

CREDIT OPINION

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Franklin (City of) WI

Update to credit analysis

Summary

[Franklin, WI](#) (Aa2) benefits from an expanding tax base with above-average resident income. The financial position is solid, somewhat offsetting the city's limited revenue-raising flexibility. The coronavirus pandemic has not caused any material immediate credit risks for Franklin because the city's largest revenue source is property taxes, which are stable and will be less impacted than other types of revenue. Any potential declines will be delayed because updated assessed values will not impact revenue until the subsequent year. Fixed costs are modest, however the debt burden is slightly above-average compared to other Aa2 cities nationally.

Credit strengths

- » Expanding tax base with above-average resident income
- » Solid operating reserves and liquidity
- » Modest fixed costs

Credit challenges

- » Above-average debt burden for the rating category
- » Limited revenue raising flexibility due to state imposed levy limits

Rating outlook

Outlooks are typically not assigned to issuers with this amount of debt.

Factors that could lead to an upgrade

- » Significant growth in available operating reserves
- » Material expansion of the tax base and local economy

Factors that could lead to a downgrade

- » Significant declines in operating reserves or liquidity
- » Increased debt or pension burdens

Key indicators

Exhibit 1

Franklin (City of) WI	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$3,649,186	\$3,729,003	\$3,888,926	\$4,022,941	\$4,360,269
Population	36,103	36,155	36,295	36,185	35,996
Full Value Per Capita	\$101,077	\$103,139	\$107,148	\$111,177	\$121,132
Median Family Income (% of US Median)	140.1%	140.4%	144.3%	143.8%	143.8%
Finances					
Operating Revenue (\$000)	\$28,760	\$27,713	\$28,198	\$30,683	\$31,891
Fund Balance (\$000)	\$8,176	\$8,579	\$9,298	\$8,125	\$9,489
Cash Balance (\$000)	\$10,613	\$9,722	\$11,498	\$22,598	\$32,348
Fund Balance as a % of Revenues	28.4%	31.0%	33.0%	26.5%	29.8%
Cash Balance as a % of Revenues	36.9%	35.1%	40.8%	73.6%	101.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$34,677	\$31,445	\$28,860	\$48,810	\$70,855
3-Year Average of Moody's ANPL (\$000)	\$20,827	\$28,246	\$31,569	\$34,381	\$36,435
Net Direct Debt / Full Value (%)	1.0%	0.8%	0.7%	1.2%	1.6%
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.0x	1.6x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.6%	0.8%	0.8%	0.9%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	1.0x	1.1x	1.1x	1.1x

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

Profile

The city of Franklin encompasses 35 square miles in [Milwaukee County](#) (Aa2 stable), 10 miles south of the [City of Milwaukee](#) (A1 negative). It provides comprehensive municipal services, including public safety, public works and municipal utilities, to over 36,000 residents.

Detailed credit considerations

Economy and tax base: Milwaukee area suburb with room for growth

Franklin benefits from its proximity to the Milwaukee metropolitan area, and we anticipate taxable values will continue to rise as roughly one-third of the city remains available for development. The \$4.6 billion tax base is largely residential (74% of assessed value) with a sizable commercial presence (20.8%). Its favorable location along Interstate 94 has supported steady development, resulting in average annual growth of 4.7% over the past five years.

Commercial developments continue within the city's tax increment districts (TID), with mixed-use space, sports medicine facilities and several restaurants in TID #5, known as Ballpark Commons. Management reports the completion of a 265-unit luxury apartment complex within TID #7, which overlays TID #5. Industrial buildings in TIDs #6 and #8 are expected to break ground in 2021. Through October 2020, building permits for new single-family homes have surpassed 2019 levels, with city officials anticipating over 900 new residential units will be completed within the next several years.

Financial operations and reserves: healthy reserves, modest TID exposure

Franklin's strong financial position is supported by its history of conservative budgeting and positive variances. City management reports only modest declines in revenue and anticipates closing fiscal 2020, which closes December 31, with a \$225,000 general fund surplus. The proposed fiscal 2021 budget is balanced. The city closed fiscal 2019 with an available operating fund (general, tax increment financing (TIF) districts and debt service funds) balance of \$9.5 million, equivalent to 29.8% of operating revenue.

Franklin has been awarded \$585,000 in coronavirus relief funding. Though the funding can't be used to offset lost revenue, it can be used for unbudgeted coronavirus-related expenses. The city plans to apply the majority of these funds to public safety and technology

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expenses. The city's largest source of revenue is property taxes, which comprised 70.3% of fiscal 2019 operating revenues, followed by charges for services (9.6%) and intergovernmental aid (7.1%).

Like many [Wisconsin](#) (Aa1 stable) cities, Franklin manages and finances development through TIDs that could pose operating pressure if revenues were to fall short of projections. The city had five active TIDs at the end of 2019, three of which are collecting incremental revenues. Favorably, the city has not needed to provide general fund support to any TID and does not plan to do so going forward. The city created an additional TID in 2020.

Liquidity

The city closed fiscal 2019 with a net operating cash position of \$32.3 million, or 101.4% of operating revenue. This figure is overstated, however, as it includes unspent bond proceeds. Net of these restricted funds, cash is a still solid \$17.4 million, or 54.5% of revenue.

Debt and pensions: fixed costs to remain manageable

Fixed costs will remain manageable, though overall leverage will remain above-average for the rating category because the city regularly borrows for capital projects. Following an upcoming sale, Franklin's debt burden will be 1.5% of full value and 2.1x operating revenue, net of \$960,000 of general obligation unlimited tax (GOULT) debt supported by the city's water system. Management plans to resume its practice of biennial borrowing for general capital projects in 2021. Fixed costs, inclusive of debt service and pension contributions, were a moderate 15% of operating revenue in fiscal 2019.

Legal security

Debt service is payable from the city's GOULT pledge, which benefits from a designated property tax levy that is unlimited as to rate or amount.

Debt structure

All of the city's long-term debt is fixed rate. Principal amortization is average with 70% of debt retired within ten years.

Debt-related derivatives

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

Pensions and OPEB

All eligible public safety employees and all city employees hired after January 1, 2019 participate in the Wisconsin Retirement System (WRS), a statewide cost-sharing plan. Eligible public works employees participate in the City of Franklin Defined Benefit Retirement Income Plan, a single-employer defined benefit pension plan, and all other eligible non-protective employees (other than public works employees) participate in the City of Franklin Defined Contribution Plan, both of which are administered by the [Principal Life Insurance Company](#) (A1 stable). Existing employees were given the option of making an irrevocable election to join WRS as of January 1, 2019 or to remain in the supplemental pension plans.

The city's three-year average adjusted net pension liability (ANPL) is \$36.4 million, or 1.1x operating revenue and 0.8% of full value. Other post-employment benefits (OPEB) obligations do not pose a material credit risk. This liability consists of an implicit rate subsidy, with contributions of \$377,000 in fiscal 2019. The city's net OPEB liability at the close of fiscal 2019 was \$1.8 million.

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 Milwaukee County, where Franklin is located, has relatively high exposure to water stress compared to other counties nationally. The county maintains a comprehensive plan for mitigation, preparedness, response, and recovery in the event of disaster.

Social

[Social considerations](#) that factor into the city's credit profile include its demographic and socioeconomic characteristics. Franklin's demographic trends are strong. Population more than doubled between 1980 and 2010, and has grown roughly 2% since the 2010 census. Median family income is strong, estimated at 143.8% of the nation. As of September 2020, the city's unemployment rate was 5.1%, above the state (4.7%) but below the nation (7.7%).

Governance

Governance is a [key credit consideration](#) for all local government issuers. City management is strong, employing reserve policies and long-term capital planning. Franklin's formal policy to maintain governmental fund balances between 20% and 30% and maintain at least 15% of the succeeding year's budgeted expenditures in working capital.

Wisconsin cities have an institutional framework score¹ 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 utilize 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 revenues 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 2

Franklin (City of) WI

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$4,587,753	Aa
Full Value Per Capita	\$127,452	Aa
Median Family Income (% of US Median)	143.8%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	29.8%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	13.9%	Aa
Cash Balance as a % of Revenues	101.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	66.1%	Aaa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	0.9x	B & Below
Notching Factors: ^[2]		
Other Scorecard Adjustment Related to Management: overly punitive operating history due to debt issuances		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.5%	Aa
Net Direct Debt / Operating Revenues (x)	2.1x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.8%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	A
	Scorecard-Indicated Outcome	Aa2
	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.

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

Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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