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New Issue

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Contacts

Tatiana Killen 312-706-9972
Analyst
tatiana.killen@moodys.com

David Levett 312-706-9990
Analyst
david.levett@moodys.com

Oak Creek (City of), WI

New Issue: Moody's Assigns MIG 1 to Oak Creek, WI's $5.8M GO Notes, Ser. 2016A

Summary Rating Rationale

Moody's Investors Service has assigned a MIG1 rating to the City of Oak Creek, WI's $5.8 million Taxable General Obligation Promissory Notes, Series 2016A. Concurrently, Moody's has affirmed the Aa2 rating on the city's general obligation (GO) debt. Post-sale, the city will have $93.4 million in GO debt outstanding.

The MIG 1 rating 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. Affirmation of the Aa2 GO rating reflects the city's sizeable tax base adjacent to the City of Milwaukee (Aa3 stable); above average wealth indices, stable financial operations resulting in maintenance of solid reserves, an above average debt burden with a large amount of debt subject to refinancing risk, and modest unfunded pension liabilities.

Credit Strengths

» Sizeable tax base located within Milwaukee metropolitan area

» Stable financial operations with solid reserves

» Modest unfunded pension liabilities

Credit Challenges

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

» Limited revenue raising flexibility due to state imposed property tax levy limits

Rating Outlook

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

Factors that Could Lead to an Upgrade

» Moderation in the city's debt burden

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

Factors that Could Lead to a Downgrade

» Material increase in the city's debt burden

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

Key Indicators

Exhibit 1

Oak Creek (City of), WI

Oak Creek (City of) WI	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 3,113,583	$ 3,088,952	$ 2,932,767	$ 2,921,984	$ 2,952,097
Full Value Per Capita	$ 90,375	$ 89,548	$ 84,127	$ 83,466	$ 84,218
Median Family Income (% of US Median)	126.9%	126.9%	133.5%	133.5%	133.5%
Finances					
Operating Revenue ($000)	$ 29,177	$ 30,981	$ 30,394	$ 31,123	$ 42,100
Fund Balance as a % of Revenues	22.7%	30.3%	23.3%	17.0%	53.8%
Cash Balance as a % of Revenues	27.9%	22.4%	20.5%	22.0%	52.9%
Debt/Pensions					
Net Direct Debt ($000)	$ 15,610	$ 14,259	$ 23,315	$ 68,677	$ 89,424
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.8x	2.2x	2.1x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.8%	2.4%	3.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.4x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.4%	0.5%	0.8%

Post-sale, net direct debt will total $93.4 million and 3.1% of full value
Source: Audited Financial Statements, Moody's Investors Service

Detailed Rating Considerations

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 $3 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 increases of 1% and 1.8% in 2014 and 2015, respectively.

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 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 4.4% in March 2016, the city's unemployment rate is below the state's rate of 5.0% and national rate of 5.1% for the same time period. Resident wealth indices have improved from the 2000 census with median family income at 126.9% of the US, based on estimated figures from the 2014 American Community Survey.

Financial Operations and Reserves: Solid Financial Operations With Strong Liquidity and Reserves

Despite consecutive planned modest operating deficits in fiscals 2012 and 2013, the city's financial profile is expected to remain sound given prudent management and adherence to a policy of maintaining an available reserve balance in excess of 20% of General Fund revenues. For fiscal 2014, the city closed with essentially balanced operations, bringing the General Fund balance to $7.5 million or a still strong 31.9% of General Fund revenues. Additionally, the city's fiscal 2014 available General Fund balance of $6.7 million, which included the assigned and unassigned balances, exceeded the city's minimum fund balance. Favorably, the city has alternate liquidity of $21.6 million in its Capital Improvement Fund and $3.3 million in its Debt Amortization Fund at the close of fiscal 2014, though approximately $20 million of those reserves will be drawn for various projects, including development related expenses in TID 11. The city's operating funds (includes General Fund, Debt Service Fund, and Emergency Medical Services Funds) closed fiscal 2014 with an operating fund balance of $23.4 million or a strong 55.5% of operating revenues. Officials noted that the operating fund balance includes a transfer to the Debt Service Fund of debt proceeds that will be utilize for various capital projects.

For fiscal 2015, unaudited year to date figures indicate an operating surplus of approximately $500,000 due to operational savings in personnel costs and increases in building permit fees. The city budgeted for balanced operations in fiscal 2016 with no planned use of reserves. Officials noted year to date figures indicate that the city may close with a modest surplus due to increases in building permit revenue.

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. The city's primary source of operating revenues is property taxes, which comprised 46% of fiscal 2014 operating fund revenues, followed by intergovernmental (state) aid at 19%.

LIQUIDITY

We expect the city's net cash position to remain solid over the near term given a recent influx of debt proceeds and solid management practices. After declining modestly since 2009, the city's net cash position increased recently with debt proceeds closing fiscal 2014 with an operating funds net cash total of $22.3 million or a strong 53% of operating revenues which represented an increase from fiscal 2009 net cash position of $7.3 million. Officials attributed the increase to a transfer to the Debt Service Fund of approximately $11 million in debt proceeds that will be spent for capital projects and noted no additional plans to utilize reserves.

Debt and Pensions: Elevated Debt Burden But Modest Pension Liabilities

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 3.1% of full valuation and 8.4%, respectively. Debt service is manageable, comprising 11% of 2014 operating expenditures, but is expected to grow significantly following recent debt issuances. The city's fiscal 2014 fixed costs inclusive of debt service, pensions and other post-employment benefits totaled $6.8 million or a moderate 16.2% of operating revenues.

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 plans to issue $23 million to refinance short term issuances into long term debt in 2016. Officials expect the pace of GO issuances to slow as the city completes the final financings related to the development.

DEBT STRUCTURE

All of the city's debt is fixed rate and amortized over the long term. Amortization of existing debt is average with 81.3% principal set to be retired in ten years, but includes significant bullet maturities that are expected to be refinanced to long-term debt.

Post-sale, a very high 52% 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 2014. The city plans to refinance all of its 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-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Oak Creek has an affordable pension burden, based on liabilities associated with its participation in the Wisconsin Retirement System (WRS), a state-wide cost sharing plan. WRS pension liabilities are fully funded on a reported basis. The city's employer contributions in fiscal 2014 were $1.6 million or a modest 3.7% of 2014 operating revenues. The city has historically made its required contributions to WRS.

Moody's three year average (fiscals 2012-14) adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $22.7 million, or 0.54 times operating revenues and 0.77% 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 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

Wisconsin cities have an institutional framework score of “A,” or moderate. Revenues are highly predictable as property taxes and state aid represent the largest revenue streams. Overall, cities have low revenue-raising ability. Property tax levy caps generally restrict cities from increasing their operating property tax levy except to capture amounts represented by net new construction growth. Expenditures mostly consist of personnel costs, which are moderately predictable. Expenditures are somewhat flexible, as collective bargaining is allowable for public safety employees but is curbed for non-public safety employees.

The city's administration adheres to long term operational plans to address the city's needs. The city utilizes conservative budget assumptions and a multi-year capital plan.

Legal Security

All of the city's outstanding GO debt is 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 2016A notes will finance certain developer incentives related to developments within the city's TID No. 11.

Obligor Profile

The city of Oak Creek is adjacent to the City of Milwaukee in Milwaukee County. The city encompasses an area of 28 square miles with an estimated population of 34,791.

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 US Bond Anticipation Notes published in April 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Oak Creek (City of) WI

Issue	Rating
Taxable General Obligation Promissory Notes, Series 2016A	MIG 1
Rating Type	Underlying ST
Sale Amount	$5,825,000
Expected Sale Date	06/21/2016
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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Contacts

Tatiana Killen 312-706-9972
Analyst
tatiana.killen@moodys.com

David Levett 312-706-9990
Analyst
david.levett@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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