

CREDIT OPINION

30 November 2017

New Issue

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Franklin (City of), WI

New Issue - Moody's Downgrades Franklin, WI's GO to Aa2

Summary Rating Rationale

Moody's Investors Service has downgraded to Aa2 from Aa1 the rating on Franklin, WI's general obligation unlimited tax (GOULT) debt. Concurrently, we assigned a Aa2 rating to the city's \$5.1 million Taxable General Obligation Notes, Series 2017A and \$1.6 million General Obligation Notes, Series 2017B. Inclusive of the new sale, the city will have \$35.1 million of outstanding GOULT debt.

The downgrade to Aa2 reflects the city's modest debt burden which is expected to grow over the near term; healthy financial position with an anticipated fiscal 2017 deficit; moderately-sized, wealthy tax base; limited revenue-raising ability; and moderate pension burden.

Credit Strengths

- » Sizeable, affluent tax base favorably located near the Milwaukee metro area
- » Modest pension burden

Credit Challenges

- » State-imposed levy limits restrict revenue raising flexibility
- » Significant future borrowing expected

Rating Outlook

Outlooks are typically not assigned to local governments 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	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$3,524,106	\$3,414,277	\$3,589,694	\$3,649,186	\$3,729,003
Population	35,236	35,649	35,920	36,103	35,741
Full Value Per Capita	\$100,014	\$95,775	\$99,936	\$101,077	\$104,334
Median Family Income (% of USMedian)	149.1%	141.8%	140.2%	140.1%	140.1%
Finances					
Operating Revenue (\$000)	\$26,040	\$26,060	\$25,635	\$25,389	\$24,198
Fund Balance (\$000)	\$3,886	\$5,738	\$5,931	\$7,317	\$5,396
Cash Balance (\$000)	\$7,267	\$7,854	\$7,502	\$7,861	\$6,565
Fund Balance as a % of Revenues	14.9%	22.0%	23.1%	28.8%	22.3%
Cash Balance as a % of Revenues	27.9%	30.1%	29.3%	31.0%	27.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$43,735	\$42,445	\$37,712	\$34,677	\$31,445
3-Year Average of Moody's ANPL (\$000)	\$7,789	\$9,889	\$14,779	\$21,100	\$28,765
Net Direct Debt / Operating Revenues (x)	1.7x	1.6x	1.5x	1.4x	1.3x
Net Direct Debt / Full Value (%)	1.2%	1.2%	1.1%	1.0%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.4x	0.6x	0.8x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.3%	0.4%	0.6%	0.8%

The above metrics do not include the current issuance or the city's 2017 full valuation.
Source: Moody's Investors Service, Audited Financial Statements, US Census Bureau

Detailed Rating Considerations

Economy and Tax Base: Growing, affluent tax base near Milwaukee

The city's tax base will continue to grow given its favorable location near the [City of Milwaukee](#) (Aa3 stable) and steady economic development. The \$3.9 billion tax base has averaged growth of 2% annually since 2013, but remains slightly below its pre-recession high. Management reports several commercial developments under construction, as well as over \$40 million in approved projects not yet started. Continued reinvestment by existing companies is also strong, with Baptista's Bakery, the city's fourth largest employer (559 employees) and seventh largest taxpayer (0.4% of equalized value), undergoing a \$7.8 million renovation at its Franklin factory. On the residential front, management reports approval of a 68 lot single-family subdivision and a 56 unit condominium subdivision which are anticipated to break ground in 2018.

Franklin's demographic trends are strong. The city's population more than doubled between the 1980 and 2010 census periods, though current growth has significantly moderated, increasing 1.8% between 2010 and 2015. As of September 2017, the city's unemployment rate was 3.3%, above the state (3%) but below the nation (4.1%). Resident income levels are strong with median family income estimated at 140.1% of the nation.

Financial Operations and Reserves: Satisfactory reserve levels to be maintained over the near term

Despite an anticipated draw in fiscal 2017, we expect the city's financial position will remain satisfactory. The city posted a fiscal 2016 deficit of \$1.4 million, primarily due to a planned \$1.3 million transfer to the capital improvement fund, bringing the available general fund balance to \$5.4 million, or 22.8% of revenues. Inclusive of debt service funds, the available fund balance across all operating funds (general, debt service and tax increment financing (TIF) district funds) is \$8.6 million, or 31% of total operating revenue.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Fiscal 2017 estimates reflect a general fund draw of \$1.1 million driven by one-time pension contributions, though management anticipates no changes to available fund balance due to the repayment of a \$2.2 million interfund advance from the sewer fund. The fiscal 2018 budget projects a modest \$18,000 deficit, net of a \$1.3 million contingency set-aside. Property taxes are the city's largest revenue source, comprising 78.6% of fiscal 2016 operating receipts.

LIQUIDITY

The city closed fiscal 2016 with a net cash position of \$9.7 million, or a healthy 35.1% of revenue.

Debt and Pensions: Manageable debt burden will rise materially in 2018; moderate pension liabilities

The city's long-term liabilities are expected to grow given future borrowing plans. Post-sale, the direct debt burden will be a manageable 0.9% of full value and 1.2x operating revenue. Management anticipates issuing \$22.8 million to support infrastructure and projects within TID No. 5, as well as \$13 million for business park development in fiscal 2018, which would increase the debt burden to 1.8% of full value and 2.5x fiscal 2016 revenues.

Fixed costs, inclusive of debt service (net of refunding debt) and pension contributions, comprised an elevated 13.7% of fiscal 2016 operating revenues.

DEBT STRUCTURE

All of the city's debt is fixed rate. Principal amortization is average with 80.2% retired within 10 years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Moody's single year adjusted net pension liability (ANPL) for Franklin, under our methodology for adjusting reported pension data, was \$30.9 million in fiscal 2016, up significantly from the fiscal 2014 ANPL of \$23.6 million. The increase reflects various factors, including plan asset underperformance relative to plan assumptions, and the decline in the Citi Pension Liability Index rate, which is the market-based discount rate we use to calculate the ANPL. The city's three-year average ANPL remains moderate at 1.0x operating revenue and 0.8% of full value. The ANPL is not intended to replace the city's reported liability information but is used to enhance comparability with other rated entities.

The city offers a single-employer defined benefit healthcare plan to eligible retirees, funding other post-employment benefits (OPEB) on a pay-go basis. Fiscal 2016 contributions were \$192,000, or a modest 0.7% of operating revenue. The total unfunded liability is \$1.3 million as of January 1, 2016, the most recent actuarial valuation date.

Management and Governance: Moderate institutional framework

City management is strong, utilizing a conservative budgetary approach and multi-year capital plan.

Wisconsin cities have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. 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.

Legal Security

The notes are secured by the city's general obligation unlimited tax (GOULT) pledge, which benefits from a designated property tax levy that is unlimited as to rate or amount.

Use of Proceeds

Proceeds from the Series 2017A will finance capital improvement projects within Tax Increment District No. 3.

Proceeds from the Series 2017B Notes will finance parks, public safety, streets and capital improvement projects throughout the city.

Obligor Profile

The city of Franklin encompasses 35 square miles in [Milwaukee County](#) (Aa2 stable), 10 miles south of the city of Milwaukee. It provides a full range of municipal services to roughly 36,100 residents.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Franklin (City of) WI

Issue	Rating
General Obligation Notes, Series 2017B	Aa2
Rating Type	Underlying LT
Sale Amount	\$1,645,000
Expected Sale Date	12/05/2017
Rating Description	General Obligation
Taxable General Obligation Notes, Series 2017A	Aa2
Rating Type	Underlying LT
Sale Amount	\$5,090,000
Expected Sale Date	12/05/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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