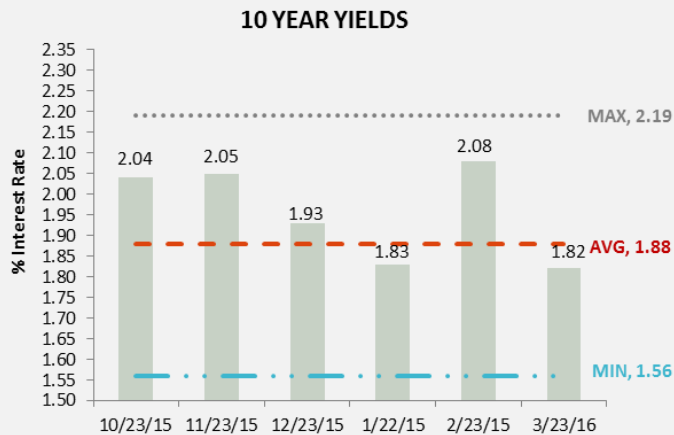
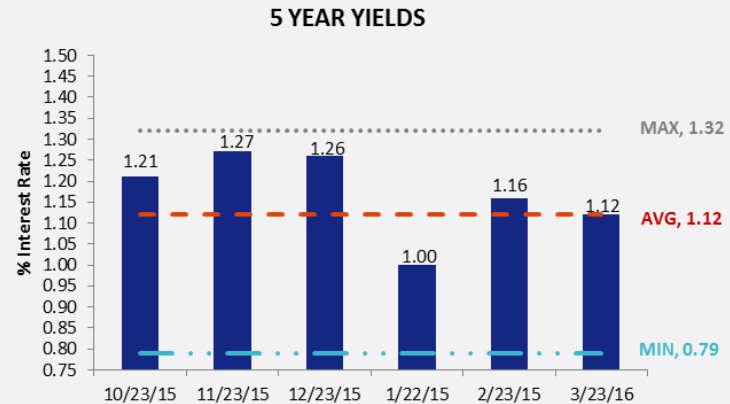
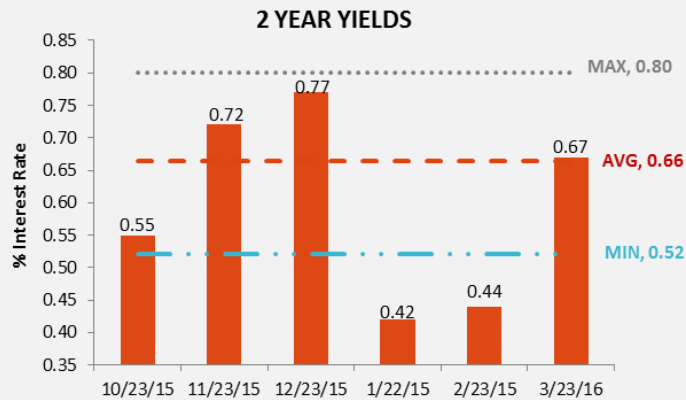
Where Have Tax-Exempt Rates Gone?

| Maturity | Annual | Monthly | Weekly | Current | Difference | | |
|----------|---------|---------|---------|-----------------|----------------|------------------|----------------|
| | 3/31/15 | 2/29/16 | 3/24/16 | 3/31/16 | Year over Year | Month over Month | Week over Week |
| 1 | 0.19 | 0.39 | 0.55 | 0.55 | 0.36 | 0.16 | 0.00 |
| 2 | 0.49 | 0.54 | 0.67 | 0.67 | 0.18 | 0.13 | 0.00 |
| 3 | 0.82 | 0.68 | 0.83 | 0.81 | -0.01 | 0.13 | -0.02 |
| 4 | 1.07 | 0.81 | 0.98 | 0.95 | -0.12 | 0.14 | -0.03 |
| 5 | 1.24 | 0.93 | 1.12 | 1.07 | -0.17 | 0.14 | -0.05 |
| 6 | 1.40 | 1.11 | 1.25 | 1.20 | -0.20 | 0.09 | -0.05 |
| 7 | 1.60 | 1.30 | 1.40 | 1.32 | -0.28 | 0.02 | -0.08 |
| 8 | 1.73 | 1.48 | 1.57 | 1.46 | -0.27 | -0.02 | -0.11 |
| 9 | 1.86 | 1.63 | 1.71 | 1.59 | -0.27 | -0.04 | -0.12 |
| 10 | 1.96 | 1.76 | 1.82 | 1.70 | -0.26 | -0.06 | -0.12 |
| 11 | 2.06 | 1.89 | 1.94 | 1.82 | -0.24 | -0.07 | -0.12 |
| 12 | 2.18 | 1.98 | 2.02 | 1.90 | -0.28 | -0.08 | -0.12 |
| 13 | 2.30 | 2.06 | 2.10 | 1.98 | -0.32 | -0.08 | -0.12 |
| 14 | 2.38 | 2.15 | 2.18 | 2.06 | -0.32 | -0.09 | -0.12 |
| 15 | 2.45 | 2.24 | 2.26 | 2.14 | -0.31 | -0.10 | -0.12 |
| 16 | 2.51 | 2.33 | 2.33 | 2.21 | -0.30 | -0.12 | -0.12 |
| 17 | 2.56 | 2.38 | 2.39 | 2.27 | -0.29 | -0.11 | -0.12 |
| 18 | 2.60 | 2.43 | 2.44 | 2.33 | -0.27 | -0.10 | -0.11 |
| 19 | 2.64 | 2.48 | 2.49 | 2.39 | -0.25 | -0.09 | -0.10 |
| 20 | 2.67 | 2.53 | 2.53 | 2.44 | -0.23 | -0.09 | -0.09 |
| 21 | 2.69 | 2.58 | 2.57 | 2.49 | -0.20 | -0.09 | -0.08 |
| 22 | 2.71 | 2.63 | 2.61 | 2.53 | -0.18 | -0.10 | -0.08 |
| 23 | 2.73 | 2.68 | 2.65 | 2.57 | -0.16 | -0.11 | -0.08 |
| 24 | 2.74 | 2.72 | 2.68 | 2.60 | -0.14 | -0.12 | -0.08 |
| 25 | 2.75 | 2.75 | 2.70 | 2.63 | -0.12 | -0.12 | -0.07 |
| 26 | 2.76 | 2.76 | 2.72 | 2.65 | -0.11 | -0.11 | -0.07 |
| 27 | 2.77 | 2.77 | 2.73 | 2.66 | -0.11 | -0.11 | -0.07 |
| 28 | 2.78 | 2.78 | 2.74 | 2.67 | -0.11 | -0.11 | -0.07 |
| 29 | 2.79 | 2.79 | 2.75 | 2.68 | -0.11 | -0.11 | -0.07 |
| 30 | 2.80 | 2.80 | 2.76 | 2.69 | -0.11 | -0.11 | -0.07 |
| | | | | Average: | -0.17 | -0.04 | -0.08 |



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6 Month Municipal Market Snapshot



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