

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa2 to Oak Creek, WI's \$10M General Obligation Promissory Notes

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Global Credit Research - 11 Dec 2013

#### The city has \$68M of GOULT debt post-sale

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

#### Moody's Rating

ISSUE	RATING
General Obligation Promissory Notes	Aa2
<b>Sale Amount</b>	\$10,000,000
<b>Expected Sale Date</b>	12/17/13
<b>Rating Description</b>	General Obligation

#### Moody's Outlook NOO

#### Opinion

NEW YORK, December 11, 2013 --Moody's Investors Service has assigned a Aa2 rating to the City of Oak Creek's (WI) \$10 million General Obligation Promissory Notes. Concurrently, Moody's maintains the Aa2 on the city's outstanding long-term general obligation unlimited tax (GOULT) debt. Post-sale, the city will have \$33.9 million of outstanding GOULT long-term debt. The city also has \$34.1 million of outstanding GOULT short-term debt maturing within two to three years which the city plans to refinance into long-term debt. The current issuance is structured with level debt service until a \$5.9 million bullet principal payment at final maturity in 2023, which the city plans to refinance into ten year notes. Debt service on the notes is secured by the city's GOULT pledge which benefits from a dedicated levy unlimited as to rate or amount. While the notes benefit from an unlimited levy, the city plans to pay for debt service using utility aid revenue. Proceeds from the notes will finance lakefront improvements, including bluff stabilization, road improvements and extensions, public restrooms and other facilities.

#### SUMMARY RATINGS RATIONALE

The Aa2 rating reflects the city's sizeable \$2.9 billion tax base and advantageous location adjacent to the City of Milwaukee (Aa2 stable); strong financial position with healthy General Fund reserves; above average net direct debt with near term borrowing planned and a significant amount of short-term debt; and average pension liabilities.

#### STRENGTHS

- Sizable tax base favorably located in the Milwaukee metropolitan area
- Healthy General Fund reserves

#### CHALLENGES

- Recent tax base declines
- Limited revenue raising flexibility due to state imposed property tax levy limits
- Elevated net direct debt burden with future borrowing planned for the near term
- Large amount of short-term debt subject to refinancing risk

## DETAILED CREDIT DISCUSSION

### SIZABLE SUBURBAN TAX BASE FAVORABLY LOCATED NEAR MILWAUKEE; SIGNIFICANT DEVELOPMENTS TO BE JOINTLY FINANCED BY CITY AND WE ENERGIES

We expect the city's tax base to remain stable in the medium term due to its favorable location and available land for development. The City of Oak Creek is located in Milwaukee County (Aa2 stable) and is adjacent to the City of Milwaukee. The city's \$2.9 billion tax base has experienced an average annual decline of 3.1% per year since 2007, primarily driven by depreciation of both commercial and residential property values, but the city expects valuations to stabilize going forward. The city has seen strong population growth in the last decade with population increasing from 28,456 in 2000 to 34,451 in 2010, an increase of 21.1%. The largest employers in the city include United Parcel Service Inc. (UPS) (senior unsecured Aa3 stable, 1,121 employees), Oak Creek-Franklin Joint School District (Aa2, 660 employees) and Wisconsin Electric Power Company (senior unsecured A2, ratings under review for possible upgrade, 543 employees). Management reports that the major employers and taxpayers within the city remain stable. Many city residents also commute to neighboring communities and the City of Milwaukee for employment. The unemployment rate for the City of Oak Creek is 5.7%, lower than the state (6.2%) and national (7.3%) rates as of August 2013. Wealth indices for the city are strong with per capita income and median family income of 110.9% and 126.9% of the nation, respectively, according to the 2006-2010 American Community Survey estimates.

Wisconsin Electric Power Company, which does business as We Energies, recently added two coal-based steam turbines, increasing the company's state utility tax payment which is then distributed to municipalities in the form of energy aid. Since the tax is based on the utility's capacity, the expansion resulted in an increase in the city's utility aid revenue by \$3.3 million to \$5.5 million annually in fiscal 2012. Management intends to utilize this increase in utility aid for capital improvements and economic development, including debt service on the current issuance. While the utility aid formula may change, it is unlikely that the aid will be eliminated completely, and this payment will be made as long as the plant is operating. We believe the enterprise risk associated with the utility to be minimal considering the company's long standing history of operating coal and natural gas power plants in the city since the 1940s.

Wispark, the development arm of We Energies, has also pledged to spend \$20 million in the City of Oak Creek by the year 2016, though the timeframe may be extended. As part of this commitment, the city has been working with Wispark to develop several areas of the city. Drexel Town Square is one of the major joint projects, which will develop TID No. 11, a vacant 85 acre plot in the center of the city. The development will include a grocery store, hotel, restaurants, mixed-use, and residential as well as the city hall, library, and town square. The city, through a previous financing, will provide the water, sewer and other infrastructure for the site. In the spring of 2014, the city also intends to issue additional debt for the library and city hall. The development is expected to add over \$160 million to TID No. 11's incremental value within five years. The city and Wispark have also been working together to develop TID No. 8, a 228 acre site located off of State Route 38, which includes the Oak View Business Park. Wispark purchased the land for the site and has pledged \$2.4 million in cash backing if TID revenues are not generated as expected. The development within TID No. 8 is expected to bring 1,500 new jobs to the city.

### SOUND FINANCIAL OPERATIONS EXPECTED TO CONTINUE; SEVERAL YEARS OF OPERATING SURPLUSES DUE TO POSITIVE VARIANCES IN BUDGET

The city's financial operations are expected to remain sound as the city has historically posted positive budget variances due to conservative management practices. These practices generated balanced operations in fiscal 2011 and operating surpluses in each of the three prior fiscal years. In fiscal 2012, the city drew down General Fund reserves by \$720,000, as planned, for a one-time payment to employees for accrued sick-time, eliminating the city's accrued liability. Fiscal 2012 closed with a General Fund balance of \$7.5 million, or a healthy 33.4% of General Fund revenues, which is also well above the city's policy of maintaining between 10% and 20% of General Fund expenditures in reserve.

In fiscal 2013, management budgeted for another draw on General Fund reserves of approximately \$200,000. The city also provided \$900,000 from its General Fund, which was not included in its original budget, for the purchase of land for development with Wispark. The \$900,000 is expected to be repaid to the city at 6% interest through land sales over the course of fiscal 2013 and 2014. Favorably, officials report that positive budget variances have absorbed both the planned draw down and the \$900,000 land purchase, and the General Fund is expected to close fiscal 2013 with no change in fund balance. Additionally, officials anticipate that some land sales may be completed by the end of fiscal 2013. If the land sales are finalized prior to the end of the year, management projects the General Fund balance to grow by \$700,000. For fiscal 2014, the city approved a balanced budget and

anticipates no change in General Fund reserves.

Over 60% of the City of Oak Creek's revenue comes from local property taxes, while 21% comes from state aid, and 7% comes from interfund transfers. Like all cities, villages, towns and counties throughout the state, the city is subject to strict levy limits that limit growth in the operating levy to net new construction. The city is currently levying the maximum allowable amount. At the end of fiscal 2012, the city reported a balance of \$5.9 million in its Capital Improvement Fund and nearly \$1.0 million in its We Energy Special Revenue Fund (to be used for capital projects), which provides a degree of financial flexibility. The city also operates Water and Sewer utilities, both of which are self-supporting. The water utility reported \$6.3 million in cash and investments at the end of fiscal 2012. The water utility provides a Payment In Lieu Of Taxes (PILOT) ranging from \$1.2 million to \$1.5 million annually, which is transferred into the city's General Fund. The sewer utility reported \$8.0 million in cash and investments at the end of fiscal 2012, and does not require any transfers in nor does it provide transfers to other funds.

#### **ABOVE AVERAGE DIRECT DEBT BURDEN WITH SIZABLE FUTURE BORROWING PLANNED; SIGNIFICANT AMOUNT OF SHORT TERM DEBT**

We believe that the city's debt burden will remain manageable despite future borrowing plans due to non-levy support for debt service and planned refinancing of short-term debt and balloon maturities. Currently, Oak Creek's direct debt burden is above average at 2.4% of full value, net of self-supporting essential enterprise revenue debt. The city plans to issue up to \$34.5 million in GOULT debt over the next year. With the new debt issuances, the city's debt burden is projected to be approximately 3.5% of full value, higher than the median direct debt levels for similarly rated cities in the state and nation. Despite the elevated direct debt burden, our estimates indicate that debt service as a percentage of operating expenditures will remain manageable, increasing from 7.9% of operating expenditures in fiscal 2012 (adjusted for a \$4.5 million refunding) to 15-20% of expenditures after all debt is issued, depending upon the debt service schedule of the future issuances. Notably, the city expects to support debt service for the current and future issuance with utility aid and TID revenues which reduces the burden on the general tax base. If utility aid were reduced, management would pay for debt service first with TID revenues and developer guarantees, and if TID revenues were not sufficient, then management would utilize its debt service levy. Given the increase in the city's debt burden, future credit reviews will focus on its ability to meet debt service without straining other city operations. If utility aid, TID revenues, or other back-up revenues are impaired, the city's credit quality may weaken.

The city also has a significant portion of its \$68 million in outstanding GOULT debt that is short-term. Over \$38 million in GOULT debt is due within three years in large bullet maturities. The city plans to refinance all of the existing short-term debt into long-term debt prior to maturity. The current issuance matures in ten years with \$5.9 million principal payment in 2023. The city plans to refinance the debt into ten year notes some time after the call date in December 2021. These large principal payments expose the city to a degree of refinancing risk. Favorably, the city has demonstrated a history of market access as evidenced through annual borrowing through negotiated sales during the past five years.

Oak Creek's current overall debt burden of 7.0% of full value is higher than state and national medians, but the majority of the debt is attributable to overlapping entities, including Milwaukee County and the Oak Creek-Franklin School District. The city also has \$21.7 million in outstanding revenue debt that is secured by net revenues of the water utility which has maintained a debt service coverage ratio above 2 for the past five years. Principal amortization is rapid with 90.9% of principal retired in ten years; however, this includes several short-term issuances and balloon payments which are expected to be refinanced into long term debt. All of the city's debt is fixed rate, and there is no exposure to derivative or swap agreements.

#### **AVERAGE EMPLOYEE PENSION BURDEN INCLUSIVE OF WATER AND SEWER UTILITY CONTRIBUTIONS**

The City of Oak Creek has an average employee pension burden, based on its participation in the Wisconsin Retirement System (WRS), a multi-employer cost-sharing plan administered by the state. Oak Creek's portion of WRS was reported to be 100% funded as of December 31, 2011. The city has consistently made its required contributions to the pension plan which was a total of \$1.5 million in 2011, or 3.9% of operating revenues. Operating revenues include the funds from which this contribution is paid, including the General Fund, Water Utility Fund and the Sewer Utility Fund.

Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is \$45.5 million, or 1.74 times operating revenues, compared to a median of just below 1.0 times for rated local governments. Including revenues of the Water Utility Fund and the Sewer Utility Fund, both of which contribute to this liability, the ratio falls to 1.19 times. Moody's ANPL reflects certain adjustments we make to

improve comparability of reported pension liabilities. The adjustments are not intended to replace Oak Creek's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability in proportion to its contributions to the plan.

#### WHAT COULD CHANGE RATING UP

- Significant expansion and diversification of tax base
- Marked increases in resident wealth levels

#### WHAT COULD CHANGE RATING DOWN

- Continued declines in full value
- Erosion of general fund liquidity and reserves
- Substantial increase in net direct debt burden
- Inability to refinance short-term debt or impairment of revenues to be used for debt service

#### KEY STATISTICS

Population (2010 Census): 34,451 (21.1% increase since 2000)

2012 Full valuation: \$2.9 billion (3.1% five-year average annual decrease)

Estimated full value per capita: \$83,705

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

2006-2010 American Community Survey per capita income as a % of nation: 110.9%

Unemployment rate (July 2013): 5.7% (Wisconsin: 6.2%; US: 7.3%)

Fiscal 2012 General Fund balance: \$7.5 million (33.4% of revenues)

Fiscal 2012 Unassigned General Fund balance: \$4.2 million (18.5% of revenues)

Overall debt burden as a % of full value (direct): 7.0% (2.4%)

Payout of principal (10 years): 90.9%

Post-sale general obligation debt outstanding: \$68 million (including short-term notes)

Water revenue debt outstanding: \$21.7 million

Moody's ANPL (2011): \$45.5M (1.74x fiscal 2011 operating revenues)

Moody's ANPL (2011): \$45.5M (1.19x fiscal 2011 combined operating and water/sewer revenues)

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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