

New Issue: Moody's assigns Aa2 to West Allis, WI's \$8.8M GO Bonds, Ser. 2015A

Global Credit Research - 12 May 2015

Aa2 rating maintained on \$75.6M of GO debt, post-sale

WEST ALLIS (CITY OF) WI
Cities (including Towns, Villages and Townships)
WI

Moody's Rating

ISSUE	RATING
General Obligation Corporate Purpose Bonds, Series 2015A	Aa2
Sale Amount	\$8,845,000
Expected Sale Date	05/19/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, May 12, 2015 --Moody's Investors Service has assigned a Aa2 to the City of West Allis, WI's \$8.8 million General Obligation Corporate Purpose Bonds, Series 2015A. Moody's has maintained the Aa2 rating on the city's outstanding general obligation unlimited tax (GOULT) bonds. Post-sale, the Aa2 rating will apply to \$75.6 million of GOULT debt.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the city's large suburban tax base located just west of the City of Milwaukee (Aa3 stable); its sound financial position supported by healthy General Fund reserves; its slightly below average socioeconomic characteristics; and manageable debt and retiree liabilities.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Sustained growth to the city's tax base valuations
- Improvement to the city's socioeconomic profile

WHAT COULD MAKE THE RATING GO DOWN

- Material declines in tax base valuation and/or weakening of the city's socioeconomic profile
- Sustained declines to the city's financial reserves and/or liquidity
- Significant further leverage of the city's debt burden and/or retiree liabilities

STRENGTHS

- Tax base favorably located in the Milwaukee metropolitan area
- Healthy General Fund reserves bolstered by consecutive operating surpluses

CHALLENGES

- Overall trend of declining valuations
- Lower resident income levels than similarly rated entities
- Elevated overall debt burden

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND ECONOMY: MATURE MILWAUKEE SUBURB EXPERIENCING STAGNANT TAX BASE TRENDS

We believe that the city will demonstrate stable tax base trends over the long-term, despite recent valuation declines, due primarily to its beneficial location in the suburban Milwaukee metro area. The mature and fully built out city is located in Milwaukee County (Aa2 stable) directly west of the City of Milwaukee. Over the last five years, the city's large \$3.7 billion tax base declined at an average annual rate of 3.2%. Favorably, the city's tax base experienced a modest full value increase of 0.3% in 2014, which may signal that valuations will begin to recover. The city is 64% residential but has a significant commercial base which makes up 31% of 2014 full value.

Because the city is essentially fully developed, future growth depends on redevelopment efforts, primarily within the city's successful tax increment districts (TIDs). Evidence of the city's redevelopment is demonstrated by several successful TID projects that have added new office buildings and other commercial properties to the city's landscape. TID #3, which incorporated the Quad Graphics printing facility (approximately 600 employees), expired in 2013 helping to mitigate the tax base decline for the year. City officials report positive employment news including the relocation to the city of approximately 750 employees by Johnson Controls Inc. (Baa2 stable), as well as the addition of 200 new employees by Sullivan Dental related to a 30,000 square foot expansion. Officials also report stability among its other major employers and taxpayers. The city's 6.4% unemployment rate, as of March 2015, was above the state (5.4%) and national (5.6%) rates for the same period.

The city's socioeconomic profile is slightly below average. According to data estimates from the US Census Bureau's American Community Survey (2008-2012) median family income stands at 94.2% of the national median. The city's population declined slightly by 1.4% to 60,411 as of the 2010 census from 2000 levels. Based on the city's 2010 population its estimated 2014 full value per capita was a moderate \$61,000.

FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCIAL POSITION SUPPORTED BY HEALTHY RESERVES

West Allis's financial profile will likely remain strong over the near to medium-term. Historically, the city has consistently booked General Fund operating surpluses due to conservative budgeting and strong financial management. While the city has a formal policy of maintaining an undesignated General Fund balance and a separate contingency fund balance of at least 5% of expenditures, in practice the city has maintained a much healthier level of reserves to provide cushion against unforeseen budget events. Over the past six years, the city's General Fund reserves grew from \$28.8 million at the close of fiscal 2008 (52.6% of annual revenues) to \$38.5 million at the close of fiscal 2013 (68.1% of annual revenues). While final audited results are not yet available for fiscal 2014, draft figures depict another operating surplus of approximately \$3.4 million. Management reports that the expected surplus is somewhat inflated as it does not include \$1.9 million in appropriations that were spent shortly after the end of the fiscal year. Management projects essentially balanced operations in fiscal 2015.

City operating revenues are primarily property taxes (61% of fiscal 2013 General Fund revenues), with the remainder largely made up of a mix of intergovernmental aid (21%), charges, fees and licenses (12%), and payments in lieu of taxes (PILOTs; 3%) from city enterprise funds. Strict levy limits restrict the city's ability to increase its annual levy by more than the percentage of valuation change driven by net new construction. While levy limits typically constrict Wisconsin cities' financial flexibility, the City of West Allis does maintain some revenue raising margin as it services a portion of its GO debt from its operating levy rather than its debt service levy. If management chose to fully apply its debt service levy it would open up approximately \$2.9 million in additional operating levy authority.

Liquidity

The city's cash position is strong but overstated as the city collects and holds property taxes on behalf of other

local governments in the county. At year-end fiscal 2013 the city had \$99.5 million in cash across all governmental funds, \$93.6 million of which was contained in the General Fund. At the same time, the city owed \$69.6 million to other governmental units. Net of payables to other governments, General Fund cash of \$24 million represented a still strong 37% of General Fund revenues.

DEBT AND PENSIONS: ELEVATED OVERALL BURDEN; MODEST RETIREE BENEFIT LIABILITIES

The city's direct debt burden of 2.1% of full value is manageable and should remain so due to ongoing redevelopment and the presence of non-debt service levy revenues for a portion of the city's debt. Notably, the city's overall debt (5.4% of full value) is well above average due to borrowings of overlapping entities including Milwaukee County and the Milwaukee Metropolitan Sewerage District (Aa1 stable). Approximately two-thirds of the city's debt service expenditures are supported by non-levy revenues, including TIF revenues and utility revenues. The city expects to continue to borrow approximately \$5 million annually for various capital improvement projects.

Debt Structure

All of the city's debt is comprised of long-term general obligation bonds or notes. Principal amortization is rapid with 85.9% repaid over the next ten years.

Debt-Related Derivatives

All of the city's debt is fixed rate and the city is not a party to any derivatives.

Pensions and OPEB

The city's pension obligations are modest. Starting in fiscal 2012, the city contributes toward the employer share of Wisconsin Retirement System (WRS) costs in accordance with state legislation (Act 10), which prohibits local governments from making contributions to WRS on behalf of non public-safety employees. The city's contribution for 2013 was \$3.1 or a manageable 4.8% of 2013 operating revenues. The city has historically made its required contributions to WRS. Moody's three year average adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was \$29.9 million, or a modest 0.5 times operating revenues and 0.8 times 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 provides Other Post Employment Benefits (OPEB) to eligible retirees which it currently funds on a pay-as-you-go basis. As of the most recent December 31, 2012 actuarial valuation date the city's OPEB unfunded actuarial accrued liability was a relatively sizable \$139.8 million. The city does not maintain a dedicated trust for this liability.

MANAGEMENT AND GOVERNANCE: WISCONSIN CITIES OPERATE WITH A MODERATE AMOUNT OF BUDGETARY FLEXIBILITY

Wisconsin (Aa2 positive) cities have an institutional framework score of "A", or moderate. Cities operate under strict levy limits. Unlike counties, cities cannot implement a sales tax to supplement property tax revenue. Wisconsin's Act 10 legislation, which was enacted in 2011, provides cities with considerable expenditure flexibility as it curbs the bargaining power of non-public safety government employees. Pensions are well-funded. The city's five year average operating ratio of one-times reflects consistent structural balance.

KEY STATISTICS

2014 Full value: \$3.7 billion

2014 Full value per capita: \$61,000

Median family income as % of the US: 94.2%

Fiscal 2013 available combined operating fund balance / revenue: 47.0%

5-year change in available combined operating fund balance / revenue: 5.1%

Fiscal 2013 combined operating fund net cash / revenue: 145.9%

5-year change in combined operating fund net cash / revenue: 20.7%

Institutional framework score: A

5-year average combined operating revenue / combined operating expenditures: 1.00

Net direct debt burden: 2.0% of full valuation; 1.2 times combined operating revenue

3-year average Moody's adjusted net pension liability: 0.8% of full valuation; 0.5 times combined operating revenue

OBLIGOR PROFILE

The City of West Allis is located in Milwaukee County, direct west of the City of Milwaukee. The city government operates under a mayor/council form of government and provides municipal services including public safety, public works, health and human services, recreation and utility services to a population of approximately 60,000 residents.

LEGAL SECURITY

The Series 2015A General Obligation Corporate Purpose Bonds are secured by the city's general obligation unlimited tax (GOULT) pledge which benefits from a dedicated property tax levy which is not limited as to rate or amount.

USE OF PROCEEDS

Proceeds from the bonds will finance several purposes. Of the \$8.8 million in borrowing, approximately \$2.6 million will be used to refund certain maturities of the city's outstanding GO Corporate Purpose Bonds, Series 2007A and GO Promissory Notes, Series 2009 for debt service savings. The remaining \$6.3 million will finance street, sewer and water capital projects.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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