

## CREDIT OPINION

23 February 2021

 Rate this Research

### Contacts

Andrew T. Van Dyck      +1.312.706.9974  
Dobos  
AVP-Analyst  
andrew.vandyckdobos@moodys.com

Eric Harper                +1.312.706.9972  
VP-Senior Analyst  
eric.harper@moodys.com

### CLIENT SERVICES

Americas                    1-212-553-1653  
Asia Pacific                852-3551-3077  
Japan                        81-3-5408-4100  
EMEA                        44-20-7772-5454

# Franklin City School District, OH

Update following downgrade to A1

## Summary

The credit profile of [Franklin City School District, OH](#) (A1) remains sound, though rising leverage and recent reductions to fund balance and liquidity have weakened the district relative to peers. However, we expect the district's financial position to remain satisfactory over the next few years, though additional revenue enhancements may be required to maintain healthy operating reserve levels. Our credit view further reflects the district's moderately-sized tax base in southwestern [Ohio](#) (Aa1 stable), along with its average resident income indices and flat student enrollment.

On February 23, 2021 we downgraded to A1 from Aa3 the district's general obligation unlimited tax (GOULT) debt rating. Additionally, we assigned to the district an A1 issuer rating, along with A1 underlying and Aa2 enhanced ratings to the district's Series 2021A and Series 2021B GOULT bonds. The issuer rating reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features.

## Credit strengths

- » Average socioeconomic characteristics
- » Healthy operating fund balance and liquidity

## Credit challenges

- » Slightly declining student enrollment
- » Elevated leverage

## Rating outlook

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

## Factors that could lead to an upgrade

- » Material improvement in wealth and income levels
- » Large and sustained increase in fund balance and liquidity
- » Moderation in the district's leverage

## Factors that could lead to a downgrade

- » Sustained narrowing of operating fund balance or liquidity

- » Persistent enrollment declines
- » Significant further increases to the district's long-term liability leverage

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.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 1

### Franklin City School District, OH

	2017	2018	2019	Aa Medians
<b>Economy</b>				
Resident income	102.0%	99.1%	99.3%	121.7%
Full value (\$000)	\$1,190,984	\$1,207,889	\$1,305,913	\$3,848,156
Population	20,361	20,588	20,915	29,777
Full value per capita	\$58,493	\$58,670	\$62,439	\$104,849
Enrollment	2,854	2,869	2,781	4,489
Enrollment trend	N/A	N/A	-1.3%	-0.1%
<b>Financial performance</b>				
Operating revenue (\$000)	\$35,854	\$35,083	\$33,449	\$73,583
Available fund balance (\$000)	\$8,299	\$8,359	\$7,278	\$18,249
Net cash (\$000)	\$8,478	\$9,560	\$9,466	\$22,186
Available fund balance ratio	23.1%	23.8%	21.8%	25.4%
Net cash ratio	23.6%	27.2%	28.3%	30.4%
<b>Leverage</b>				
Debt (\$000)	\$2,381	\$2,221	\$2,133	\$49,675
ANPL (\$000)	\$134,039	\$102,834	\$95,573	\$96,635
OPEB (\$000)	N/A	\$8,652	\$2,465	\$12,399
Long-term liabilities ratio	N/A	324.1%	299.5%	284.4%
Implied debt service (\$000)	\$189	\$177	\$164	\$3,456
Pension tread water (\$000)	\$3,384	\$2,219	\$2,038	\$3,192
OPEB contributions (\$000)	N/A	\$91	\$91	\$507
Fixed-costs ratio	N/A	7.1%	6.9%	11.6%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts 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 [K12 Median Report](#).

Sources: US Census Bureau, Franklin City School District, OH's financial statements and Moody's Investors Service

## Profile

Franklin City School District is located in [Warren County](#) (Aaa stable) in southwest Ohio. The district provides pre-kindergarten through twelfth grade education, serving residents of the [City of Franklin](#) (A1) and surrounding areas. The district currently educates approximately 2,900 students in a community of roughly 21,000 residents.

## Detailed credit considerations

### Economy: moderately-sized tax base in southwest Ohio

We expect the district's economy and tax base will remain stable over the next few years given recent valuation trends and a lack of exposure to employment sectors that have been materially impacted by the coronavirus pandemic. Franklin City School District sits between the cities of [Dayton](#) (Aa2 stable), 20 miles to the north, and [Cincinnati](#) (Aa2 stable) 35 miles to the south. District residents have access to these larger employment centers via reasonable drive times. Locally, the City of Franklin's largest employers include the school district and the city itself, along with a paper manufacturer. Standing at 4% in December 2020 the county's unemployment rate was materially lower than the state and national rates of 5.2% and 6.5%, respectively.

### Financial operations: satisfactory operating fund balance and liquidity but near term draws projected

While the financial condition of Franklin City School District is currently healthy, it will likely need to either reduce future operating expenditures or seek voter approved revenue enhancements to prevent a material spend down of reserves. The district posted four consecutive operating surpluses from fiscal 2014 through fiscal 2018 aided by the passage of a new emergency operating levy in May 2014 and a renewal of an operating levy in February 2015. The surpluses helped to grow its available modified accrual fund balance to \$8.4 million, equal to a healthy 23.8% of revenue. The two levies were combined into a 15.9-mill substitute levy in November 2018 which was approved by voters. The substitute levy must be reauthorized by voters before the end of 2023 to prevent interruption of tax collections.

Despite the passage of the substitute levy the district's operating expenditures began to exceed revenue in fiscal 2019. In that year the district posted a \$1.1 million operating deficit which reduced year-end available reserves to \$7.3 million, or 21.8% of revenue. Although audited information for fiscal 2020 is not yet publically available, the district reports a cash-basis operating deficit of \$1.9 million. Additional deficits of \$1.8 million and \$703,000 are projected for fiscal 2021 and fiscal 2022, respectively. Management's current five-year financial forecast which it reports to the state, is somewhat conservative, primarily on the expenditure-side, though near term deficits are highly likely absent a material change in budgetary strategy. Additional revenue enhancements may be likely needed to maintain reserve levels in excess of its official fund balance policy.

### Liquidity

The district's liquidity position, similar to its operating fund balance, is currently healthy but will likely be reduced over the near term based on current financial projections. At the close of fiscal 2019 the district held \$9.5 million in operating cash, equal to a sound 28.3% of revenue. The district's cash position is expected to be reduced by approximately \$1.9 million once its fiscal 2020 audit is released.

### Leverage: rising debt leverage; exposure to two underfunded pension plans

The district's increased long-term liability leverage is dragging down its credit profile as compared to previous years. District voters approved \$66 million in GOULT bonding authority to finance the construction of a new high school and renovations to its existing high school which will be repurposed into a middle school. In December 2020 the district issued \$9.7 million in bond anticipation notes (BANs) to begin the project. The district is planning to issue two series of bonds in March 2021 to take out the notes and provide the financing for the remainder of the project. Once sold, the district's debt burden will rise to a moderate 2x operating revenue.

While elevated the district's debt leverage is likely at its peak as it is unlikely to have further borrowing needs for many years. In addition to the local financing of the project the district is participating in the Ohio Facilities Construction Commission's Expedited Local Partnership Plan (ELPP) which will eventually contribute \$74 million in capital grants to the district to build three new elementary schools.

### Legal security

The district's GOULT bonds are secured by the its full faith and credit, along with its pledge and authorization to levy unlimited ad valorem property taxes. The Series 2021A and Series 2021B bonds are further secured by interceptable aid from the State of Ohio through the Ohio School District Credit Enhancement Program (OSDCEP).

### Debt structure

Following the sale of upcoming capital bonds all of the district's outstanding debt will be comprised of fixed rate obligations that amortize over the long term. In addition to the \$66.2 million in post-sale GOULT debt, the district has a modest \$256,000 in general obligation limited tax (GOLT) debt which is paid out of district operations. Retirement of post-sale principal is slow with just 15% retired over the next ten years, though the useful life of the projects being financed should match or exceed the life of the bonds. The projected final maturity will be in 2057.

### Debt-related derivatives

The district is not party to any derivative agreements.

### Pensions and OPEB

District employees are members of the Ohio State Teacher Retirement System (STRS) and the Ohio School Employees Retirement System (SERS). There is broad legal flexibility in Ohio to amend pension benefits, and statute establishes a 30-year target for amortizing the unfunded liabilities of all cost-sharing plans. In 2012 and 2017, the 30-year target was breached for STRS and the state legislature acted by reducing benefits and increasing employee contributions. The 2012 and 2017 reforms did not increase employer contributions from participating governments.

Franklin's Moody's adjusted net pension liability and adjusted OPEB liability stands at \$95.6 million and \$2.5 million, respectively. Total leverage, inclusive of the upcoming GOULT bonds, will be \$164.4 million, equal to an elevated 11.9% of full value and 4.9x operating revenue. The district's annual fixed costs have been relatively light as a result of limited debt prior to its upcoming issuances, though annual debt service on the new debt will increase fixed costs by \$2.3 million beginning in fiscal 2022.

## ESG considerations

### Environmental

Environmental risks are low for the majority of US local governments including Franklin City School District. Located in Warren County in southwest Ohio, the district has a continental climate and experiences four distinct seasons. Based on data from Moody's affiliate, Four Twenty Seven, Warren County has low risk of water stress or cyclone exposure relative to counties nationwide, but does have above average exposure to extreme rainfall and heat stress. However, we do not anticipate the district's credit profile or operations to be materially impacted by environmental, climate, or weather-related events for the foreseeable future.

### Social

Social considerations that impact the district's credit profile include its socioeconomic and demographic characteristics and trends, along with its history of voter support for operating levies and bonding requests. The district's resident income levels closely align with national averages when adjusting for regional price parity, as its adjusted median household income is estimated at 99.3% of the US. However, its full value per capita of approximately \$66,000 is below average but also reflective of the district's relatively low housing prices. The district's population has been steady, estimated to have grown by 6.3% since the 2010 Census, though its median age has risen to an older than average 41 years.

The maturing of the district's population has contributed to slightly declining student enrollment. The district's fiscal 2020 enrollment of 2,763 students reflects an average annual decrease of 1.1% over the last three years. Favorably, the district's net open enrollment is positive. The district's history of voter support is mixed but better as of late. The district's successful passage of its bonding authority came on the heels of eight failed bonds levies since 2001. On the operating levy side the district has passed its three most recent attempts, which includes its emergency substitute levy that its passed in November 2018 by a margin of 13%

### Governance

Ohio school districts have an Institutional Framework score of A. Some districts are primarily funded by locally controlled property taxes, while others are primarily funded through state-controlled aid that is distributed according to a complex formula. Districts can request voter authorization for new and renewed property and income taxes. Voter support is disparate with some districts receiving regular approval for requests while others struggle to receive voter approval. State aid has been increasing regularly for most districts in recent years, but it has occasionally been cut, kept flat or subject to formula change.

Franklin City School District currently employs 356 full-time and part-time employees. The current teacher's union contract lasts through July 2022 and includes annual base salary increases of 2.5%. The district's management reports that relationships with employee groups are good. The district is currently operating in person but provides the option for students to attend virtually as well. Approximately 250 students have chosen the virtual option for the fiscal 2021 school year. The Board of Education recently passed an official fund balance policy to maintain a minimum of one month's expenditures in unrestricted general fund reserves, which it is currently in compliance with.

## Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district'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 school district credits.

Exhibit 2

### Franklin City School District, OH

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	99.3%	10.0%	A
Full value per capita (full valuation of the tax base / population)	65,799	10.0%	A
Enrollment trend (three-year CAGR in enrollment)	-1.1%	10.0%	A
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	21.8%	20.0%	Aa
Net cash ratio (net cash / operating revenue)	28.3%	10.0%	Aaa
<b>Institutional framework</b>			
Institutional Framework	A	10.0%	A
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	492.6%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	6.9%	10.0%	Aaa
<b>Notching factors</b>			
Weak financial reporting	-0.50		
Scorecard-Indicated Outcome			A2
<b>Assigned Rating</b>			<b>A1</b>

Sources: US Census Bureau, Franklin City School District, OH's financial statements and Moody's Investors Service

## Appendix

Exhibit 3

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau)  RPP: US Census Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
<b>Financial performance</b>		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
<b>Leverage</b>		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District'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
OPEB (\$000)	District'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
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	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 contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454