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Menasha

FOR IMMEDIATE RELEASE

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Moody's Upgrades Menasha bond rating

MENASHA, WI – January 15, 2015. Moody's Investors Service has upgraded the City of Menasha's bond rating to Baa2 reflecting a stable financial profile and decreasing debt. The improved rating lifts the City's existing public debt obligations to investment grade status.

For the past several years, the City has relied solely on the State of Wisconsin Board of Commissioners of Public Lands Trust Fund program, and now with the higher bond rating, the City has increased flexibility when financing projects or refinancing current debt by allowing entry into the capital markets. However, it should be noted that Moody's placed positive emphasis on the recent borrowings that the City has done with the State Trust Fund Program.

In developing the new rating Moody's stated that the City's debt is at its lowest level since 2002, and that 76% of the City's current debt will be retired in within the next 10 years. It also noted that the city plans to continue to retire more debt than is issued annually for the next several years. Furthermore, the City's general fund reserve balance has increased over recent years' amounts.

The full report can be found here:
https://www.moodys.com/research/Moodys-upgrades-Menasha-WIs-GO-to-Baa2-outlook-stable--PR_316496

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's upgrades Menasha, WI's GO to Baa2; outlook stable

Global Credit Research - 14 Jan 2015

Baa2 applies to $6.1M of Moody's rated debt

MENASHA (CITY OF) WI
Cities (including Towns, Villages and Townships)
WI

NEW YORK, January 14, 2015 --Moody's Investors Service has upgraded to Baa2 from Ba2 the rating on the City of Menasha, WI's general obligation unlimited tax (GOULT) debt. Debt service is secured by the city's general obligation unlimited tax pledge and benefits from a designated levy that is not limited by rate or amount. The city has a total of $35.3 million of GOULT debt outstanding, of which $6.1 million is rated by Moody's. The outlook remains stable.

SUMMARY RATING RATIONALE

The Baa2 rating reflects the city's moderating debt burden and the June 2014 sale of the steam utility plant that was related to the city's 2009 default. The Baa2 rating also incorporates the city's adequate financial position, the city's location in a stable regional economy with some concentration in manufacturing, as well as the city's 2009 default on two series of Bond Anticipation Notes (BANs) which resulted in a 75% recovery ratio for investors.

The stable outlook reflects our expectation that the city's tax base and financial position will not materially change over the medium term.

STRENGTHS

-Recent sale of steam utility plant as well as 2012 settlement with bondholders provides some stability to the city's current and future financial position

-General Fund reserve levels are adequate relative to the size of the city's operating budget and are slightly improved over fiscal 2011 and 2012

-History of special assistance from the State of Wisconsin (Aa2 positive) for borrowing through the State Trust Fund which mitigates the city's need to access the capital markets for capital projects

CHALLENGES

-Regional economy characterized by manufacturing concentration and relatively weak demographic profile

-Direct debt burden remains elevated compared to state and national medians

DETAILED CREDIT DISCUSSION

SUMMARY OF STEAM UTILITY DEFAULT

In January 2005, the city issued $12.7 million of Taxable Steam Utility Revenue BANs to finance the first phase of a project to covert the city's power plant to an industrial steam production facility. The project was intended to provide inexpensive power to four local paper mills as an economic development measure. In December 2006, the city issued an additional $11.5 million of Taxable Steam Utility Revenue BANs. Both sets of notes were originally scheduled to be refinanced with long-term steam revenue bonds and the security of the BANs was strengthened by including the city's strongly worded appropriation pledge to pay any deficiency out of its annual general tax levy.

Due to cost overruns, regulatory and pricing disputes, and net revenues coming in well below projections, the Menasha Utility Commission voted 5-0 in May 2009 to close the plant. The city defaulted on the two series BANs on September 1, 2009 with only $1.4 million of the $24.2 million of principal outstanding, along with interest, was repaid at maturity. Although the city did not default on its GO debt, its unwillingness to meet the commitment brought into question the city's willingness to meet all of its obligations. The city has continued to make GO debt service payments on time and in full and that is reflected in the upgrade.

On April 6, 2011, the city closed on the sale of the assets of its electric utility enterprise to Wisconsin Public Power Inc. (WPPI Energy, rated A1 stable outlook) for $17.3 million. The city is leasing back the electric utility system for a 20-year period, at which time it will regain ownership of the assets. The sale followed a preliminary settlement between the city and note holders for partial repayment of the steam utility notes. The settlement was approved by federal courts in December 2011 and, after a mandatory 30 day waiting period, the city released $17.5 million in funds to partially repay note holders on January 5, 2012. The recovery rate for note holders is roughly 75% of the Steam Utility Revenue BANs. Per the terms of the settlement, the city is not obligated to repay the remaining 25%, and management reports that they have no plans to do so.

The release of funds relating to the finalization of the settlement in January 2012 marked the closure of the failed conversion of the city's electric generation plant to a steam generation plant. On June 6, 2014, the city closed on the sale of the plant. The property was sold for $1 with a $400,000 personal guarantee to remediate any environmental liabilities. Clean up of the facility is expected to be complete in spring 2015 and the new owners anticipate a manufacturer of specialty cranberry products, Simply Incredible Foods, to begin production later in 2015.

LOCAL ECONOMY LONG RELIANT ON PAPER INDUSTRY; TAX BASE GROWTH IN 2014

The city's tax base will likely remain stable due to its favorable location near the regional economies of Appleton (Aa1), Oshkosh (Aa3) and Green Bay (Aa2) and continued investment in the local economy. Valued at $999 million in 2014, the tax base has declined at an average annual rate of 0.8% since 2009. Favorably, after declining in four of the last six years, the tax base grew by 2.5% in 2014. Single family building permits in the city have increased annually since 2011 and totaled $10.1 million in 2013, compared to $4.5 million in 2012 and $3.5 million in 2011. In December 2014, management reported permits totaled $7.5 million. Building permits for 2015 are expected to track closely to 2014 results. Local employers have also continued to invest in the tax base with Intertape Polymer, a tape manufacturer, has a contract with Amazon and is exploring expanding operations. In addition, a grocery store opening in the heart of the city.

While the city's tax base does not exhibit considerable tax payer concentration, the region as a whole exhibits some employment concentration. Both Appleton and Oshkosh have an above average employment in manufacturing; in Appleton nearly 20% of all employment is in manufacturing and one in four jobs in Oshkosh is in the manufacturing sector, compared to state and national averages of 16% and 9%, respectively. In addition to manufacturing, Appleton's economy has a large healthcare presence and Oshkosh is the home to a University of Wisconsin campus, each of which provides significant additional employment opportunities. At 4.3% in October 2014, the unemployment rate in Winnebago County (Aa1) tracked slightly below the state national rates of 4.6% and 5.5%, respectively. The city's resident income profile lags that of the nation with median family income at 91.8% of the US, according to the 2008-2012 American Community Survey.

STABLE FINANCIAL OPERATIONS WITH ADEQUATE RESERVES

We expect the city's financial profile will remain stable given satisfactory reserves. After an operating deficit of $235,000 in fiscal 2012, which reduced the General Fund balance to $2.4 million, or 14.9% of revenues, the General Fund posted a modest operating surplus of $63,000 in fiscal 2013. The operating surplus increased the fund balance modestly to just over $2.4 million, or 15.4% of revenues. In addition, the available General Fund balance increased by $608,000 due to a repaid advance from the General Fund to two of the city's Tax Increment District (TID) funds. The available General Fund balance totaled $2.3 million at the close of fiscal 2013, or a satisfactory 14.3% of revenues. In addition, the city's Debt Service Fund holds $1.5 million restricted for debt service. While audited results are not yet available for fiscal 2014, management expects balanced operations or a modest operating surplus. For fiscal 2015, the property tax was held flat. While the budget includes the use of $155,000, the city's finance director does not anticipate any use of fund balance. While the city's current reserve policy is to maintain a minimum of 6% of expenditures in General Fund reserves, management's ultimate goal is to hold 17% of expenditures, equivalent to two months of expenditures, in unassigned reserves.

Property taxes were the largest source of revenue in fiscal 2013 and comprised 51.1% of operating revenues, inclusive of the General Fund and Debt Service Fund. The city is subject to strict levy limits which restricts increases to the city's operating tax levy to net new construction. Net new construction has been modest in Menasha over the last few years and increased by less than 0.5% in 2012 and 2013 for the 2013 and 2014 budgets. Intergovernmental aid was the second largest source of revenue for the city and comprised 29.9% of operating revenues in fiscal 2013.

ELEVATED DEBT BURDEN BEGINNING TO MODERATE; MODEST PENSION LIABILITIES

We expect the city's debt profile to remain manageable going forward given management's plan to retire more debt than issued annually for the next several years. At 3.7% of full value and 1.98 times operating revenues, the city's direct debt burden is well above state and national medians. While above average, the city's debt burden is significantly lower than it has been in recent years and is currently at its lowest level since 2002. Including borrowing by overlapping jurisdictions, the city's overall debt burden remains elevated at 5.0% of full value. Principal amortization is average with 76.1% of all debt retired within 10 years. Debt service was the third largest operating expenditure for the city in 2013 and totaled 14.8% of operating expenditures. The city has issued only modest amounts of new money debt for the last several years but anticipates borrowing $1 million annually through the state trust fund loan program for capital projects. All of the city's debt is fixed rate and the city is not a party to any interest rate swap agreements.

Budgetary pressure from the city's exposure to the state multi-employer cost-sharing pension plan, WRS, is expected to remain minimal. The city's contribution to WRS in fiscal 2013 totaled $1.7 million, including $1.1 million from the city and $631,000 from its employees. The city's portion of contributions totaled a modest 6.1% of operating expenditures. The three year average of Moody's adjusted net pension liability (ANPL) for the village, under our methodology for adjusting reported pension data, was 0.32 times operating fund revenues and 0.6% of full value. Both figures are below average for Moody's rated local governments. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported contribution information, but to improve comparability with other rated entities. We determined the city's share of liability for WRS in proportion to its contributions to the plan and covered payroll.

OUTLOOK

The stable outlook reflects our expectation that the city's tax base and financial position will not materially change over the medium term.

WHAT COULD MOVE THE RATING UP

- Expansion of the city's tax base coupled with improved resident income levels

- Material increases to the city's available reserves and liquidity

- Significant reduction in the city's debt levels relative to tax base and budget size

WHAT COULD CHANGE THE RATING DOWN

- Failure to honor appropriation pledge for future debt

- Involvement in costly enterprises, particularly those that are non-essential to municipal operations

KEY STATISTICS

2014 Full valuation: $999 million

Estimated full value per capita: $56,800

2012 American Community Survey median family income as a % of the state: 91.8%

Fiscal 2013 Available Operating Fund balance: $2.3 million (12.2% of revenues)

Five-year Dollar Change in Operating Fund balance as a percent of revenues: -1.2%

Fiscal 2013 Net Operating cash balance: $5.2 million (28.1% of revenues)

Five-year Change in Cash Balance as a percent of revenues: -13.2%

Institutional Framework: A

Operating History (Five-year average of operating revenues/operating expenditures): 1.03 times

Net Direct Debt / Full Value: 3.7%

Net Direct Debt / Operating Revenues: 1.98times

Three-year Average of Moody's ANPL/Full Value: 0.58%

Three year Average of Moody's ANPL/Operating Revenues: 0.32 times

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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