MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Oak Creek, WI's $15M GO Notes, Ser. 2015B

Global Credit Research - 01 May 2015

Maintains Aa2 rating on previously issued GO debt

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

Moody's Rating

ISSUE		RATING
Taxable General Obligation Promissory Notes, Series 2015B		Aa2
Sale Amount	$14,475,000	
Expected Sale Date	05/05/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, May 01, 2015 --Moody's Investors Service has assigned a Aa2 rating to the City of Oak Creek, WI's $14.5 million Taxable General Obligation Promissory Notes, Series 2015B. Concurrently, Moody's maintains the Aa2 rating on the city's previously issued general obligation (GO) debt. Post-sale, the city will have $84.8 million in GO debt outstanding.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the city's large tax base adjacent to the City of Milwaukee (Aa3 Stable); above average wealth indices; stable financial operations with solid reserves; elevated debt burden that is subject to moderate refinancing risk; and affordable pension liabilities.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

-Moderation in the city's debt burden

-Expansion and sustained growth of the city's tax base

WHAT COULD MAKE THE RATING GO DOWN

-Material increase in the city's debt burden

-Weakening of the city's reserves and/or liquidity

STRENGTHS

-Sizeable tax base located within Milwaukee metropolitan area

-Modest pension liabilities

CHALLENGES

-Elevated debt burden with large amount of short term issuances subject to refinancing risks

-Declining trend in the city's tax base

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIZEABLE MILWAUKEE SUBURB; SIGNIFICANT COMMERCIAL DEVELOPMENT ACTIVITY

We expect the city's sizeable tax base to grow moderately over the long term given the significant investment by the city and Wisconsin Electric Power Company (WE Energy) (WEC rated A1 Stable) in various commercial developments throughout the city. Located adjacent to Milwaukee in Milwaukee County (Aa2 Stable), the city's $2.9 billion tax base grew steadily throughout the last decade mirroring population growth of 21% between the 2000 and 2010 census counts. However, the trend reversed from 2008 through 2013 with a notable total decline of 14% in the city's full valuation primarily due to depreciation of both commercial and residential properties. Favorably, the tax base appears to be stabilizing with a 1% increase in 2014.

There are a number of new developments in the city, the largest of which is the Drexel Town Square. The Drexel Town Square is a jointly financed development between the city and We Energy that will offer a mixture of services, including a new city complex. Located in Tax Increment District (TID) 11, the 85 acre development will eventually include a Meijer grocery store, a hotel, restaurants, and apartments. Once completed, city officials estimate the development will have a taxable value of $162 million.

The largest employers in the city are reportedly stable and include United Parcel Service Inc. (UPS) (Aa3 Negative) with over 1,100 employees. Residents also have easy access to employment in Milwaukee and other neighboring communities. At 4.9% in January 2015, the city's unemployment rate is below the state's rate of 5.4% and national rate of 6.1% for the same time period. Resident wealth indices have improved from the 2000 census with median family income at 133.5% based on estimated figures from the 2012 American Community Survey.

FINANCIAL OPERATIONS AND RESERVES: SOLID FINANCIAL OPERATIONS WITH STRONG LIQUIDITY AND RESERVES

Despite consecutive modest operating deficits, the city's financial profile is expected to remain sound given prudent management and adherence to a policy to maintain an available reserve balance in excess of 20% of General Fund revenues. For fiscal 2013, lower than budgeted interest income and building permit revenues drove a modest operating deficit of $123,000, bringing the General Fund balance to $7.5 million or a still strong 32.9% of General Fund revenues. Additionally, the city's fiscal 2013 available General Fund balance of $6.1 million, which included the assigned and unassigned balances, exceeded the city's minimum fund balance. Favorably, the city has alternate liquidity of $9.7 million in its Capital Improvement Fund and $3.4 million in its Debt Amortization Fund at the close of fiscal 2013, though a portion of those will be drawn for development related expenses in TID 11. For fiscal 2014, unaudited figures indicate an operating surplus of approximately $430,000 due to operational savings in personnel costs and increases in building permit fees. The city budgeted for balanced operations in fiscal 2015 but anticipate another operating surplus citing strong year to date building permit receipts.

The city's primary source of operating revenues is property taxes, which comprised 63% of operating fund revenues (which consist of the General Fund, Debt Service Fund, and Emergency Medical Services Funds), followed by intergovernmental (state) aid at 26%.

We Energies does not pay local taxes, but instead pays an annual utility tax payment to the state, which is in turn distributed to municipalities in the form of energy aid. Since the tax is based on the utility's capacity, the recent expansion of their facility resulted in an increase in the city's utility aid revenue from approximately $3.3 million to $5 million annually. This increase took effect in fiscal 2012. Management has a policy to use $1.8 million of annual receipts to subsidize General Fund operations with the rest of utility aid used for capital improvements, economic development, and debt service. While the state legislature could change the utility aid distribution formula in the future, there are no current proposals to do so.

Liquidity

The city's net cash position has declined modestly but remains strong. The city's fiscal 2013 operating funds net cash totaled $5.1 million or a solid 18.6% of operating revenues which represented a decline from its peak of $7.3 million in fiscal 2009. Officials attributed the decline to planned use of reserves for various purposes and noted no future plans to utilize reserves.

DEBT AND PENSIONS: ELEVATED DEBT BURDEN

We expect the city's debt burden will remain above average in the medium term. The city's direct debt burden and overall debt burden are above average at 2.9% of full valuation and 8.4%, respectively. Debt service is manageable, typically comprising under 7% of operating expenditures, but is expected to grow significantly following recent debt issuances. All of the city's debt is fixed rate, and the city is not a party to any derivative agreements.

Nearly all of the city's GO debt is expected to be repaid from utility aid or TID revenues, reducing the burden on the tax base. Favorably, tenants have been identified for the vast majority of the anticipated development and the city has developer guarantees for all projects supported by incentives. The city may issue $10 million to refinance a short term issuance into long term debt by October of this year. Officials expect the pace of GO issuances to slow as the city completes the final financings related to the development.

Post-sale, a very high 60% of the city's outstanding debt will be short-term and due within the next three years in large bullet maturities. The exposure has declined slightly from 70% in 2013. The city plans to refinance all of it's the short-term debt into long-term debt prior to maturity. The city does not have adequate liquidity to defease the debt if it were unable to access the market. We do not expect market conditions to pose such challenges, but favorably, the city has a number of options should market conditions be unfavorable, including the ability to roll over into new short-term debt. The city structured much of its debt with bullet maturities, including the current issuance, with the intention of refinancing it into longer term debt, in part, to better align debt service expenditures with TID revenues.

Debt Structure

All of the city's debt is fixed rate and amortized over the long term. Amortization of existing debt is average with 80% principal set to be retired in ten years, but includes significant bullet maturities that are expected to be refinanced to long-term debt.

Debt-Related Derivatives

The city is not a party to any interest rate swap or derivative agreements.

Pensions and OPEB

The city's pension obligations are modest. Starting in fiscal 2012, the city contributes toward the employer share of Wisconsin Retirement System (WRS) costs in accordance with state legislation (Act 10), which prohibits local governments from making contributions to WRS on behalf of non-public-safety employees. The city's contribution for 2013 was $1.5 million or a modest 5% of 2013 operating revenues. The city has historically made its required contributions to WRS. Moody's three year average (fiscals 2011-13) adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $15.2 million, or 0.49 times operating revenues. 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 covered payroll.

The city's other post-employment benefits (OPEB) liability is funded on a pay as you go basis. The total unfunded liability is $51 million as of January 1, 2014, the most recent actuarial valuation report.

MANAGEMENT AND GOVERNANCE: WISCONSIN CITIES OPERATE WITH A MODERATE AMOUNT OF BUDGETARY FLEXIBILITY; OAK CREEK BENEFITS FROM STRONG, PRUDENT MANAGEMENT

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 cities with considerable expenditure flexibility as it curbs the bargaining power of non- public safety government employees. Pensions are well-funded.

The city's management team is strong, adhering to long-term capital plans and maintenance of reserves. The city utilizes a conservative budgetary approach and multi-year capital plan.

KEY STATISTICS

-Fiscal 2014 Full Value: $3.0 billion

-Fiscal 2014 Full Value Per Capita: $86,000

-Median Family Income as % of US Median: 134%

-Fiscal 2013 Fund Balance as % of Revenues: 15%

-5 Year Dollar Change in Fund Balance as % of Revenues: 0.5%

-Fiscal 2013 Cash Balance as % of Revenues: 14%

-5 Year Dollar Change in Cash Balance as % of Revenues: -2.4%

-Institutional Framework: A

-5 Year Average Operating Revenues/ Operating Expenditures: 1.1x

-Net Direct Debt as % of Full Value: 2.9%

-Net Direct Debt/ Operating Revenues: 2.3x

-3 Year Average ANPL as % of Full Value: 0.5%

-3 Year Average ANPL/ Operating Revenues: 0.4x

OBLIGOR PROFILE

The city of Oak Creek is adjacent to Milwaukee in Milwaukee County. The city encompasses an area of 28 square miles with an estimated population of 34,707.

LEGAL SECURITY

The notes are secured by the city's GO unlimited property tax pledge on all taxable property within the city without limitation as to rate or amount.

USE OF PROCEEDS

Proceeds of the Series 2015B notes will finance certain project costs related to developments within TID no. 11.

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.

REGULATORY DISCLOSURES

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