MOODY'S INVESTORS SERVICE

CREDIT OPINION
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City of Franklin, WI

Update to credit analysis

Summary

Franklin (Aa2) is favorably located within the Milwaukee (A3 stable) metropolitan area. Its continued economic development will support tax base growth and, by extension, property tax revenue. The city's overall financial profile is healthy with solid reserves driven by prudent budgetary management despite strict levy limits. Long-term liabilities are moderate and adjusted fixed costs are modest

Credit strengths

» Healthy operating reserves

» Solid resident income and full value per capita

Credit challenges

» Limited revenue-raising flexibility because of state-imposed levy limits

» GDP growth of the MSA lags the nation

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

» Maintenance of robust reserves

Factors that could lead to a downgrade

» Material narrowing of reserves or liquidity

» Notable growth in long-term leverage

Key indicators

Exhibit 1
Franklin (City of) WI

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	134.6%	130.5%	136.3%	N/A	115.0%
Full Value ($000)	$4,360,269	$4,587,753	$4,887,373	$5,423,303	$2,649,338
Population	36,064	36,013	36,685	N/A	22,694
Full value per capita ($)	$120,904	$127,392	$133,225	N/A	$108,666
Economic growth metric (%)	N/A	-1.3%	-1.2%	N/A	-0.5%
Financial Performance					
Revenue ($000)	$52,524	$52,443	$55,301	$64,611	$48,404
Available fund balance ($000)	$22,072	$21,451	$30,040	$26,930	$24,069
Net unrestricted cash ($000)	$56,999	$39,815	$64,926	$73,412	$32,092
Available fund balance ratio (%)	42.0%	40.9%	54.3%	41.7%	51.0%
Liquidity ratio (%)	108.5%	75.9%	117.4%	113.6%	69.0%
Leverage					
Debt ($000)	$71,870	$68,167	$73,148	$68,710	$34,496
Adjusted net pension liabilities ($000)	$37,144	$52,901	$74,616	$74,490	$55,543
Adjusted net OPEB liabilities ($000)	$4,487	$4,357	$738	$1,782	$6,316
Other long-term liabilities ($000)	$2,300	$2,512	$2,400	$2,152	$1,623
Long-term liabilities ratio (%)	220.5%	244.0%	272.9%	227.7%	244.8%
Fixed costs					
Implied debt service ($000)	$3,675	$5,240	$4,882	$5,131	$2,436
Pension tread water contribution ($000)	$1,345	$857	$722	N/A	$1,565
OPEB contributions ($000)	$377	$720	$374	$373	$178
Implied cost of other long-term liabilities ($000)	$159	$168	$180	$168	$109
Fixed-costs ratio (%)	10.6%	13.3%	11.1%	9.9%	11.1%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The Economic Growth metric cited above compares the five-year CAGR of real GDP for Milwaukee-Waukesha, WI Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, Franklin (City of) WI's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

The city of Franklin encompasses 35 square miles in Milwaukee County (Aa3 stable), 10 miles south of the City of Milwaukee. It provides comprehensive municipal services, including public safety, public works and municipal utilities, to over 36,600 residents

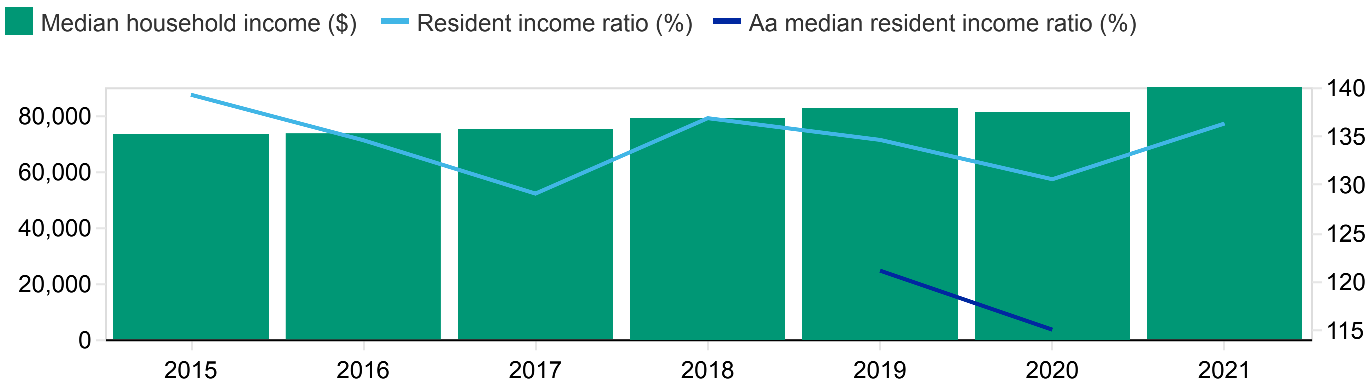
Detailed credit considerations

Franklin, WI benefits from a strong financial position with ample liquidity across governmental and business-type activities. The economy will remain stable, given recent growth in building permitting and tax increment districts (TIDs). Among other projects, the city expects to add several new commercial developments, as well as additional residential developments. The city's moderate leverage ratio is slightly below medians, but is not likely to increase in the near-term given limited borrowing plans for capital projects. Adjusted fixed costs are below similarly rated peers.

The city's financial operations are likely to remain strong because of management's conservative budgeting practices and continued economic development. The fiscal 2024 (year-end Dec. 31) budget is essentially balanced. Fiscal 2023 results reports a general fund deficit of about $2.5 million, which the city plans to use for capital projects. General fund activities comprise roughly 51.8% of total governmental revenue. The city operates a water and sanitary sewer utility that comprises just under 17% of the total revenue base. Fiscal 2022 closed with an available fund balance of $26.9 million, or 41.7% of total revenue. Unrestricted liquidity across all funds was an even stronger 113.6% of revenue.

Economy

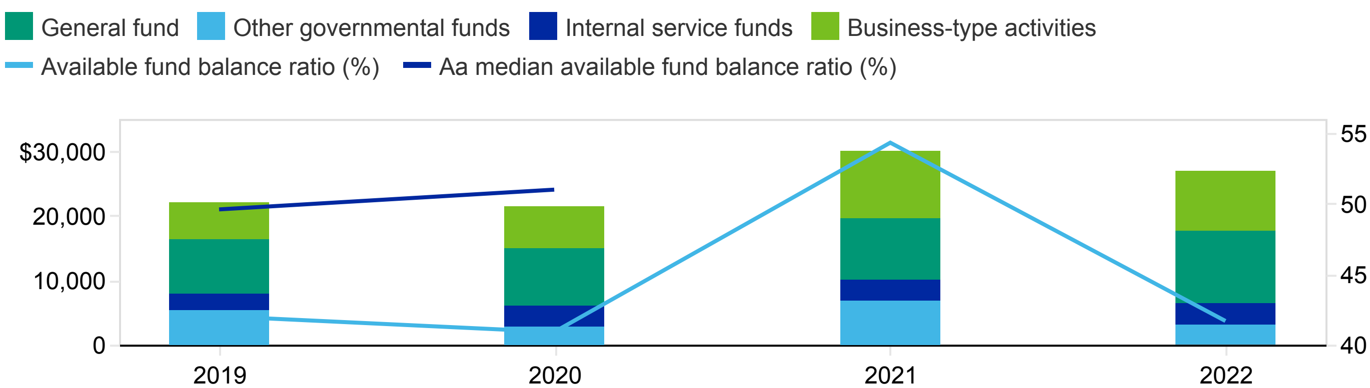
Exhibit 2
Resident Income



Source: Moody's Investors Service

Financial operations

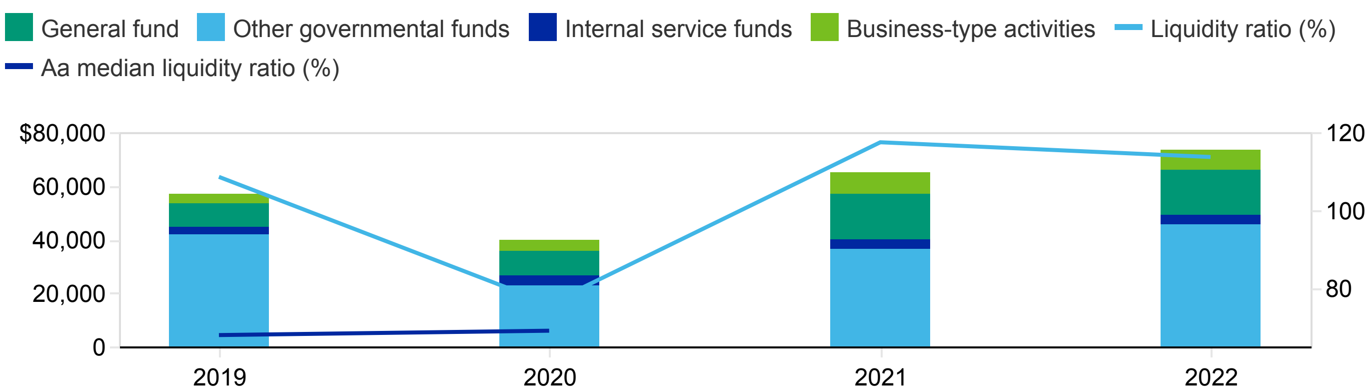
Exhibit 3
Fund Balance



Source: Moody's Investors Service

Liquidity

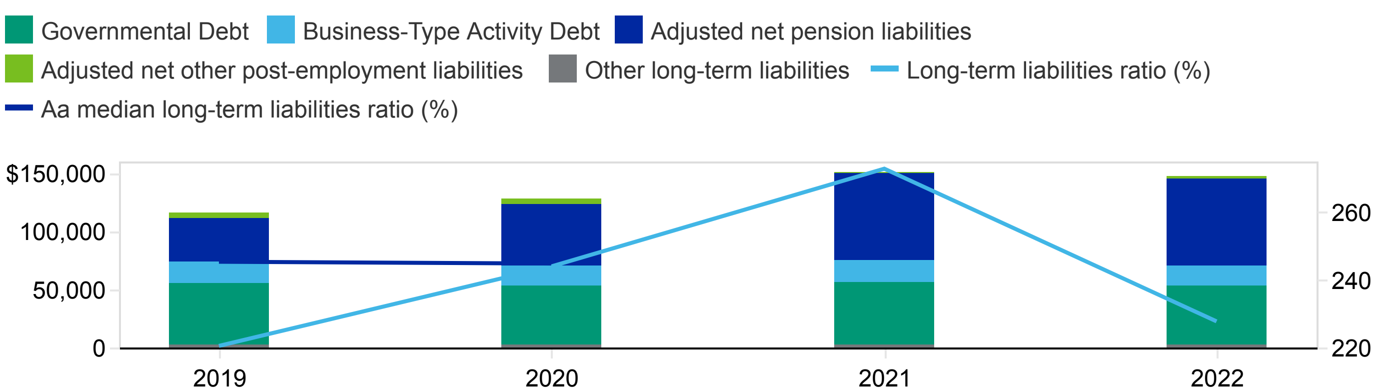
Exhibit 4
Cash



Source: Moody's Investors Service

Leverage

Exhibit 5
Total Primary Government - Long Term Liabilities



Source: Moody's Investors Service

ESG considerations

Environmental

The city's credit profile is not materially affected by environmental considerations. According to data from Moody's Climate on Demand, Franklin is at medium risk of heat stress and water stress compared to other cities nationally. Typically, counties maintains a comprehensive plan for mitigation and response in the event of disaster.

Social

Social considerations such as demographics, labor force, income and education are material considerations that influence the city's economy, demographic, financial and leverage trends. Since the 2010 Census, the city's population has expanded by 3.5% to roughly 36,685 residents. Located 10 miles outside Milwaukee, the city maintains a healthy resident income profile and low poverty rate.

Governance

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 score 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. Revenue 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 municipalities use 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 revenue sufficient to cover initial city outlay, localities are exposed to economic downturns which could halt development.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

Franklin (City of) WI

	Measure	Weight	Score
Economy			
Resident income ratio	136.3%	10.0%	Aaa
Full value per capita	167,073	10.0%	Aa
Economic growth metric	-1.2%	10.0%	A
Financial Performance			
Available fund balance ratio	41.7%	20.0%	Aaa
Liquidity ratio	113.6%	10.0%	Aaa
Institutional Framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio	227.7%	20.0%	A
Fixed-costs ratio	9.9%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			**Aa2**

The complete list of outstanding ratings assigned to the Franklin (City of) WI is available on their issuer page. Details on the current ESG scores assigned to the Franklin (City of) WI are available on their ESGView page.
Sources: US Census Bureau, Franklin (City of) WI's financial statements and Moody's Investors Service

Appendix

Exhibit 7
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US City and Counties Methodology .
Source: Moody's Investors Service

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