

New Issue: Moody's assigns Aa2 to Oak Creek, WI's \$2.7M GO Bonds, Ser. 2014B

Global Credit Research - 21 Nov 2014

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 |
|--|--------------------|
| General Obligation Refunding Bonds, Series 2014B | Aa2 |
| Sale Amount | \$2,725,000 |
| Expected Sale Date | 12/02/14 |
| Rating Description | General Obligation |

Moody's Outlook NOO

Opinion

NEW YORK, November 21, 2014 --Moody's Investors Service has assigned a Aa2 rating to the City of Oak Creek's (WI) \$2.7 million General Obligation (GO) Refunding Bonds, Series 2014B. Moody's maintains the Aa2 rating on previously issued long-term GO debt and MIG 1 rating on previously issued short-term GO debt. The city's GO debt is secured by city's GO unlimited tax pledge. Post-sale the city will have \$84.8 million in GO debt outstanding. Proceeds from the bonds will refund a portion of the city's outstanding 2012B notes to extend debt repayment given the notes were structured with full repayment due in one bullet maturity in 2015.

SUMMARY RATINGS RATIONALE

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 of debt subject to refinancing risk.

STRENGTHS

- Sizable tax base favorably 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

SIZABLE MILWAUKEE SUBURB; SIGNIFICANT COMMERCIAL DEVELOPMENT ACTIVITY

The city's sizable \$3.0 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). Located adjacent to the City of Milwaukee in Milwaukee County (Aa2 stable), the city's population grew by a substantial 21% to

34,451 between the 2000 and 2010 census counts. Mirroring the population growth, the city's tax base experienced steady growth throughout the last decade. The trend 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. Favorably, the tax base appears to be stabilizing with a 1% increase in 2014.

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 acres in Tax Increment District (TID) 11. The development will include a grocery store, hotel, restaurants, mixed-use developments, and new city complex. Construction on a number of the anchor projects is expected to begin in early 2015.

The largest employers in the city are reportedly stable and include United Parcel Service Inc. (UPS) (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. As of September 2014, the city's unemployment rate was below the state rate of 4.7% and the national rate of 5.7%. Resident income is strong with median family income at 133.5% of the national median from 2008 to 2012, 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 consistently maintains an available Operating Fund (General Fund, Emergency Services Fund, and Debt Service Fund) balance in excess of 20% of revenues. The city's stable financial operations are largely the result of steady increases in property tax receipts as well as reduced costs for pensions and health care benefits associated with Wisconsin's 2011 Act 10 legislation. The city closed fiscal 2013 with an available Operating Fund balance of \$6.1 million, or a healthy 23.1% of revenues. The city also had significant alternate liquidity at the close of fiscal 2013 with \$9.7 million in its Capital Improvement Fund and \$3.4 million in its Debt Amortization Fund. Those balances are projected to be reduced rapidly for development related expenses in TID 11. The city budgeted for balanced operations in fiscal 2015. Officials report positive variances in revenues year-to-date that should offset the potential for negative expenditure variances in EMS financial operations.

Property taxes are the city's largest revenue source comprising 63% of Operating 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 26% of fiscal 2013 Operating Fund revenues. Officials report there has been \$190,000 increase in state aid for transportation in fiscal 2015.

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 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, economic development, and debt service. 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 2.9% of full valuation and 5.1%, respectively. Debt service for GO debt as a percentage of total annual operating expenditures is manageable, typically comprising under 7% of operating expenditures, but is expected to grow significantly following recent debt 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 the vast majority of the anticipated development. In addition, the city has developer guarantees for all projects supported by incentives. The city may issue \$11 million to \$13.5 million of GO debt for developer incentives in the Drexel Town Square TID in 2015. Officials expect the pace of GO issuances to slow as the city completes the final financings related to the development.

A very high 70% of the city's outstanding debt is short-term and is due within the next three years in large bullet maturities. The current issuance and cash on hand will retire \$4.6 million such debt in fiscal 2015, which will reduce total debt subject to bullet majorities to a still high 68% of total debt. The city plans to refinance all of its short-term debt into long-term debt prior to maturity. The city structured much of its debt with bullet maturities with the intention of refinancing it into longer term debt, in part, to better align debt service expenditures with TID revenues. 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 2012 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 0.4% 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 city's debt burden
- Significant expansion of the tax base and strengthening of the demographic profile

WHAT COULD MOVE THE RATING DOWN

- Material increase in the city's debt burden
- Decline in reserves

KEY STATISTICS

2013 Full valuation: \$3.0 billion

2013 Estimated full value per capita: \$85,700

2008-2012 American Community Survey median family income as a % of nation: 133.5%

Fiscal 2013 Available Operating Fund balance: 23.2% of revenues

5-Year Dollar Change in Operating Fund Balance as % of Revenues: 4.7%

Net operating net cash balance: 19.4% of revenues

5-Year Dollar Change in Cash Balance as % of Revenues: -1.6%

Institutional Framework: A

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 0.99x

Net Direct Debt / Full Value: 2.9%

Net Direct Debt / Operating Revenues : 3.2x

3-Year Average of Moody's ANPL / Full Value: 0.4%

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

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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Analysts

David Levett
Lead Analyst
Public Finance Group
Moody's Investors Service

Hetty Chang
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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