

CREDIT OPINION

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Oak Creek (City of) WI

Update to credit analysis

Summary

[Oak Creek](#) (Aa2) benefits from steady economic development which has resulted in strong tax base growth and a solid financial position. Further expansion will be supported by the city's proximity to the [City of Milwaukee](#) (A2 negative) and a large amount of developable land. These strengths are balanced against the city's elevated fixed costs and moderate exposure to tax increment financing.

Credit strengths

- » Growing tax base with above-average resident income
- » Solid financial position

Credit challenges

- » Elevated fixed costs
- » Growth in property tax revenue constrained by strict state-imposed revenue limits

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Substantial growth in available operating reserves
- » Moderation of fixed costs

Factors that could lead to a downgrade

- » Tax base contraction
- » Narrowing of operating reserves
- » Materially increased leverage

Key indicators

Exhibit 1

Oak Creek (City of) WI	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$3,108,898	\$3,318,333	\$3,492,653	\$3,831,004	\$4,215,754
Population	35,218	35,588	35,843	36,066	36,066
Full Value Per Capita	\$88,276	\$93,243	\$97,443	\$106,222	\$116,890
Median Family Income (% of US Median)	125.2%	120.7%	121.0%	120.9%	120.9%
Finances					
Operating Revenue (\$000)	\$32,308	\$31,798	\$33,605	\$34,939	\$34,434
Fund Balance (\$000)	\$14,536	\$8,912	\$6,100	\$6,909	\$8,594
Cash Balance (\$000)	\$11,593	\$8,493	\$6,944	\$7,947	\$9,228
Fund Balance as a % of Revenues	45.0%	28.0%	18.2%	19.8%	25.0%
Cash Balance as a % of Revenues	35.9%	26.7%	20.7%	22.7%	26.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$97,330	\$101,850	\$98,490	\$97,845	\$97,640
3-Year Average of Moody's ANPL (\$000)	\$46,836	\$51,992	\$54,813	\$56,981	\$62,994
Net Direct Debt / Full Value (%)	3.1%	3.1%	2.8%	2.6%	2.3%
Net Direct Debt / Operating Revenues (x)	3.0x	3.2x	2.9x	2.8x	2.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.5%	1.6%	1.6%	1.5%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.6x	1.6x	1.6x	1.8x

Sources: the city's audited financial statements, US Census Bureau and Moody's Investors Service

Profile

Oak Creek is located just south of the City of Milwaukee in [Milwaukee County](#) (Aa2 stable). It encompasses an area of 28 square miles with an estimated population of 36,000.

Detailed credit considerations

Economy and tax base: Milwaukee-area tax base with substantial economic development

Oak Creek's proximity to Milwaukee has supported strong economic development and we expect further growth as a large portion of the city remains available for development. The \$4.6 billion tax base is primarily a mix of residential (55% of equalized value) and commercial (37%) property and has averaged robust 8.2% annual growth over the past five years. This growth is attributed to a demand for housing which spurred residential development and ongoing development within the city's tax increment districts (TID). [Amazon](#) (A1 stable) opened a distribution center within the city's TID #16 (Ryan Business Park) in late 2020, becoming the city's largest employer with 2,286 employees. Current projects include two hotels and a convention center, as well as several apartment projects both within and outside of the city's TIDs.

Financial operations and reserves: solid financial position with some TID exposure

Tax base growth has, by extension, resulted in increased property tax revenue and the city's conservative budgeting will continue to support a solid financial position. Management reports positive variances in fiscal 2021 (year-end December 31), including personnel savings related to retirements and vacant positions, as well as no use of its budgeted contingency, and expects to close the year with a general fund surplus of \$1 million. The city will also benefit from a land sale to a developer, though these proceeds will likely be earmarked for capital projects. The proposed fiscal 2022 budget is balanced. Oak Creek's allocation of American Rescue Plan Act (ARPA) funding is estimated at \$3.8 million, which will be received in equal payments in fiscal 2021 and 2022. Management plans to use the funds for one-time expenses such as capital projects.

Oak Creek closed fiscal 2020 with an available operating fund (general, emergency medical services and debt service funds) balance of \$8.6 million, or 25% of operating revenues. While the general fund posted a \$616,000 change in fund balance in fiscal 2020, the

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city has utilized reserves within its debt service funds to partially fund capital projects in recent years. As a result, the general fund has advanced the debt service fund \$735,000 to offset its deficit fund balance. The advance is expected to be repaid in 2021.

Oak Creek's largest source of revenue is property taxes, which comprised 58% of fiscal 2020 operating revenues, followed by state aid at 29% of revenues. [Wisconsin Electric Power Company](#) (A2 stable), which operates an electric power plant within the city, 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. Utility aid revenue averages \$5 million annually, and management has a policy to allocate \$1.8 million for general fund operations with the remainder 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.

Like many [Wisconsin](#) (Aa1 stable) cities, Oak Creek manages and finances development through TIDs that could pose operating pressure if revenues were to fall short of projections. The city had ten active TIDs at the end of 2020, nine of which are collecting incremental revenues and three of which have deficit fund balances. At the close of fiscal 2020, the TID funds owed \$315,000 to the economic development fund and \$853,000 to the general fund. Moody's expects increments will strengthen and interfund advances will be repaid as economic development continues.

Liquidity

The city closed fiscal 2020 with a net cash position of \$9.2 million, or a solid 27% of revenue.

Debt, pensions and OPEB: fixed costs will remain elevated due to regular borrowing

Fixed costs will remain elevated given regular borrowing for capital projects, though pension liabilities are expected to remain moderate. Following an upcoming sale to finance TID projects and refund previously issued debt, the city's net direct debt will be 2.5% of full value and 3.3x operating revenue.

Though ultimately secured by its GO pledge, a majority of the city's debt is supported by other revenues, including tax increment revenues and utility revenues, reducing the debt service burden on the tax base. Fixed costs, inclusive of debt service (net of refunding) and pension contributions, comprised an elevated 24% of fiscal 2020 operating revenue.

Legal security

Outstanding GOULT debt is backed by the city's full faith and credit pledge. Debt service is payable from a designated property tax levy that is unlimited as to rate or amount.

Debt structure

All of the city's debt is fixed rate. Amortization of long-term debt is above average with 86% of principal retired within ten years.

Debt-related derivatives

The city has no exposure to any debt-related derivatives.

Pensions and OPEB

Oak Creek participates in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Contributions are determined using a level contribution actuarial method in an effort to keep employer and employee contribution rates at a level percentage of payroll over time, and are set at 100% of the plan's funding requirement. As a result, WRS remains one of the best-funded public employee retirement systems in the country.

The city's three-year adjusted net pension liability (ANPL) is \$63 million, equivalent to 1.8x operating revenue or 1.4% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plan's 7% discount rate, was negative \$4.9 million in fiscal 2020, reflecting a net pension asset. The city's ANPL is much higher than reported pension liabilities because the market interest rates that we use to value pension liabilities are far lower than reported discount rates (see Exhibit 2).

Exhibit 2

Adjusted pension liabilities notably higher than reported pension liabilities because of Moody's adjustments

\$ thousands	2018	2019	2020
Net pension liability, reported basis	(\$4,315)	\$5,336	(\$4,939)
Discount rate	7.20%	7.20%	7.00%
Net OPEB liability, reported basis	\$38,803	\$36,302	\$38,825
Adj. net pension liability	\$59,244	\$57,515	\$72,223
Discount rate	3.60%	4.22%	3.22%
Adj. net OPEB liability	\$38,177	\$35,563	\$36,862

Sources: the city's audited financial statements and Moody's Investors Service

Oak Creek's other post-employment benefits (OPEB) obligations do not pose a material cost. The OPEB liability reflects an implicit rate subsidy for retirees who pay to remain on the city's health care plan and life insurance benefits to eligible employees via the Local Retiree Life Insurance Fund (LRLIF), a multiple-employer defined benefit OPEB plan. These liabilities are funded on a pay-as-you-go basis, with contributions of \$2.5 million in fiscal 2020. The city's net OPEB liability at the close of fiscal 2020 was \$38.8 million. Moody's adjusted net OPEB liability, which is similar to our adjustments to pension liabilities, is \$36.9 million, equivalent to 0.9% of full value and 1.1x operating revenue.

ESG considerations

Environmental

Environmental risk is [generally low for the local government sector](#) and does not factor materially into the city's credit profile. Data from Moody's affiliate Four Twenty Seven indicates that Oak Creek has relatively medium exposure to heat stress, water stress, and extreme rainfall compared to other local governments nationally. Typically, counties maintain a comprehensive plan for mitigation and response in the event of disaster.

Social

[Social considerations](#) that factor into the city's credit profile include its demographic and socioeconomic characteristics. Given its favorable location near the Milwaukee metropolitan area, Oak Creek experienced strong population growth over the past several decades, with the number of residents more than doubling between 1980 and 2010. Current estimates reflect further growth of 6% since the 2010 census. Resident income is strong with median family income at 121% of the national level. As of September 2021, Oak Creek's unemployment rate was 3.2%, below both the state (3.3%) and nation (4.6%).

Governance

Governance is a [key credit consideration](#) for all local government issuers. The city's fund balance policy requires maintenance of a working capital fund of between 15% and 25% of combined general fund revenues plus the prior year's state shared revenue. Management utilizes a multi-year capital plan and conservative budgetary approach to maintain reserve levels consistent with this policy.

Wisconsin cities have an institutional framework score of "A," which is moderate. The sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies except to capture amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally high. Expenditures are somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees. Many cities use tax increment districts to attract economic development, often issuing debt to fund initial infrastructure in undeveloped areas. While tax increment districts are ultimately expected to generate revenue sufficient to cover initial city outlay, cities are exposed to economic downturns which could halt development.

Rating methodology and scorecard factors

The [US Local Government General Obligation Debt methodology](#) includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Oak Creek (City of) WI

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$4,618,318	Aa
Full Value Per Capita	\$128,052	Aa
Median Family Income (% of US Median)	120.9%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	25.0%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	-12.7%	Ba
Cash Balance as a % of Revenues	26.8%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-5.5%	Baa
Notching Factors: ^[2]		
Other Scorecard Adjustment Related to Finances: overly punitive operating trend due to capital spending		Up
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Baa
Notching Factors: ^[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.4%	A
Net Direct Debt / Operating Revenues (x)	3.3x	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.4%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.8x	A
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs](#) publication.

Sources: the city's audited financial statements, US Census Bureau and Moody's Investors Service

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