

CREDIT OPINION

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New Issue

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Franklin (City of), WI

New Issue: Moody's assigns Aa1 to Franklin, WI's \$5.9M GO Ref. Bonds, Ser. 2016A

Summary Rating Rationale

Moody's Investors Service has assigned an Aa1 rating to the City of Franklin, WI's \$5.9 million General Obligation Refunding Bonds, Series 2016A. Post-sale, the city will have \$33.9 million of outstanding GO debt.

The Aa1 rating reflects the city's sizeable tax base which benefits from its proximity to Milwaukee (Aa3 stable), above average socioeconomic indices, solid financial operations despite historical interfund advances, and manageable debt and pension liabilities.

Credit Strengths

- » Sizable tax base favorably located near the Milwaukee metro area
- » Low pension burden

Credit Challenges

- » Diminished available reserves due to interfund advances
- » State-imposed levy limits restrict revenue raising flexibility

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Material increases in available reserves and/or liquidity

Factors that Could Lead to a Downgrade

- » Declines in tax base and deterioration of the city's demographic profile
- » Narrowing of reserves and/or liquidity

Key Indicators

Exhibit 1

Franklin (City of) WI	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,670,509	\$ 3,676,380	\$ 3,524,106	\$ 3,414,277	\$ 3,589,694
Full Value Per Capita	\$ 103,538	\$ 103,548	\$ 99,215	\$ 95,344	\$ 100,546
Median Family Income (% of US Median)	152.4%	152.2%	149.1%	141.8%	141.8%
Finances					
Operating Revenue (\$000)	\$ 26,432	\$ 27,986	\$ 26,040	\$ 26,060	\$ 25,635
Fund Balance as a % of Revenues	31.8%	36.3%	14.9%	22.0%	23.1%
Cash Balance as a % of Revenues	24.1%	19.5%	27.9%	30.1%	29.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 39,890	\$ 32,495	\$ 43,735	\$ 42,445	\$ 37,712
Net Direct Debt / Operating Revenues (x)	1.5x	1.2x	1.7x	1.6x	1.5x
Net Direct Debt / Full Value (%)	1.1%	0.9%	1.2%	1.2%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.3x	0.4x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.2%	0.3%	0.4%

Source: Moody's Investors Service, Audited Financial Statements, US Census data

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base Benefits from Proximity to Milwaukee

The City of Franklin is located in southwest Milwaukee County (Aa2 stable), approximately 10 miles south of the City of Milwaukee (Aa3 stable). The sizable \$3.6 billion tax base is predominately residential in nature (72% of 2015 equalized values), with some commercial presence (20.8%). The city's five year tax base trend is stagnant, but includes modest growth more recently, of 5.1% and 1.7% in 2014 and 2015, respectively.

Northwestern Mutual (Aaa stable) serves as both the city's largest taxpayer (3.5%) and largest employer (3,230 employees), followed by Wheaton Franciscan Healthcare (0.8%, 798 employees). The city's December 2015 unemployment rate of 4% was below both state (4.2%) and national (4.8%) rates for the same period. Resident income levels remain above average with median family income at 141.8% of the US median, as estimated in the 2009-2013 American Community Survey.

Financial Operations and Reserves: Stable Operations and Satisfactory Reserves Despite Interfund Advances

We expect the city's financial operations to remain satisfactory supported by conservative budget assumptions and healthy reserve levels. The city posted an operating surplus of \$852,000 at the close of fiscal 2014, bringing total General Fund Balance to \$8.6 million, or 36.4% of revenues. Interfund receivables in the General Fund and a deficit position in the city's Debt Service Fund reduce the available fund balance across all operating funds (General and Debt Service Funds) to \$5.9 million, or 23.1% of total operating revenues. The General Fund has advanced approximately \$2.2 million to the Sewer Fund over fiscals 2013 and 2014 to provide capital for infrastructure projects, with repayment scheduled for fiscal 2017. Management reports no additional advances to the Sewer Fund and anticipates no delays in repayment. While audited results are not yet available, preliminary figures indicate a General Fund surplus of \$395,000 in fiscal 2015. For fiscal 2016, the city's has budgeted for a \$1.7 million deficit, which includes a planned \$1.2 million transfer to the Capital Improvement Fund.

At fiscal 2014 year-end, the city's Debt Service Fund had a deficit balance of \$425,000, an improvement over the fiscal 2013 year-end deficit position of \$1.5 million. The deficit fund balance can be attributed to an interfund balance due to the Capital Projects Development Fund, which advanced the Debt Service Fund \$3.1 million in fiscal 2012. Proceeds from the advance, along with Debt Service Fund reserves, were used to prepay the city's 2005 GO Promissory Notes. Positively, the liability has been decreasing, and

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management reports a fiscal 2015 surplus in the Debt Service Fund which will be used to repay the remaining interfund balance. Property taxes comprise the city's largest operating fund revenue source at 72.3% of fiscal 2014 revenues.

LIQUIDITY

Across all operating funds, the city holds \$7.5 million in cash and investments, equivalent to 29.3% of revenues.

Debt and Pensions: Manageable Debt Burden; Modest Unfunded Pension Liabilities

The city's debt burden is expected to remain manageable due to limited future borrowing plans. Post-sale, the city's net direct debt will be 0.9% of full valuation and 1.3 times operating revenues. Management reports plans to issue an additional \$1 million in GO promissory notes during the current fiscal year and an additional \$2 million in fiscal 2018 as part of its five-year capital improvement plan.

The city's fixed cost burden, which includes debt service payments as well as pension and OPEB contributions, comprised 13% of fiscal 2014 operating revenues.

DEBT STRUCTURE

All of the city's debt is fixed rate. Principal amortization is below average with 70.3% of all debt retired within 10 years.

DEBT-RELATED DERIVATIVES

The city is not a party to any interest rate swap or derivative agreements.

PENSIONS AND OPEB

Costs associated with the city's exposure to the state multi-employer cost-sharing pension plan, the Wisconsin Retirement System (WRS), and the Public Works Employees Pension Plan, a single-employer defined benefits plan, are expected to remain manageable.

In fiscal 2014 the city contributed the required employer share of WRS annual costs, totaling \$893,000, and \$294,000 to the Public Works Employees Pension Plan. Fiscal 2014 pension contributions amounted to 4.6% of operating revenues. Wisconsin state legislation (Act 10) prohibits local governments from making non-public safety employee contributions to WRS on behalf of employees, capping local government contributions to the statutorily required employer contribution rate. Moody's three-year adjusted net pension liability (ANPL) for the city through 2014, under our methodology for adjusting reported pension data, was \$14.8 million, or a manageable 0.6 times operating fund revenues. 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.

Management and Governance: Moderate Institutional Framework; Sound Management

Wisconsin cities have an institutional framework score of "A," or moderate. Revenues are highly predictable as property taxes and state aid represent the largest revenue streams. Overall, cities have low revenue-raising ability. Property tax levy caps generally restrict cities from increasing their operating property tax levy except to capture amounts represented by net new construction growth. Expenditures mostly consist of personnel costs, which are moderately predictable. Expenditures are somewhat flexible, as collective bargaining is allowable for public safety employees but is curbed for non-public safety employees.

City management is strong, employing conservative budget assumptions and a multi-year capital improvement plan.

Legal Security

Debt service on the bonds is secured by the city's general obligation unlimited tax pledge on all taxable property within the city without limitation as to rate or amount.

Use of Proceeds

Proceeds of the Series 2016A bonds will be used to currently refund the city's outstanding GO Refunding Bonds, Series 2007 for debt service savings.

Obligor Profile

The City of Franklin is located 10 miles south of Milwaukee (Aa3 stable) and covers approximately 35 square miles, with a 2010 U.S. Census population of 35,451.

Methodology

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

Ratings

Exhibit 2

Franklin (City of) WI

Issue	Rating
General Obligation Refunding Bonds, Series 2016A	Aa1
Rating Type	Underlying LT
Sale Amount	\$5,935,000
Expected Sale Date	04/04/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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