

# RatingsDirect®

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## Summary:

# West Allis, Wisconsin; General Obligation

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## Summary:

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### Credit Profile

US\$8.845 mil GO corp purp bnds ser 2015A dtd 06/04/2015 due 04/01/2030

*Long Term Rating* AA/Stable New

West Allis GO

*Long Term Rating* AA/Stable Affirmed

#### West Allis GO

*Unenhanced Rating* AA(SPUR)/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to West Allis, Wis.' series 2015A general obligation (GO) corporate purpose bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the city's GO debt. The outlook is stable.

Unlimited ad valorem taxes levied on taxable property within the city secure the bonds. The city will use the bond proceeds to finance capital projects and refund series 2007A and series 2009 notes.

The rating reflects our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income at 82.4% of expenditures and market value per capita of \$61,570, which is gaining from access to a broad and diverse metropolitan statistical area (MSA); Strong management, with "good" financial policies under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2013, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2013 of 54% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 15.6x governmental debt service, as well as access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 10.5% of expenditures, net direct debt that is 77.1% of total governmental fund revenue, and rapid amortization with 89.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### Adequate economy

We consider West Allis' economy to be adequate. The city, with an estimated population of 60,300, is located in Milwaukee County in the Milwaukee-Waukesha-West Allis MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 82.4% of thenational level and per capita market value of \$61,570. Overall, the city's market value was stable over the past year at \$3.7 billion. The county unemployment rate was 7.0% in 2014.

The city's largest employers include West Allis Memorial Hospital (2,000); West Allis School District (1,100); and Quad Graphics, a commercial printer company (600). Between 2010 and 2014, estimated full market value, or equalized value (EV) -- including tax-increment districts -- declined 9.7% to a current \$3.7 million. However, management reports that EV has stabilized and will increase in 2015 due to several commercial developments occurring within the city.

### **Strong management**

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management uses five years of historical internal revenue and expenditure analysis and an external actuarial study to form budget assumptions; in addition it reports budget-to-actuals and investment earnings to the board monthly. West Allis also maintains a formal five-year capital improvement plan for roads and building projects and a debt management policy that is somewhat stricter than state guidelines. Management also has a formalized fund balance policy to maintain 5% of expenditures in the unassigned general fund balance, which it is exceeding.

### **Strong budgetary performance**

West Allis' budgetary performance is strong in our opinion, with operating surpluses of 6.9% in the general fund and 6.0% across all governmental funds in fiscal 2013. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2013 results in the near term.

While we expect the city to produce positive operational results in 2015, they will be smaller than years past, and we expect budgetary performance to remain strong. Unaudited draft results for fiscal 2014 resulted in a 6.5% surplus in the general fund and a 2.1% surplus across all governmental funds. West Allis relies on stable revenue sources, with 62% of general fund revenue coming from property taxes in 2013. In addition, Wisconsin's local governments' allowable levy growth is limited to new construction, but because the city is in the middle of several new construction projects, we expect it will be able to realize revenue growth, which will help sustain strong budgetary performance.

### **Very strong budgetary flexibility**

West Allis' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2013 of 54% of operating expenditures, or \$28.6 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city is taking capital fund reserves and applying the reserved funds to building upgrades. Management reports they expect to draw a total of about \$800,000 from three different funds. The city annually budgets for pay-as-you-go capital projects in the general fund, which accumulates money to pay up to 50% of big-ticket projects, and management reports that it will likely spend a portion of the assigned general fund balance on capital projects in the next few years. However, given the city's high reserve level, we do not expect the capital spending to have a significant affect on budgetary flexibility overall.

### **Very strong liquidity**

In our opinion, West Allis' liquidity is very strong, with total government available cash of 1.6x total governmental fund

expenditures and 15.6x governmental debt service in 2013. In our view, the city has strong access to external liquidity if necessary. We do not expect the liquidity to deteriorate in the near future

### **Adequate debt and contingent liability profile**

In our view, West Allis' debt and contingent liability profile is adequate. Total governmental fund debt service is 10.5% of total governmental fund expenditures, and net direct debt is 77.1% of total governmental fund revenue. Approximately 89.8% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

West Allis' combined pension and other postemployment benefit (OPEB) contributions totaled 10.3% of total governmental fund expenditures in 2012. Of that amount, 3.9% represented contributions to pension obligations and 6.4% represented OPEB payments. The city made its full annual required pension contribution in 2012.

All eligible city employees participate in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined-benefit public employee retirement system. The city has historically contributed 100% of its required amount as determined by the state. For fiscal 2013, its contribution to the plan was nearly \$2.8 million. West Allis also offers health care benefits to retirees, and as of Dec. 31, 2013, its actuarially determined OPEB unfunded accrued liability was \$140 million. The city currently funds the liability on a pay-as-you-go basis and contributed about \$4.6 million in fiscal 2013, which equaled less than half of the required contribution of \$10 million. Combined, pension and other retiree benefits constituted 10.3% of total governmental funds expenditures in fiscal 2013.

### **Strong institutional framework**

The institutional framework score for Wisconsin cities and villages with a population greater than 25,000 is strong.

## **Outlook**

The stable outlook reflects our assessment of the city's strong budgetary performance and very strong budgetary flexibility, supported by strong management conditions. We do not expect to revise the rating in the next two years because we do not expect any credit factors to change materially. However, if West Allis' budgetary performance worsens and reserves deteriorate significantly, we could lower the rating. We do not anticipate raising the rating given the city's adequate economic indicators.

## **Related Criteria And Research**

### **Related Criteria**

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Wisconsin Local Governments

### **Ratings Detail (As Of May 13, 2015)**

**Ratings Detail (As Of May 13, 2015) (cont.)**

West Allis taxable GO corp purp bnds

*Long Term Rating*

AA/Stable

Affirmed

West Allis GO corp purp bnds

*Long Term Rating*

AA/Stable

Affirmed

Many issues are enhanced by bond insurance.

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