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March 11, 2014

Ms. Jennifer Hdon
City of Manitowoc
900 Quay St.
Manitowoc, WI 54220

Dear Ms. Hudon:

We wish to inform you that on February 25, 2014, Moody's Investors Service reviewed and assigned a rating of

- **A1** to MANITOWOC (CITY OF) WI, General Obligation Promissory Notes

In assigning such rating, Moody's has relied upon the truth, accuracy and completeness of the information supplied by you or on your behalf to Moody's. Moody's expects that you will, on an ongoing basis, continue to provide Moody's with updated information necessary for the purposes of monitoring the rating, including current financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's Rating Desk.

In accordance with our usual policy, assigned ratings are subject to revision or withdrawal by Moody's at any time, without notice, in the sole discretion of Moody's. For the most current rating, please visit www.moodys.com.

This letter is strictly confidential and you may not disclose it to any other person except: (i) to your legal counsel acting in their capacity as such; (ii) to your other authorized agents, acting in their capacity as such; (iii) as required by the law or regulation; or (iv) with the prior written consent of Moody's, in which case Moody's reserves the right to impose conditions upon such consent such as requiring that you only disclose this letter in its entirety and/or requiring any third party to sign a confidentiality and/or non-reliance agreement.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Andrea Stenhoff at 312-706-9958.

Sincerely,

Rachel Cortez

Rachel Cortez

CC:

Mr. Brad Viegut
Robert W. Baird

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns A1 to Manitowoc, WI's \$4.0M GO Notes; negative outlook removed

Global Credit Research - 25 Feb 2014

A1 applies to \$65.4M 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 | \$4,030,000 |
| Expected Sale Date | 02/27/14 |
| Rating Description | General Obligation |

Moody's Outlook NOO

Opinion

NEW YORK, February 25, 2014 –Moody's Investors Service has assigned an A1 rating to the City of Manitowoc, WI's \$4.0 million General Obligation Promissory Notes. Concurrently, Moody's has affirmed the A1 rating on the city's outstanding general obligation debt. Post-sale the city will have \$65.4 million of outstanding general obligation debt.

The notes are secured by the city's unlimited general obligation tax pledge. Approximately \$2.3 million of note proceeds will be used for capital improvements and equipment acquisitions. The remaining proceeds will be used to refund portions of the city's outstanding General Obligation Promissory Notes dated April 9, 2007 and May 23, 2008. While the refunding extends the amortization schedule by one year to provide budgetary relief, it is still expected to generate net interest costs savings, currently estimated at 2.7% of refunded par.

SUMMARY RATINGS RATIONALE

The A1 rating reflects the city's moderately-sized tax base located 40 miles southeast of Green Bay (general obligation rated Aa2); improved General Fund operations starting in fiscal 2012 due to substantial recurring expenditure reductions; narrow, though improving reserves government-wide; below average unfunded pension liability; and above average debt burden that should decline given limited additional borrowing plans and rapid principal amortization. The city's negative outlook has been removed.

STRENGTHS

- Restoration of structural balance in General Fund following substantial recurring expenditure reductions
- Limited future capital needs should reduce city's debt burden over time
- Modestly sized Moody's adjusted net pension liability

CHALLENGES

- Multi-year drops in tax base value
- Historical support of General Fund by other governmental and enterprise funds has depleted reserves and liquidity government-wide, though improvement expected

-Elevated debt burden

DETAILED CREDIT DISCUSSION

MODERATELY-SIZED TAX BASE WITH RECENT DECLINES IN VALUATION; 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 (Aa2/ratings under review for potential downgrade) along the shoreline of Lake Michigan. Reflecting the national economic slowdown, the city's \$1.9 billion tax base has lost an average of 2.4% of its value annually over the last four years. The tax base is diverse, with the ten largest taxpayers comprising 7.6% 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 outlook) closed and eliminated its workforce of 1,200. Favorably, officials note some instances of economic growth. Jagemann Stamping has 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 add grow its footprint. In addition, the city's economy is complemented by an estimated \$15 million annual economic benefit from tourism, which benefits from the city's lake-front setting and accessibility due to its location along Highway 43. By November 2013, the city's unemployment rate had dropped to 7.4%, which is still elevated above the state's 5.8% rate and the nation's 6.6% rate. The lower unemployment rate is largely driven by declines in the city's labor force during the economic downturn, with a material 6.4% drop between 2009 and 2012, and stabilization thereafter. The city's wealth levels are below average, with median family income at 90.0% of the nation and 87.3% of the state, respectively, according to 2006 to 2010 estimates from the American Community Survey.

FINANCIAL OPERATIONS IMPROVING FOLLOWING PERIOD OF PRESSURE

The city's finances are expected to continue to improve given the implementation in fiscal 2012 of substantial recurring expenditure reductions and new conservative management practices. Prior to fiscal 2012, the General Fund was structurally imbalanced due to an estimated \$2 million to \$2.5 million of annual spending for mandatory storm water projects without a dedicated revenue source and a strong anti-tax sentiment, leading the city to levy one of the lowest tax rates in the state. For several years, General Fund had been supported by received 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. These factors depleted reserves government-wide, reflected in the -\$10.2 million unassigned fund balance in the city's combined governmental funds at the end of fiscal 2011.

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 received the loan funds in March 2012 and used the funds to reimburse the sanitary and storm water fund and streets fund for transfers made to the General Fund in fiscal 2011. The city immediately repaid \$1.4 million of the loan via forgiveness of MPU's outstanding portion of previously issued pension obligation bonds. The remaining portion of the loan is to be repaid over 5 years with the city generating the funds to repay the loan via its debt service levy.

In addition to securing the loan from MPU, in fiscal 2012 officials instituted significant budgetary adjustments to gain recurring structural balance in the General Fund. Faced with an initial \$4 million deficit, the city implemented \$1.6 million of revenue enhancements, including a 10.8% tax increase, fee increases, and \$2.5 million of expenditure reductions. Overall, the city reduced its workforce by 75 FTEs, of which 40 FTEs were lay-offs and 35 FTEs were reductions through attrition. As a result of these measures, the General Fund realized a \$381,000 surplus in fiscal 2012, bringing fund balance to \$5.7 million, or a satisfactory 23.1% of revenues. The \$4.5 million of transfers into the General Fund in fiscal 2012 solely constituted payments in lieu of taxes (PILOTs) from the city's utilities. The General Fund holds \$9.2 million of cash that is due to other municipalities, bringing unrestricted General Fund cash to \$7.5 million, or a healthy 30.2% of revenues.

The city currently falls well below its policy of maintaining unassigned General Fund reserves of between 15% and 25% of budget. Unassigned General Fund balance totaled \$1.3 million, or a narrow 5.4% of revenue, in fiscal 2012.

Approximately \$3.6 million of fund balance is non-spendable as it reflects long-term receivables from the city's TIF funds. Management is projecting the unassigned fund balance to remain stable in fiscal 2013, but grow to comply with the reserve policy in 5 to 7 years. Reserve growth is expected to occur due to modest increases in the operating levy, savings from increased employee pension savings, 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.

ELEVATED DEBT BURDEN WITH RAPID AMORTIZATION AND LIMITED FUTURE BORROWING

The city's debt burden is elevated, but expected to moderate given rapid principal amortization and modest future borrowing plans. The city's overall debt burden of 4.5% and its direct debt burden of 3.6% are elevated relative to its peers and debt service comprised an elevated 25% of operations in fiscal 2012. Principal amortization is rapid, with 96% retired within ten years and nearly 60% retired within five year. Near-term debt issuance is expected to be limited to \$210,000 borrowed through the State Trust Fund Loan program. Officials project the city's debt burden will be half its current size by 2018. All of the city's debt is fixed rate, and it is not a party to any interest rate swap agreements.

PENSION LIABILITY EXPOSURE EXPECTED TO REMAIN MANAGEABLE

The city's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), is expected to remain manageable. 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 0.43 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.

WHAT COULD MAKE THE RATING GO UP

- Growth in unassigned General Fund balance to within policy level
- Continued progress in reducing deficit positions in funds across government
- Relatively stability in the city's tax base and local economy

WHAT COULD MAKE THE RATING GO DOWN

- Sustained deficits in General Fund and/or other governmental funds
- Significant weakening of the city's overall debt profile
- Substantial weakening of the local economy

KEY STATISTICS

2013 full valuation: \$1.9 billion

2013 Estimated full value per capita: \$55,377

2006-2010 median family income (as % of US): 90.0%

Fiscal 2012 available operating fund balance: 5.0% of revenues

Five year change in available operating fund balance: -0.7% of revenues

Fiscal 2012 unrestricted operating cash: 23.6% of revenues

Five year change in operating cash: 6.6% of revenues

Institutional framework: A

Five year operating history: 1.0 times

Net direct debt: 3.6% of full value; 2.12 times operating revenues

Three year average of Moody's ANPL: 0.81% of full value; 0.43 times operating revenues

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.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

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