City of Manitowoc

Final Pricing Summary

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City of Manitowoc

Issue Summary	
Description:	General Obligation Promissory Notes
Amount:	$2,500,000
Dated & Settlement Date:	April 6, 2015
Maturities:	February 1, 2018 - 2025
First Interest Payment:	February 1, 2016
First Call Date:	February 1, 2023
Moody's Rating:	A1
True Interest Cost:	2.16%

City of Manitowoc

Financing Plan

			$2,500,000 G.O. Promissory Notes Dated April 6, 2015 (First interest 2/1/16)				
LEVY YEAR	YEAR DUE	EXISTING DEBT PAYMENTS *(A)*	PRINCIPAL *(2/1)*	INTEREST *(2/1 & 8/1)* TIC= 2.16%	LESS BID PREMIUM	TOTAL	TOTAL DEBT PAYMENTS *(A)*
2013	2014	$7,288,934					$7,288,934
2014	2015	$7,091,584					$7,091,584
2015	2016	$6,443,932		$84,115	($57,322)	$26,793	$6,470,724
2016	2017	$6,376,201		$63,750		$63,750	$6,439,951
2017	2018	$6,014,662	$200,000	$61,750		$261,750	$6,276,412
2018	2019	$5,396,256	$305,000	$56,700		$361,700	$5,757,956
2019	2020	$5,069,526	$310,000	$50,550		$360,550	$5,430,076
2020	2021	$4,716,407	$320,000	$44,250		$364,250	$5,080,657
2021	2022	$4,031,691	$325,000	$37,800		$362,800	$4,394,491
2022	2023	$3,244,277	$335,000	$27,850		$362,850	$3,607,127
2023	2024	$1,586,142	$345,000	$15,975		$360,975	$1,947,117
2024	2025	$711,715	$360,000	$5,400		$365,400	$1,077,115
2025	2026	$280,019					$280,019
		$58,251,346	$2,500,000	$448,140	($57,322)	$2,890,818	$61,142,164

(A) Net of revenues, subsidies & special assessments; levy supported portion only.

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 to Manitowoc, WI's $2.5M GO Notes

Global Credit Research - 04 Mar 2015

A1 applies to $51.5M of GO debt including current offering

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

Moody's Rating

ISSUE	RATING
General Obligation Promissory Notes	A1
Sale Amount $2,500,000	
Expected Sale Date 03/16/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, March 04, 2015 --Moody's Investors Service has assigned an A1 rating to the City of Manitowoc, WI's $2.5 million General Obligation Promissory Notes. Concurrently, Moody's maintains the A1 rating on the city's outstanding general obligation debt. Post-sale, the city will have $51.5 million of outstanding general obligation debt.

SUMMARY RATING RATIONALE

The A1 rating reflects the city's moderately-sized tax base located 40 miles southeast of Green Bay (Aa2); improved General Fund operations due to substantial expenditure reductions but still narrow reserve levels; below average unfunded pension liability; and above average debt burden that should decline given limited additional borrowing plans and rapid principal amortization.

OUTLOOK

Outlooks are not typically assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

-Growth in operating reserves

-Continued progress in reducing deficit positions across all governmental funds

-Improvement in socio-economic indices

WHAT COULD MAKE THE RATING GO DOWN

-Material deficits in General Fund and/or other governmental funds

-Significant increase of the city's overall debt profile

-Substantial weakening of the local economy and/or tax base

STRENGTHS

-Improvement of General Fund position following substantial recurring expenditure reductions

- Limited future capital needs should reduce city's debt burden over time

- Manageable pension obligations

CHALLENGES

-Narrow reserve and liquidity position

-Elevated debt burden

- Recent declines in tax base valuation

RECENT DEVELOPMENTS

Recent developments are incorporated into the detailed rating rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: MODERATELY-SIZED TAX BASE WITH RECENT DECLINES IN VALUATION; SIGNIFICANT MANUFACTURING PRESENCE

The city's tax base is expected to stabilize over the mid-term given ongoing development that should mitigate instability in other areas. Manitowoc is located 40 miles southeast of Green Bay and 80 miles north of the City of Milwaukee (Aa3/stable) along the shoreline of Lake Michigan. Reflecting the national economic slowdown, the city's $1.9 billion tax base has lost an average of 1.6% of its value annually over the last four years. However, growth began to recover in 2014 with a 1.3% growth in the base. The tax base is diverse, with the ten largest taxpayers comprising only 6.3% of assessed value.

The region has seen some instability among its larger employers, and the city's unemployment rate peaked at 11.7% in 2009. For instance, in 2012 Fischer-Hamilton, a lab furniture manufacturer in neighboring Two Rivers (Baa1/negative) closed and eliminated its workforce of 1,200. Favorably, officials note some instances of economic growth. Jagemann Stamping recently invested $18 million in a new 50,000 square foot facility and increased its workforce by 77 people. Additionally, Harbor Town Center, a retail area in the city's TIF #15 and anchored by Kohl's and Lowe's, reportedly has no vacancies in existing facilities and continues to grow its footprint. In addition, the city's economy is complemented by an estimated $15 million annual economic benefit from tourism related to the city's lake-front setting and accessibility due to its location along Highway 43. By December 2014, the city's unemployment rate had dropped to 5.8% which, while significantly improved, was still higher than the state's 5.0% rate and the nation's 5.8% rate. The lower unemployment rate is largely driven by declines in the city's labor force during the economic downturn, with a material 8.7% drop between 2009 and 2013, and stabilization thereafter. The city's wealth levels are below average, with median family income at 88.1% of the nation, according to 2008-2012 estimates from the American Community Survey.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL OPERATIONS CONTINUE TO MODESLTY IMPROVE FOLLOWING PERIOD OF PRESSURE

The city's finances are expected to continue to improve given the recent implementation of recurring expenditure reductions and new conservative management practices. Prior to fiscal 2012, the General Fund was structurally imbalanced and had been supported by sizeable transfers in from other funds, namely the wastewater treatment plant fund, sanitary and storm water fund, and streets fund. While the interfund support enabled the General Fund to maintain an adequate fund balance, it depleted the reserves of the supporting funds. Additionally, certain of the city's TIDs have experienced long term cash flow pressures, requiring interfund loans from the General Fund.

In late fiscal 2011, as a stop gap measure to address budgetary imbalances, city officials pursued a $5 million loan from Manitowoc Public Utilities (MPU), a legally separate institution that provides electricity, water, stream and broadband services to the city. The city immediately repaid $1.4 million of the loan via forgiveness of MPU's outstanding portion of previously issued pension obligation bonds. City officials indicate that the remaining portion of the loan, $1.4 million, will be completely repaid by February 2017.

In addition to securing the loan from MPU, officials instituted significant budgetary adjustments to gain recurring structural balance in the General Fund in fiscal 2012 and have continued to do so in fiscal 2013. As a result of these measures, the General Fund realized a $381,000 operating surplus in fiscal 2012 and a modest $187,000 operating deficit in fiscal 2013, bringing available fund balance to $1.2 million, or a narrow 5.2% of revenues. Officials report the modest operating deficit was due to lower than expected EMS revenues. The city significantly revised its estimates for EMS revenue downwards for fiscal 2014 and, while audited results are not yet available, now expects to record a $700,000 operating surplus in the General Fund. The $4.1 million of transfers into the General Fund in fiscal 2013 solely constituted payments in lieu of taxes (PILOTs) from the city's utilities and no longer included subsidized support from other funds.

The city currently falls well below its policy of maintaining unassigned General Fund reserves of between 15% and 25% of expenditures. Unassigned General Fund balance totaled $1.2 million, or a narrow 4.9% of revenue, in fiscal 2013. Approximately $3.8 million of fund balance is non-spendable as it reflects long-term receivables from the city's TIF funds. Management projects the unassigned fund balance will grow to comply with the reserve policy within the next five to seven years. Reserve growth is expected to occur due to modest increases in the operating levy, savings from increased employee pension contributions, conservative financial management and spending practices and gradual repayment of TIF loans, which is enabled by recent state approval to allow the city's strong performing TIFs to support its distressed TIFs.

Given the recent measures to stabilize operations, we expect that the city's General Fund and government-wide reserves will grow gradually over time. The city's progress toward growing General Fund reserves to within its policy range and improving the financial position of other city funds will be a key credit consideration going forward.

Liquidity

While the General Fund holds a total of $18.5 million in cash, $10.9 million of the cash is due to other local government entities as the city collects property taxes on their behalf. The city's true unrestricted General Fund cash position totals $7.6 million, or a healthy 31.7% of revenues.

DEBT AND PENSIONS: ELEVATED DEBT BURDEN WITH RAPID REPAYMENT SCHEDULE; MODEST PENSION LIABILITY

The city's debt burden is elevated, but expected to moderate given rapid principal amortization and modest future borrowing plans. The city' overall debt burden of 3.7% of full value and its direct debt burden of 2.7% of full value are elevated relative to its peers and debt service comprised an elevated 25% of operations in fiscal 2013. Principal amortization is rapid, with 98% retired within ten years and nearly 61% retired within five years. Officials project the city's debt burden will be reduced by half its current size by 2018 and recently implemented a 2% levy increase in the debt service levy to move towards a pay-go capital funding structure rather than issue new debt.

Debt Structure

The city's debt profile consists of $51.5 million of gross GO debt outstanding as well as $1.4 million remaining on the MPU loan.

Debt-Related Derivatives

All of the city's debt is fixed rate, and it is not a party to any interest rate swap agreements.

Pensions and OPEB

The city's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), is expected to remain modest. The employer share of the city's contribution to WRS in fiscal 2012 was $1.9 million. This contribution was equivalent to 5.8% of total operating expenditures. The city has historically made its required contributions to WRS, and does not have an outstanding prior service unfunded liability with the retirement system on a reported basis.

The three year average of Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was equal to 0.81% of full value and 0.49 times operating revenues. Both of these 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 the cost-sharing plan liability in proportion to its share of covered payroll.

MANAGEMENT AND GOVERNANCE: LIMITED REVENUE RAISING FLEXIBILITY, BUT AMPLE ABILITY TO CONTROL EXPENSES

Wisconsin cities have an institutional framework score of "A", or moderate. Cities operate under strict levy limits. Unlike counties, cities cannot implement a sales tax to supplement property tax revenue. Wisconsin's Act 10 legislation, which was enacted in 2011, provides counties with considerable expenditure flexibility as it curbs the bargaining power of non-public safety government employees.

The city's management team has proven to be engaging as evidenced by its recent operational restructuring and a conservative budgetary approach.

KEY STATISTICS

2014 Estimated full valuation: $1.9 billion

2014 Estimated full valuation per capita: $56,137

Estimated median family income as % of the US: 88.1%

Fiscal 2013 available operating fund balance / operating revenue: 3.9%

5-year change in available operating fund balance / operating revenue: -13.9%

Fiscal 2014 operating net cash / operating revenue: 24.2%

5-year change in operating net cash / operating revenue: -18.6%

Institutional framework score: "A"

5-year average operating revenue / operating expenditures: 1.02

Net direct debt burden: 3.6% of full valuation; 2.2 times operating revenue

3-year average Moody's adjusted net pension liability: 0.8% of full valuation; 0.5 times operating revenue

OBLIGOR PROFILE

The city of Manitowoc is located 40 miles southeast of Green Bay and 80 miles north of Milwaukee along the shoreline of Lake Michigan and covers approximately 18 square miles. The city provides a variety of municipal services to a population of approximately 33,736.

LEGAL SECURITY

The bonds are secured by the city's authorization to levy a property tax unlimited as to both rate and amount to pay debt service.

USE OF PROCEEDS

The proceeds from the sale of the Notes will be used for public purposes, including street, bridge and sidewalk projects, sanitary sewer and stormwater improvements, park projects, environmental remediation, improvements to public buildings and structures, and the acquisition of land and equipment.

PRINCIPAL 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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