

Summary:

**Franklin, Massachusetts; General
Obligation**

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Credit Profile

US\$10.11 mil GO mun purp loan of 2019 bnds due 05/15/2044

Long Term Rating AA+/Stable New

Franklin Twn GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating, and stable outlook, to Franklin, Mass.' series 2019 municipal-purpose general obligation (GO) bonds.

At the same time, S&P Global Ratings affirmed its 'AA+', and stable outlook, on the town's GO debt outstanding.

Franklin's full-faith-and-credit GO pledge, subject to Proposition 2-1/2 limitations, secures the series 2019 bonds. Despite commonwealth levy-limit laws, we did not make a rating distinction between Franklin's limited-tax GO pledge and general creditworthiness because our analysis of its financial and economic conditions already includes the tax limitation imposed on its revenue-raising ability. Proceeds from the GO bond issue will be used to permanently finance previously issued BANs which were used to fund the town's library project.

At the same time, the town is issuing \$1.1 million in GO BANs that we have not been asked to rate. The BANs currently being issued will be used to fund various improvements. Following this issuance, this series will be the only BAN outstanding.

The rating reflects our opinion of Franklin's strong and balanced finances, supported by a very strong, growing, and affluent property tax base, in addition to a strong management team that maintains a number of formalized financial policies and practices. In addition, due to conservative capital-project management through the annual budget process, the town has maintained a favorable debt profile, in our view, coupled with manageable costs. Somewhat offsetting these strengths is what we consider to be the weak funded ratio of Norfolk County Retirement System, which the town participates in, as well as a weak funded other-postemployment-benefits (OPEB) ratio, resulting in projected annual payment increases.

In our view the long-term 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 2018;

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- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 10.0% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.0% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 61.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Franklin's economy very strong. The town, with an estimated population of 33,339, is located in Norfolk County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 152% of the national level and per capita market value of \$158,187. Overall, the town's market value grew by 4.3% in 2018 to \$5.3 billion in 2019. The county unemployment rate was 3.3% in 2017.

Franklin is located about 30 miles from Boston and Providence, and residents have access to I-95 and I-495 and the Massachusetts Turnpike. The town is served by commuter rail service to Boston. Most of Franklin lies within the Charles River watershed. In recent years, the town has invested in revitalizing its downtown area to foster economic development, which management indicates should continue to fuel good growth. 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 on a monthly basis, as well as a reserve policy that establishes a stabilization fund floor of \$5 million, or 5% of recurring general fund revenue (less debt exclusions and MSBA reimbursement). In addition, the town maintains a five-year financial report and a five-year capital improvement plan that is updated annually with funding sources identified. The town also maintains a couple debt affordability guidelines that limit net general fund debt service to 3.5% of operating revenues (less debt exclusions and Massachusetts School Building Authority [MSBA] reimbursements).

Strong budgetary performance

Franklin's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 1.3% of expenditures, and balanced results across all governmental funds of 0.3% in fiscal 2018.

Our performance analysis accounts for adjustments to general fund and governmental fund revenues and expenditures, reflecting recurring transfers in and out of the general fund as well as bond proceeds used for capital expenditures.

Fiscal 2018 closed with a strong surplus of \$1.6 million due to strong local receipts. In total, revenues came in about

\$2.0 million above budget, while expenses came in about \$1.4 million below budget. The largest drivers of the positive variance in revenues consisted of motor vehicle excise taxes, charges for services, licensing and permits, and better-than-expected delinquent property taxes. Expenses were under budget primarily because of conservative budget assumptions across departments.

For fiscal 2019, management indicates it expects to end the year with balanced operations and without a material change to reserves.

The fiscal 2020 general fund budget, which will be adopted in May, is expected to be structurally balanced. Management indicates that there is one noteworthy operational change in the form of a newly created regional dispatch center that is expected to open during the summer. The dispatch center will serve a number of area towns including Franklin, and is expected to be revenue neutral to the town.

Property taxes are the town's primary revenue source, accounting for nearly two-thirds of general fund revenue. Current-year collections remain what we view as strong, typically exceeding 99%, providing the town with a stable and predictable revenue source.

We expect the town to maintain adequate or 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 county-administered 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 other postemployment benefits (OPEBs). 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 2018 of 10.0% of operating expenditures, or \$12.2 million.

Management currently has no plans to spend down its fund balance. We expect the fund balance to remain strong based on budgetary projections. Notably, 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, but we expect reserve balances to remain well in excess of policy targets.

Very strong liquidity

In our opinion, Franklin's liquidity is very strong, with total government available cash at 15.0% of total governmental fund expenditures and 3.1x governmental debt service in 2018. 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 its 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 4.8% of total governmental fund expenditures, and net direct debt is 61.6% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, which is in our view a positive credit factor.

Following this issuance, we estimate the town will have about \$97 million in total direct debt outstanding and will have authorized but unissued debt totaling about \$17 million for a variety of projects. While additional amounts could be authorized and issued over the next several years, based on current projections, we do not expect Franklin's net direct debt to materially change from current levels.

Franklin's combined required pension and actual OPEB contributions totaled 5.9% of total governmental fund expenditures in 2018. Of that amount, 3.5% represented required contributions to pension obligations, and 2.4% represented OPEB payments. The town made its full annual required pension contribution in 2018.

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 \$47.6 million with 63.5% funded as of fiscal 2018, based on an assumed rate of return of 7.75. 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, 2018, the town reported a net OPEB liability of \$73.9 million. The town has traditionally funded OPEBs through pay-as-you-go financing, but has been recently proactive in funding higher contributions into the plan. It paid \$2.8 million, or 2.3% of expenditures, which was 34% of the annual required contribution, in fiscal 2018. In addition to that amount, the town contributed \$1.1 million into the OPEB trust, which has a current balance of \$4.4 million.

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 lend stability to the 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, if the town's economic metrics and budgetary flexibility improved to levels more commensurate with higher rated peers, this 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 a period of sustained 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 April 18, 2019)

Franklin Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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