



New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF OAK CREEK'S (WI) \$4.6 MILLION GO REFUNDING BONDS, SERIES 2012

Global Credit Research - 27 Jan 2012

Aa2 UNDERLYING RATING APPLIES TO \$11.4 MILLION OF POST SALE GO DEBT

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

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, 2012	Aa2
Sale Amount	\$4,550,000
Expected Sale Date	02/07/12
Rating Description	General Obligation

Moody's Outlook N/A

Opinion

NEW YORK, January 27, 2012 --Moody's Investors Service has assigned a Aa2 rating to the City of Oak Creek's (WI) \$4.6 million General Obligation Refunding Bonds, Series 2012. Concurrently, Moody's has affirmed the Aa2 on the City's outstanding long-term general obligation debt. Post-sale, the City will have \$12.8 million of outstanding long-term general obligation debt, of which \$11.4 million is rated by Moody's.

SUMMARY RATINGS RATIONALE

Debt service on the GO Refunding Bonds is secured by the City's general obligation unlimited tax pledge. Proceeds from the bonds will be used to refund the callable portion of the City's General Obligation Refunding Bonds, Series 2002 for an estimated net present value savings of 10%. The Aa2 underlying rating reflects the City's sizable \$3.1 billion tax base favorably located near the City of Milwaukee (Aa1/negative outlook), ample reserve levels, conservative management and low debt burden.

STRENGTHS

- Sizable tax base located near metropolitan Milwaukee employment center
- Prudent financial management and ample general fund reserves

CHALLENGE

- Recent tax base decline

DETAILED CREDIT DISCUSSION

MODERATELY SIZED SUBURBAN TAX BASE FAVORABLY LOCATED NEAR MILWAUKEE

The City of Oak Creek is located in Milwaukee County (Aa2/stable outlook) and is directly adjacent to the City of Milwaukee. The City's \$3.1 billion tax base has experienced average annual declines of 0.5% since 2007 after a period of healthy growth between 2002 and 2008. Recent declines reflect modest losses in real estate market values, but district expects valuations to remain stable going forward. Favorably, the City has seen strong population growth in the last decade with population increasing from 28,456 in 2000 to 34,451 in 2010, which reflects an increase of 21.1%. The largest employers in the City include UPS (1,250 employees), Oak Creek-Franklin School district (650) and Wisconsin Electric Power Company (530). Many City residents also commute to neighboring communities and the City of Milwaukee for employment. We Energies recently completed a two turbine expansion in the City, increasing the utility's state utility tax contribution which is then distributed to municipalities in the form of energy aid. Since this assessment is based on the utility's capacity, this revenue source increased from \$2.7 million to \$6.0 million annually. Favorably, the City is one of the few municipalities neighboring Milwaukee with land available for development. Currently management reports that there are plans to develop a vacant 85 acre plot in the center of the City which was once owned by Delphi Corporation (Ba2/stable outlook). The City plans to create a Tax Increment District to promote retail and commercial growth in the area, which may also include investments from the City. The City intends to finance the projects with GO debt paid for by the additional \$3.3 million it will receive from We Energies starting in 2012. Unemployment levels in Milwaukee County are 6.1%, comparing favorably to both the state (6.6%) and national (8.2%) levels as of November 2011. Wealth indices, including per capita income and median family income, are 111% and 120% of the state respectively.

SOLID FINANCIAL OPERATIONS EXPECTED TO CONTINUE

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 have generated operating surpluses in each of the last three fiscal years, including a \$1.6 million surplus in 2009 and a \$434,000 surplus in 2010. The city projects a \$400,000 operating deficit in 2011 as part of the City's planned reduction in fund balance for general operating expenditures. The City has a policy of maintaining 10-20% in reserves for cash flow, stability and emergencies. Currently, the City's 36.4% General Fund balance well exceeds this policy. Fiscal 2012 assumes an \$800,000 draw on fund balances for a onetime expenditure to pay employees for their accrued sick time. Favorably, despite this utilization of fund balance, the city will retain reserves in excess of 30%.

The recent passage of Act 10 allows for Wisconsin municipalities to benefit from increased healthcare and pension contributions from employees, among other provisions. The City is choosing to pay employees for their accrued sick time and eliminate the practice going forward. The City projects that changes in these benefits programs will reduce its unfunded OPEB liability from \$90 million to \$40 to 50 million. Since contracts for the City's unionized employees expired on 12/31/2011, the City has only realized minimal savings from the implementation of Act 10. Savings should increase going forward as the new contribution requirements impact all employees. Currently the city is levying to the maximum allowable amount but Act 10 provides significant expenditure reduction flexibility. Over 60% of the City's revenue comes from local property taxes while 27% comes from state aid and 7% comes from inter fund transfers. The City's water utility provides Payment In Lieu of Taxes (PILOT) annually, ranging from \$1.3-1.5 million. This PILOT is based on the assessed valuation of the utility which has increased after having undergone a recent expansion.

MANAGEABLE DEBT PROFILE CHARACTERIZED BY LOW DIRECT DEBT

The City's current debt burden of 4.5% is slightly 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's direct debt burden is low at 0.4% and we anticipate that the city's debt profile will remain manageable despite plans to issue \$8-10 million in GO debt in 2012 for infrastructure improvements. The City also has approximately \$20.6 million in outstanding revenue debt that is secured by net revenues of the water utility. Principal amortization is adequate with 69.4% of principal retired in

ten years. All of the City's debt is fixed rate and there is no exposure to derivative or swap agreements

WHAT COULD CHANGE RATING UP

- Significant expansion and diversification of tax base
- Continued surplus operations in the General Fund, yielding higher reserve levels and liquidity

WHAT COULD CHANGE RATING DOWN

- Deterioration in property valuations
- Erosion of general fund liquidity and reserves

KEY STATISTICS:

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

2011 Full valuation: \$3.1 billion (0.5% average annual decrease since 2007)

1999 Median family income: \$63,381 (119.8% of state, 126.6% of US)

1999 Per capita income: \$23,586 (110.9% of state, 109.3% of US)

Milwaukee County unemployment rate (November 2011): 6.1% (state at 6.6%; US at 8.2%)

Fiscal 2010 General Fund balance: \$8.2 million (36.4% of General Fund revenues)

Overall debt burden: 4.5% (0.4% direct)

Payout of principal (10 years): 69.4%

Post-sale general obligation debt: \$12.8 million, including current offering

Post-sale Moody's rated general obligation debt: \$11.4 million, including current offering

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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