MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to the City of Franklin, WI's $6.6M GO Ser. 2014A notes and Ser. 2014B bonds

Global Credit Research - 24 Nov 2014

Aa1 rating applies to $38M of outstanding GO debt

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

Moody's Rating

ISSUE		RATING
General Obligation Promissory Notes, Series 2014A		Aa1
Sale Amount	$5,345,000	
Expected Sale Date	12/02/14	
Rating Description	General Obligation	
General Obligation Water System Bonds, Series 2014B		Aa1
Sale Amount	$1,300,000	
Expected Sale Date	12/02/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, November 24, 2014 --Moody's Investors Service has assigned an Aa1 rating to the City of Franklin, WI's $5.3 million General Obligation Promissory Notes, Series 2014A and $1.3 million General Obligation Water System Bonds, Series 2014B. The Series 2014A notes and Series 2014B bonds are secured by the city's general obligation unlimited tax pledge. The Series 2014A notes will provide financing for certain 2014 capital projects as well as costs related to a Tax Increment District #3 (TIDs) project. Proceeds of the Series 2014B bonds will finance the water's portion of facility costs and finance various water projects. Concurrently, Moody's has affirmed the Aa1 rating on the city's outstanding general obligation debt. Post-sale, the city will have $37.7 million of outstanding long term general obligation debt.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the city's sizeable tax base which benefits from its proximity to Milwaukee (Aa3 Stable) and above average socioeconomic indices; solid financial operations despite historical inter fund advances to TID #3; above average, though manageable debt profile, and affordable pension liabilities.

STRENGTHS

-Large tax base benefitting from proximity to Milwaukee

-Above average socioeconomic indices

CHALLENGES

-Long term receivable in non major Governmental Fund for TID #3 and #4 developments

-Above average overall debt burden

DETAILED CREDIT DISCUSSION

LARGE TAX BASE BENEFITS FROM ITS PROXIMITY TO MILWAUKEE

The city's sizeable tax base will likely remain stable given its proximity to Milwaukee, available land for development and continued stable operations among the city's largest employers and taxpayers. The city is located in the southwest corner of Milwaukee County (Aa2 Stable), which is a part of the Milwaukee metropolitan service area. Valued at $3.6 billion in 2014, the city's tax base grew at an average rate of 1.1% from 2006 through 2011. However, this trend was interrupted with declines of 4.1% and 3.1% in fiscal 2012 and 2013, respectively. Favorably, the city experienced an increase of 5% in fiscal 2014, reflecting a rebound in residential valuations. Based on continued commercial development and a stabilization of residential valuations, we believe valuations are not likely to decline further and expect modest growth in the near to medium term. The city is comprised of primarily residential property, which makes up approximately 72% of the 2014 full valuation, followed by commercial property at 21%. The city diverse economy is, over the long term, expected to remain solid. The city's tax base exhibits moderate concentration, with the top ten taxpayers comprising 8.7% of 2013 full valuation. The city's largest employers include the campus of Northwestern Mutual Life Insurance Company (Aaa Stable) with over 2,500 employees and Wheaton Franciscan Services, Inc. (Baa1 Stable) with over 700 employees. Officials report the city's largest employers and taxpayers are stable.

Several new economic development projects are underway, including an expansion of the existing Northwestern Mutual campus as well as an expansion at Wheaton Franciscan Hospital. At a low 4.1% in August 2014, the city's unemployment rate is far below state and national levels of 5.1% and 6.3%, respectively. Resident income levels exceed national medians, with median family income levels at 152.4% of national levels. The city's tax base will likely remain stable going forward as a result of a strong socioeconomic profile, stable operations within the city's largest employers and taxpayers, and as the city continues to benefit from its proximity to Milwaukee.

SATISFACTORY FINANCIAL OPERATIONS CHARACTERIZED BY IMPROVED RESERVES; ADVANCES FOR TID DEVELOPMENTS EXPECTED TO BE REPAID

We expect the city's financial operations to remain satisfactory due to management's commitment to implement expenditure controls and revenue enhancements to eliminate budgetary gaps and retain financial flexibility. The city has closed the last four fiscal years with operating surpluses, increasing the city's General Fund balance to $7.8 million or a solid 32.3% of General Fund revenues at the close of fiscal 2013. The fiscal 2013 operating surplus of $1.3 million was attributed to savings achieved from modifications made in the city's Other Post Employment Benefits (OPEB) as well as favorable variances in permit fees and ambulance service revenues. Officials noted that a portion of the reserves are non spendable and assigned for certain purposes, including an outstanding modest advance from the General Fund to the Sanitary Sewer of $505,000. The General Fund unassigned balance of $7.2 million represents a more accurate assessment of the General Fund's liquidity. The General Fund's unassigned balance exceeds the city's formal fund balance of maintaining between 15% and 30% of annual expenditures. For fiscal 2014, year to date figures indicate a modest operating surplus given favorable investment income revenues. To adhere to the city's formal fund balance policy, for fiscal 2015, the city budgeted to transfer $500,000 from the General Fund to the Capital Projects Fund for various capital projects.

Instead of debt issuances, the city routinely financed major TID renovations through advances from non major Governmental Funds, specifically, the Capital Development Project and Self Improvement Funds. The two funds at the close of fiscal 2013 had a combined outstanding advance of $5.5 million, which $3.3 million is outstanding from TID #3 and TID#4. Officials noted that the advanced amounts will be repaid as TID resources become available. Favorably, even with the advances, the Capital Development Project and Self Improvement Funds have solid cash and fund balance, totaling $5.1 million in 2013. Despite the outstanding advance, we expect the city's financial position to remain strong given our expectation that operations will remain balanced and that management will make necessary adjustments to maintain healthy reserve levels.

AVERAGE DEBT BURDEN; LIMITED FUTURE BORROWING PLANS

The city's debt burden is expected to remain manageable, given mitigating factors such support from non levy sources and limited future borrowing plans. The overall debt burden is above average at 5.2% of full value, reflecting obligations of overlapping municipalities and school districts. At 1.1% of full value, the city's direct debt burden, is average and approximates the debt levels of other Moody's rated cities. Debt service expenditures comprised a low 4.3% of operating expenditures in fiscal 2013. The city has significant expenditure and revenue flexibility given the city's historical use of General Fund revenues to pay portions of the city's debt service, which could be diverted to the debt service levy if needed. Principal amortization is average, with 69.3% of principal retired within ten years. While the city's does not plan to issue debt in the near term, officials noted going forward plans to maintain biennial borrowing of $2 million for various capital improvement projects. All of the city's outstanding debt is fixed rate and the city is not party to any interest rate swap agreements.

AFFORDABLE PENSION LIABILITIES

The city's exposure to the state multi-employer pension plan, the Wisconsin Retirement System (WRS), is expected to remain manageable. The city's contribution to WRS in fiscal 2013 totaled $1.7 million, which consisted of both the employer and employee share of contributions to the system. The city has historically made its required contributions to WRS.

The three year average (2010 to 2012) Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $6.7 million, or 0.26 times operating revenues, inclusive of the General Fund and Debt Service Fund. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended 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 contributions to the plan and covered payroll.

The city also administers a single employer defined benefit post employment benefit (OPEB) plan through a trust. Contribution requirements are established by either city ordinance or collective bargaining and may be amended by groups establishing the requirements. As of January 1, 2012, the last actuarial valuation date, the Unfunded Actuarial Accrued Liability totaled $5.8 million, or 0.22 times operating revenues.

WHAT COULD CHANGE THE RATING - UP

-Maintenance of General Fund reserves and structural balance within the city's funds

-Significant expansion of tax base and/or demographic profile

WHAT COULD CHANGE THE RATING - DOWN

-Steady declines in full valuation

-Sustained declines in the city's fund balances and/or liquidity

-Operating deficits in city's funds that leads to a deterioration of reserves and/or liquidity

KEY STATISTICS

Full valuation: $3.6 billion

Estimated full value per capita: $101,258

2008-2012 Median Family Income as a % of the US: 152.4%

Operating Fund Balance as a % of Revenues: 28%

Five-Year Dollar Change in Fund Balance as % of Revenues: 7%

Cash Balance as a % of Revenues: 28%

Five-Year Dollar Change in Cash Balance as % of Revenues: 2%

Institutional Framework: A

Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 0.96x

Net Direct Debt/Full Value: 1.1%

Net Direct Debt/Operating Revenues: 1.45x

Three-Year Average of Moody's ANPL/Full Value: 0.19%

Three-Year Average of Moody's ANPL/Operating Revenues: 0.26x

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.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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