

CREDIT OPINION

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City of Oak Creek, WI

Update to credit analysis

Summary

The [City of Oak Creek, WI](#) (Issuer, GOULT Aa2; short-term MIG 1) is located in southeastern [Wisconsin](#) (Aa1 stable) in the [Milwaukee](#) (A3 negative) metro area. While the MSA's economy is growing slower than the nation, the city itself benefits from steady economic development. Resident income and full value per capita are strong. The city has very healthy finances despite limited revenue-raising ability given strong financial management. The city's major credit challenge are elevated long-term liabilities and fixed costs are moderate.

Credit strengths

- » Very healthy operating reserves
- » Strong resident income and full value per capita

Credit challenges

- » Elevated long-term liabilities
- » Economic growth of the MSA lags the nation

Rating outlook

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

Factors that could lead to an upgrade

- » Sustained growth of the MSA's GDP relative to the nation
- » Moderation of the city's long term liabilities

Factors that could lead to a downgrade

- » Material narrowing of operating reserves
- » Increased long-term liabilities
- » Downgrade of long-term rating (short-term rating)

Key indicators

Exhibit 1

Oak Creek (City of) WI

	2018	2019	2020	2021	Aa Medians
Economy					
Resident income ratio (%)	125.7%	122.0%	121.4%	122.5%	115.4%
Full Value (\$000)	\$3,492,653	\$3,831,004	\$4,215,754	\$4,618,318	\$2,728,197
Population	35,843	36,066	36,321	36,266	23,462
Full value per capita (\$)	\$97,443	\$106,222	\$116,069	\$127,346	\$108,666
Economic growth metric (%)	N/A	-1.3%	-1.3%	-1.2%	-0.6%
Financial Performance					
Revenue (\$000)	\$62,411	\$65,989	\$66,883	\$74,849	\$50,065
Available fund balance (\$000)	\$35,697	\$38,612	\$44,435	\$53,904	\$25,773
Net unrestricted cash (\$000)	\$53,125	\$54,211	\$56,526	\$75,977	\$34,793
Available fund balance ratio (%)	57.2%	58.5%	66.4%	72.0%	51.2%
Liquidity ratio (%)	85.1%	82.2%	84.5%	101.5%	69.5%
Leverage					
Debt (\$000)	\$115,756	\$113,618	\$114,398	\$135,246	\$35,801
Adjusted net pension liabilities (\$000)	\$64,830	\$62,856	\$78,309	\$100,540	\$58,004
Adjusted net OPEB liabilities (\$000)	\$38,177	\$35,563	\$36,862	\$45,678	\$6,701
Other long-term liabilities (\$000)	\$3,060	\$3,777	\$3,862	\$3,686	\$1,659
Long-term liabilities ratio (%)	355.4%	327.0%	349.0%	381.0%	248.8%
Fixed costs					
Implied debt service (\$000)	\$0	\$8,529	\$8,284	\$8,192	\$2,504
Pension tread water contribution (\$000)	\$1,072	\$1,897	\$1,157	\$837	\$1,672
OPEB contributions (\$000)	\$2,060	\$3,172	\$2,486	\$2,899	\$193
Implied cost of other long-term liabilities (\$000)	\$0	\$225	\$275	\$277	\$113
Fixed-costs ratio (%)	5.0%	20.9%	18.2%	16.3%	11.2%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Milwaukee-Waukesha, WI Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Oak Creek (City of) WI's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

The City of Oak Creek is located along the western shore of Lake Michigan in [Milwaukee County](#) (Aa3 stable) in southeastern Wisconsin, approximately 10 miles south of the City of Milwaukee. The city provides public safety (police and fire), water, sewer, recreation and other governmental services to approximately 36,000 residents.

Detailed credit considerations

Economy: MSA's economy growing slightly slower than the nation, strong resident income and wealth

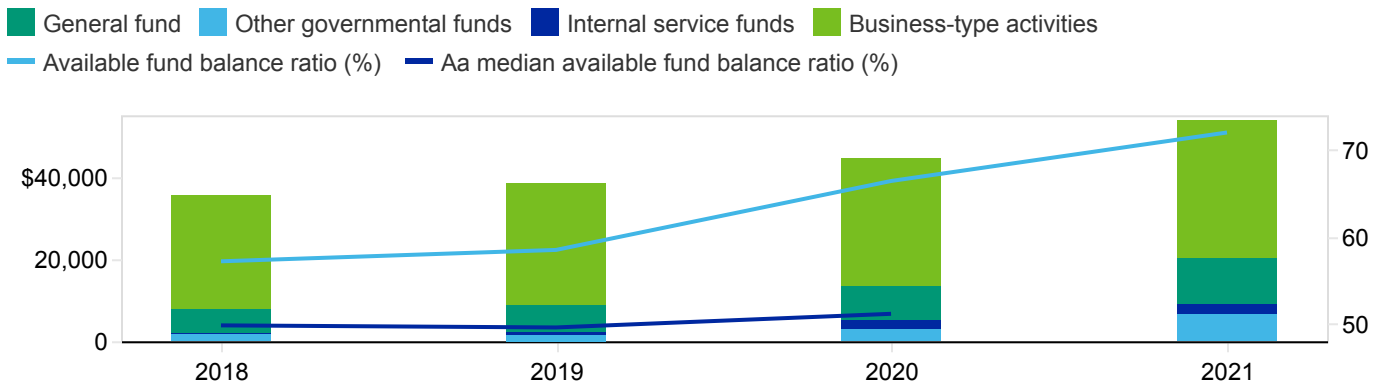
Oak Creek's economic base is expected to grow because of continued commercial and residential development, though the MSA's pace of growth has trailed the nation. The MSA's real gross domestic product grew at a 5-year CAGR of 1% through 2021, about half the national growth of 2.1%. Moderate GDP growth in the city is likely to continue given ongoing residential and commercial development within the city's tax increment districts (TIDs). [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 over 3,200 employees. Current projects include several apartment projects both within and outside of the city's TIDs, an indoor sports complex and daycare, Thrive Foods, along with other commercial and retail development. Adjusted median household income is well above the national figure at 122%. Full value per capita is strong as well at about \$144,100. Unemployment in the city totaled a low 1.9% as of December 2022, lower than that of the state (2.3%) and nation (3.3%).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Financial operations: very strong financial position

Reserves are healthy and will likely remain so because of conservative financial management and continued revenue growth. For fiscal 2022 (Dec. 31 year-end) initial results show a \$1.3 million surplus in the general fund given growing property tax revenue and lower than expected expenditures. Other governmental funds are expected to be largely balanced with growing revenue in business-type activities (water and sewer funds) given increased usage for the year. The fiscal 2023 general fund budget is balanced, though the city has a history of better than budgeted year-end results. Fiscal 2021 available fund balance (total governmental available fund balance + business-type net current assets) totaled a strong 72% of revenue with the majority held in the city's water fund and general fund (exhibit 2).

Exhibit 2
Fund Balance



Source: Moody's Investors Service

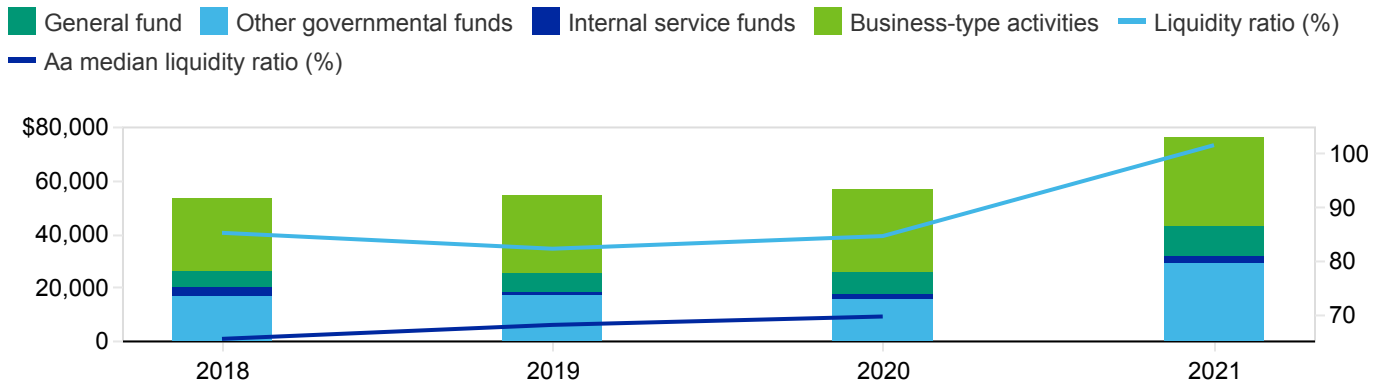
The largest single source of revenue in the city's governmental funds is property taxes which totaled about 62% of governmental fund revenue in fiscal 2021 followed by intergovernmental revenue from the state at about 19%. Business-type enterprise charges for services totaled about 29% of total revenue. Property taxes are subject to strict levy limits apart from new construction, which has led to revenue growth from ongoing development.

Liquidity

The city's liquidity position is very strong, with unrestricted cash equivalent to 102% of revenue in fiscal 2021. Liquidity is stronger than available fund balance given funds restricted for economic development in the city's TID funds along with special revenue funds for restricted purposes. Most cash is held in the city's general and water funds see exhibit 3.

Exhibit 3

Cash



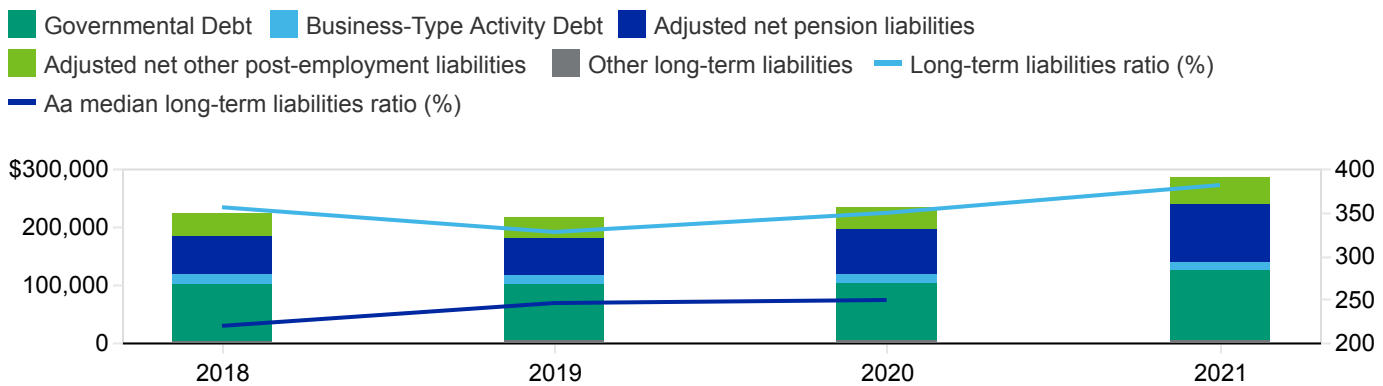
Source: Moody's Investors Service

Leverage: elevated long-term liabilities and moderate fixed costs

Oak Creek's long term liabilities will remain elevated given ongoing borrowing plans, representing the city's primary credit pressure. Following an upcoming issuance for projects in the city's capital plan, total leverage will equal about 402% of fiscal 2021 revenue. Leverage is expected to remain level given continued borrowing for capital projects to supporting economic development. Outstanding liabilities are primarily debt and pensions (see exhibit 4). Adjusted fixed costs are moderate totaling about 16% of fiscal 2021 revenue. Actual fixed costs for the city are closer to 27% of revenue because most bonded debt is paid out over the next 10 years rather than 20 years assumed in our implied debt service calculation.

Exhibit 4

Total Primary Government - Long Term Liabilities



Source: Moody's Investors Service

Legal security

The city's general obligation (GO) debt is backed by an unlimited property tax pledge on all taxable property within the city without limitation as to rate or amount.

The city's note anticipation notes (NANs) are secured by the city's pledge to issue general obligation debt prior to maturity.

Debt structure

All of the city's debt is fixed rate with almost all principal retired in 10 years. Following an upcoming issuance the city will have about \$27 million in short-term NANs, \$16 million of which mature April 1, 2024 with the remainder maturing April 1, 2026.

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 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.

ESG considerations

Oak Creek, WI's ESG Credit Impact Score is neutral-to-low (CIS-2), reflecting low exposure to environmental and social risks along with good governance.

Environmental

Oak Creek's E Issuer Profile Score is neutral to low (E-2), reflecting relatively low exposure to environmental risks across categories, including physical climate risk, carbon transition, water management, natural capital and waste and pollution.

Social

The city's S Issuer Profile Score is neutral-to-low (S-2), reflecting relatively low exposure to social risks across most categories, including access to basic services, housing affordability, health and safety, education and demographic trends. Labor and income is positive with strong resident income and very low unemployment.

Governance

Oak Creek's G issuer profile score is neutral to low (G-2) reflecting good governance. Institutional structure for all Wisconsin municipalities is in line with peers given the sector's major revenue source, property tax revenue, is subject to a cap that restricts cities from increasing their operating property tax levies and expenditures are somewhat flexible, as collective bargaining is allowed for public safety employees but is curbed for non-public safety employees. Transparency and disclosure practices are in line with peers as audit releases are timely and policy credibility and effectiveness are sound with a formal reserve policy. The city's responsive budget management has led to solid reserves and a history of operating surpluses despite state imposed levy limits.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 5

Oak Creek (City of) WI

	Measure	Weight	Score
Economy			
Resident income ratio	122.5%	10.0%	Aaa
Full value per capita	144,121	10.0%	Aa
Economic growth metric	-1.2%	10.0%	A
Financial Performance			
Available fund balance ratio	72.0%	20.0%	Aaa
Liquidity ratio	101.5%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	401.6%	20.0%	Baa
Fixed-costs ratio	16.3%	10.0%	A
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa2

Sources: US Census Bureau, Oak Creek (City of) WI's financial statements and Moody's Investors Service

Appendix

Exhibit 6

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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