

**New Issue: Moody's assigns MIG 1 to Oak Creek's (WI) \$20.5M 2014 GO Notes**

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Global Credit Research - 14 May 2014

**Affirms Aa2 rating on \$28.5M of post-sale long-term GO debt**

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

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Promissory Notes	MIG 1
<b>Sale Amount</b> \$20,500,000	
<b>Expected Sale Date</b> 05/20/14	
<b>Rating Description</b> Note: Bond Anticipation	

**Moody's Outlook**

**Opinion**

NEW YORK, May 14, 2014 --Moody's Investors Service has assigned a MIG 1 rating to the City of Oak Creek's (WI) \$20.5 million 2014 General Obligation (GO) Promissory Notes. Concurrently, Moody's has affirmed the Aa2 rating on previously issued long-term GO debt and MIG 1 rating on previously issued short-term GO debt. Post-sale the city will have \$87.7 million in GO debt outstanding. The 2014 notes are secured by city's GO unlimited tax pledge. Proceeds from the notes will finance construction of a city complex that will include a city hall, fire station, and library.

**SUMMARY RATINGS RATIONALE**

The MIG 1 rating on the city's short-term GO debt reflects the expected market access for takeout refinancing, adequate management of refinancing planning for contingencies in case of unforeseen market disruption, and the city's long-term credit characteristics. The Aa2 rating on the city's long-term GO debt reflects the city's sizable tax base, stable financial operations resulting in maintenance of healthy reserves, modest pension liabilities, and an above average debt burden with a large amount debt subject to refinancing risk.

**STRENGTHS**

- Sizable tax base favourably located in the Milwaukee (Aa3 stable) metropolitan area
- Maintenance of healthy reserves
- Modest pension liabilities

**CHALLENGES**

- Limited revenue raising flexibility due to state imposed property tax levy limits
- Elevated debt burden with large amount of short-term issuances subject to refinancing risk

**DETAILED CREDIT DISCUSSION**

**EXPECTED MARKET ACCESS FOR REFINANCING**

While liquidity is limited in comparison with the bullet maturity, the MIG 1 rating reflects a number of other favorable

credit characteristics. The city's demonstrated ability to access the market includes six GO sales in the last five years. Favorably, the city plans to issue takeout financing for the 2014 GO Promissory notes 90 days in advance of the April 1, 2015 maturity, giving the city adequate time to address any potential market disruptions.

#### SIZABLE MILWAUKEE SUBURB; SIGNIFICANT COMMERCIAL DEVELOPMENT ACTIVITY

The city's sizable \$2.9 billion tax base is poised for significant commercial development as a result of projects jointly financed by the city and Wisconsin Electric Power Company ("We Energies", A1 / stable outlook). Located adjacent to the City of Milwaukee in Milwaukee County (Aa2 / stable outlook), the city's population grew by a substantial 21% to 34,451 between the 2000 and 2010 Census. Mirroring the population growth, the city's tax base experienced steady growth throughout the last decade. The trend has since reversed with notable 14% decline in the city's full valuation from its peak in 2008 through 2013, due to depreciation of both commercial and residential properties.

We Energy added two coal-based steam turbines to its Oak Creek facility in 2012. The development arm of the company pledged to invest \$20 million in the city through 2016, though this timeframe may be extended. The largest part of the commitment is the development of the Drexel Town Square located on 85 vacant acres in Tax Increment District (TID) 11. The development will include a grocery store, hotel, restaurants, and mixed-use developments as well as the new city complex that is being financed with the current issuance

The largest employers in the city are reportedly stable and include United Parcel Service Inc. (UPS) (senior unsecured Aa3 stable, 1,121 employees), Oak Creek-Franklin Joint School District (Aa2, 671 employees) and We Energy (532 employees). Residents also have easy access to employment in Milwaukee and other neighboring communities. The city's unemployment rate is slightly below average at 5.7% compared with the state average of 6.7% and national average of 7.0%, as of January 2014. Resident income levels are above with per capita income and median family income at 110.9% and 126.9% of US medians, respectively, from 2006 to 2010 as estimated in the American Community Survey.

#### STABLE FINANCIAL OPERATIONS AND HEALTHY RESERVES MITIGATE REVENUE RAISING LIMITATIONS

The city is expected to maintain its sound financial position given a history of positive operating results and conservative management. The city recorded four consecutive operating surpluses through fiscal 2011 growing the General Fund balance to its peak of \$8.2 million, or a strong 36.1% of revenues. The city posted an operating deficit of \$720,000 in fiscal 2012 due to a one-time payment to employees for accrued sick-time bringing the General Fund balance to \$7.5 million, or a still healthy 33% of revenues. The city also had significant alternate liquidity with \$5.9 million in its Capital Improvement Fund and \$2.1 million in its Debt Amortization Fund. Those balances are projected to be reduced by a combined \$3 million to cash fund capital projects as a supplement to the current issuance. Although audited financial statements are not yet available for fiscal 2013, officials estimate that the General Fund ended the year with a minor \$65,000 reduction in reserves. The city budgeted for balanced operations in fiscal 2014 and report positive variances in revenues year-to-date.

Property taxes are the city's largest revenue source comprising 59% of General Fund revenues. Like all cities, villages, towns and counties throughout the state, the city is subject to strict levy limits that restrict growth in the operating levy to net new construction. The city is currently levying at the maximum allowable amount. State revenue is also a significant portion of the city's revenues at 31% of fiscal 2012 General Fund revenues. Officials are not anticipating any significant change in state revenues in fiscal 2015. Transfers from other funds were a notable 7% of fiscal 2013 revenue and were received primarily from the city's water utility as a Payment In Lieu Of Taxes (PILOT).

We Energies does not pay 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 aforementioned expansion resulted in an increase in the city's utility aid revenue from approximately \$3.3 million to \$5 million annually. This increased revenue 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 to for capital improvements and economic development, including debt service on the current issuance. While the state legislature could change the utility aid distribution formula in the future, there are no current proposals do so.

#### ABOVE AVERAGE DIRECT DEBT BURDEN WITH HIGH LEVEL OF SHORT-TERM DEBT

We expect the city's debt burden will remain above average in the medium term as the city refinances its short-term issuances into long-term debt. The city's direct debt burden and overall debt burden are above average at 3%

of full valuation and 5.7%, respectively. Debt service for GO debt as a percentage of total annual operating expenditures was manageable at 8% of operating expenditures in 2012, which we estimate will grow to a still manageable 15% to 20% following recent issuances. All of the district'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 much of the anticipated development. In addition, the city has developer guarantees for all projects supported by incentives. The city has no future GO borrowing plans with the current issuance representing the final financing piece for the Drexel Town Square development.

A very high 67% of the city's outstanding debt is short-term and is due within the next three years in large bullet maturities. The city plans to refinance all of its the short-term debt into long-term prior to maturity. The high level of outstanding short-term exposes the city to a degree of refinancing risk. Favorably, the city has a number of options to structure refinancings should market conditions be unfavorable including the ability to roll-over into subsequent short-term issuances.

#### MODEST PENSION LIABILITIES

Budgetary exposure to the state's multi-employer pension plan, the Wisconsin Retirement System (WRS), is limited. The city's contribution to WRS in fiscal 2013 totaled approximately \$1.5 million, or a modest 6% of expenses. The city has consistently made its required contributions to WRS. Starting in fiscal 2013, the city only contributed toward the employer share of WRS costs for all employees except a segment of public safety employees, in accordance with state legislation (Act 10), which prohibits local governments from making non-public safety employee contributions to WRS on behalf of employees. The three year average Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is a below average 0.5 times operating revenues and 0.1% of full value. 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.

#### WHAT COULD MOVE THE RATING UP

- Moderation in the debt burden
- Significant expansion of the tax and strengthening of the demographic profile

#### WHAT COULD MOVE THE RATING DOWN

- Material increase in the city's debt burden
- Significant decline in reserves

#### KEY STATISTICS

2013 Full valuation: \$2.9 billion

2013 Estimated full value per capita: \$83,700

2006-2010 American Community Survey median family income as a % of nation: 126.9%

Fiscal 2012 Available Operating Fund balance: \$6.3 million (24.3% of revenues)

5-Year Dollar Change in Operating Fund Balance as % of Revenues: 5.6%

Net operating net cash balance: \$5.1 million (19.7% of revenues)

5-Year Dollar Change in Cash Balance as % of Revenues: -0.4%

Institutional Framework: "A"

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.03

3-Year Average of Moody's ANPL / Full Value: 0.01%

3-Year Average of Moody's ANPL / Operating Revenues: 0.5x

Net Direct Debt / Full Value: 3.0%

Net Direct Debt / Operating Revenues : 3.4x

#### RATING METHODOLOGY

The principal methodology used in the long term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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