

RatingsDirect®

Summary:

Franklin Town, Massachusetts; General Obligation; Note

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Summary:

Franklin Town, Massachusetts; General Obligation; Note

Credit Profile

US\$12.2 mil GO bnd anticipation nts ser B dtd 05/19/2017 due 05/18/2018

Short Term Rating

SP-1+

New

US\$4.66 mil GO bnd anticipation nts ser A dtd 05/19/2017 due 10/19/2017

Short Term Rating

SP-1+

New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Franklin Town, Mass.' series 2017 A and B general obligation (GO) bond anticipation notes (BANs), payable on Oct. 19, 2017 and May 18, 2018.

At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's existing GO debt. The outlook is stable.

The short-term rating reflects our view of the town's very strong capacity to pay principal and interest when the BANs come due. The town maintains a low market risk profile with strong legal authority to issue long-term debt to take out the BANs, and it is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the bonds and notes. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. Officials plan to use series 2017 note proceeds to refund outstanding BANs and fund various capital improvement projects.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 10.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 20.9% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.7% of expenditures and net direct debt that is 59.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Franklin's economy very strong. The town, with an estimated population of 32,988, is located in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 147% of the national level and per capita market value of \$147,116. Overall, the town's market value grew by 4% over the past year to \$4.9 billion in 2017. The county unemployment rate was 4.3% in 2015.

Franklin is equidistant (approximately 28 miles) from Boston, Worcester, and Providence, and has access to I-95 and I-495 and the Massachusetts Turnpike. It is served by commuter rail service to Boston. Most of Franklin lies within the Charles River watershed. The town has invested in revitalizing its downtown area to foster economic development. The tax base is very diverse and values reflect the town's strong real estate and commercial and industrial base.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include the finance department's monthly monitoring and reporting of budget-to-actual results and investment (earnings and holdings) performance and a debt management policy that limits net general fund debt service to 3.5% of operating revenues (less debt exclusions and Massachusetts School Building Authority, or MSBA, reimbursements). The reserve policy limits the stabilization fund to a floor of \$5 million, or 5% of recurring general fund revenue (less debt exclusions and MSBA reimbursement). The town maintains a five-year financial report and a five-year capital improvement plan that is updated annually with funding sources identified.

Strong budgetary performance

Franklin's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 0.7% of expenditures, and balanced results across all governmental funds of negative 0.3% in fiscal 2016. General fund operating results of the town have been stable over the past three years, with a result of negative 0.8% in 2015 and a result of 1.0% in 2014.

Management indicates fiscal 2016 closed with a surplus due to strong motor vehicle excise tax and building permit revenue. Management indicates fiscal 2017 will close with a surplus with no use of fund balance due to strong motor vehicle excise tax revenue. The fiscal 2018 general fund budget, which will be adopted in May, is expected to be structurally balanced. Property taxes made up about 62% of 2016's general fund revenue, followed by intergovernmental aid at 30%. Current-year collections remain what we view as strong, typically exceeding 99%, providing the town with a stable and predictable revenue source.

We expect strong budgetary performance over the next few years because the budgetary environment is stable. Looking ahead, however, we believe future pensions costs will remain a budgetary pressure given the low funded ratio of the plan. We note management is actively managing these liabilities and making adjustments when needed. The town is funding the actuarially determined contributions and prefunding into OPEB. We believe these liabilities may strain future operations, particularly if economic or business conditions worsen and actuary assumptions are not met, revised, or found to be inadequate at current levels.

Strong budgetary flexibility

Franklin's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 10.6% of operating expenditures, or \$11.5 million.

Management currently has no plans to spend down its fund balance. We expect the fund balance to remain strong based on a projected surplus for fiscal 2017. The town council has adopted a policy of maintaining at least 5% of the general fund budget, or \$5 million in the general stabilization account.

Very strong liquidity

In our opinion, Franklin's liquidity is very strong, with total government available cash at 20.9% of total governmental fund expenditures and 3.6x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We believe Franklin's frequent debt issuance, including GO bonds, supports its strong access to external liquidity. The town does not have any liquidity risks from private-placement or direct-purchase obligations. In addition, we do not expect deterioration in the town's liquidity metrics over the next two fiscal years. Therefore, we expect Franklin will likely maintain its very strong liquidity profile.

Strong debt and contingent liability profile

In our view, Franklin's debt and contingent liability profile is strong. Total governmental fund debt service is 5.7% of total governmental fund expenditures, and net direct debt is 59.8% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, which is in our view a positive credit factor. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

Following this issuance, Franklin will have about \$87 million in total direct debt outstanding. According to management, it could issue an additional \$6.5 million of debt for various capital projects around the town. While the timing and final amounts could vary, based on these plans, we expect Franklin's net direct debt to increase and have incorporated this into our view of its debt profile.

Franklin's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.6% of total governmental fund expenditures in 2016. Of that amount, 3.2% represented required contributions to pension obligations, and 2.3% represented OPEB payments. The town made its full annual required pension contribution in 2016.

Franklin contributes to the Norfolk County Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about \$41.3 million with 58.6% funded as of fiscal 2016, based on an assumed rate of return of 8%. Due to the low funded ratio, we believe contributions will likely continue to rise over the next few fiscal years.

Franklin also provides OPEBs to retirees. As of June 30, 2015, the most recent actuarial valuation, it reported a \$92.5 million OPEB liability. The town has traditionally funded OPEBs through pay-as-you-go financing. It paid \$2.8 million, or 2.3% of expenditures, which was 35% of the annual required contribution, in fiscal 2016. The OPEB trust fund has a current balance of \$2.8 million; officials plan to add an additional \$500,000 in May and will increase its contribution by

\$50,000 annually going forward. In our opinion, its large growing pension and OPEB liabilities could add budgetary pressure.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects what we view as the town's very strong liquidity position and strong budgetary flexibility. In addition, we believe Franklin's very strong economy and access to the Boston MSA lends stability to the town's tax base. Consequently, we do not expect to change the rating within the outlook's two-year time frame.

Upside scenario

All else being equal, over time and with improved economic metrics, continued strong budgetary performance and maintenance of strong budgetary flexibility could lead to a positive rating action.

Downside scenario

Although unlikely, if management is unable to maintain structural balance resulting in what we view as weak budgetary performance and flexibility, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

| Ratings Detail (As Of May 2, 2017) | | |
|---|------------------|----------|
| Franklin GO | | |
| Long Term Rating | AA+/Stable | Affirmed |
| Franklin GO sch bnds | | |
| Long Term Rating | AA+/Stable | Affirmed |
| Franklin GO | | |
| Unenhanced Rating | AA+(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance. | | |

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