

CREDIT OPINION

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New Issue

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City of Oak Creek, WI

New Sale: Moody's Assigns Aa2 to City of Oak Creek, WI's GO Bonds, Ser. 2016C and D

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of Oak Creek, WI's \$17.6 million General Obligation Refunding Bonds, Series 2016C and \$5.9 million Taxable General Obligation Refunding Bonds, Series 2016D. Moody's maintains the Aa2 rating on the city's general obligation (GO) debt. Post-sale, the city will have \$97.8 million in GO debt outstanding.

The Aa2 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
- » High fixed costs
- » 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

- » Significant moderation in the city's debt burden
- » Expansion and sustained growth of the city's tax base

Factors that Could Lead to a Downgrade

- » Additional borrowings that increase the city's direct or overall debt burden

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

Key Indicators

Exhibit 1

Oak Creek (City of) WI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,088,952	\$ 2,932,767	\$ 2,921,984	\$ 2,952,097	\$ 3,003,919
Full Value Per Capita	\$ 91,816	\$ 85,778	\$ 84,499	\$ 84,774	\$ 85,234
Median Family Income (% of US Median)	131.1%	133.5%	132.2%	126.9%	126.9%
Finances					
Operating Revenue (\$000)	\$ 30,981	\$ 30,394	\$ 31,123	\$ 42,100	\$ 31,095
Fund Balance as a % of Revenues	30.3%	23.3%	17.0%	53.8%	19.0%
Cash Balance as a % of Revenues	22.4%	20.5%	22.0%	52.9%	35.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 14,259	\$ 23,315	\$ 68,677	\$ 89,424	\$ 90,105
Net Direct Debt / Operating Revenues (x)	0.5x	0.8x	2.2x	2.1x	2.9x
Net Direct Debt / Full Value (%)	0.5%	0.8%	2.4%	3.0%	3.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.4x	0.5x	0.5x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.4%	0.5%	0.8%	1.1%

The table above reflects data through the close of fiscal 2015.

Source: Moody's Investors Service; Audited Financial Statements; US Census Bureau

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 (WEC Energy Group Inc.; rated A3 stable) in various commercial developments throughout the city. Located adjacent to Milwaukee in Milwaukee County (Aa2 stable), the city's \$3.1 billion tax base grew steadily throughout the last decade, mirroring population growth of 21% between the 2000 and 2010 census counts. However, between 2008 and 2013, the city's full valuation declined by 14% primarily due to depreciation of both commercial and residential properties. Favorably, the tax base appears to be stabilizing with increases of 1.8% and 3.5% in 2015 and 2016, 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 includes a Meijer store, a hotel, restaurants, and apartments. Once completed, city officials estimate the development will have a taxable value of \$162 million. Additionally, IKEA, a retail home furnishing store, plans to open a 295,000 square foot store near the Drexel Town Square. The store is expected to open in 2018 and will employ about 250 people.

The largest employers in the city are reportedly stable and include United Parcel Service, Inc. (UPS; Aa3 negative) with over 1,200 employees. Residents also have easy access to employment in Milwaukee and other neighboring communities. At 3.9% in July 2016, the city's unemployment rate was below the state's rate of 4.1% and national rate of 5.1% for the same month. The city's demographic profile is strong 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

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 2015, the city closed with essentially balanced operations, with a General Fund balance of \$7.6 million or a strong 33% of General Fund revenues. Additionally, the city's fiscal 2015

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available General Fund balance of \$6.1 million, which included the assigned and unassigned balances, exceeded the city's minimum fund balance. The city's operating funds (includes General Fund, Debt Service Fund, and Emergency Medical Services Funds) closed fiscal 2015 with an operating fund balance of \$14.5 million or a strong 46.6% of operating revenues. Management anticipates balanced operations for fiscal 2016 though 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.

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. For fiscal 2015 the city's net cash position was \$11.1 million or a healthy 35.8% of revenues.

Debt and Pensions: Elevated Debt Burden With No Future Borrowing Plans

We expect the city's debt burden will remain relatively high in the medium term. The city's direct debt burden and overall debt burden are above average at 3.9% of full valuation and 9.0%, respectively. Debt service is elevated, comprising 30% of 2015 operating expenditures, net of \$20.5 million of refunding debt, but is expected to grow following recent debt issuances. The city's fiscal 2015 fixed costs, inclusive of debt service, pensions and other post-employment benefits, totaled \$12.7 million or a high 40.1% 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. Officials expect no future debt issuances in the near term.

DEBT STRUCTURE

All of the city's debt is fixed rate and amortized over the long term. Amortization of existing debt is average with 70.6% principal set to be retired in ten years, though that figure includes significant bullet maturities that are expected to be refinanced to long-term debt.

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 and the city has a number of options should market conditions be unfavorable, including the ability to roll over into new short-term debt.

DEBT-RELATED DERIVATIVES

The city is not a party to any 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 2015 were \$1.5 million or a modest 4.8% of 2015 operating revenues. The city has historically made its required contributions to WRS.

The three-year average Moody's adjusted net pension liability (ANPL), our measure of a local government's pension burden, is \$32.6 million, or a strong 1.1% of full value and moderate 1.1 times revenue. However, the single-year ANPL of \$50.8 million in 2015 is up significantly from \$38.7 million in 2014, and equivalent to a higher 1.86 times operating revenues and 1.7% of full value. The Moody's ANPL referenced above reflects the use of a market-based discount rate to value liabilities, and, beginning in fiscal 2015, reflects the

cost-sharing plan allocations reported by the city under new GASB accounting standards. Our pension adjustments are not intended as a guide, but rather to enhance the comparability of rated entities in our credit analysis.

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

The city's primary source of operating revenues is property taxes, which comprised 59.8% of fiscal 2015 operating fund revenues, followed by intergovernmental (state) aid at 27.4%. 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.

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.

Legal Security

All of the city's outstanding GO debt, including the current issuance, 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

The proceeds of the 2016C and 2016D bonds will be used to refinance into long term debt the city's outstanding General Obligation Promissory Notes and General Obligation Taxable Promissory Notes, dated November 19, 2013.

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 this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Oak Creek (City of) WI

Issue	Rating
General Obligation Refunding Bonds, Series 2016C	Aa2
Rating Type	Underlying LT
Sale Amount	\$17,625,000
Expected Sale Date	10/18/2016
Rating Description	General Obligation
Taxable General Obligation Refunding Bonds, Series 2016D	Aa2
Rating Type	Underlying LT
Sale Amount	\$5,925,000
Expected Sale Date	10/18/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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