Town of Franklin

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OFFICE OF THE TOWN ADMINISTRATOR

Memorandum

August 15, 2022

To: Town of Franklin
From: Jamie Hellen, Town Administrator

Re: Town Administrator Five-Year Fiscal Forecast FY23-FY27

Welcome to the first "Five-Year Fiscal Forecast" from my office in almost three years. Due to the immense time pressures put on the office during the pandemic in 2020 and 2021, as well as the consistent economic shifts, it was difficult to depict an accurate picture of future town fiscal affairs. As mentioned in this year's budget narrative, I'm committed to getting back on a regular routine with this traditional update now that the country is moving past the regulatory structure of the COVID-19 pandemic. With the global and national economy in the center of everyone's minds and the start of the new fiscal year (FY23) upon us, summer is a perfect time to hit a quick reset on town fiscal matters and get the view from 30,000 feet. I am hopeful to publish a more comprehensive version later this fall/winter as the Town approaches its annual tax rate hearing in December. By then, staff will have revenue trends through the first quarter of the fiscal year, finalized state aid numbers, and expected new growth figures. The forecast is also a requirement of bond rating agencies.

Quality of life and organization stability in Franklin

Before I dive into the forecast details, I believe it is worth taking a step back for a moment to pause and reflect. Over the past few years, our community, like the rest of the world, has gone through a tremendous disruption. Everyone has dealt with unforseen adversity, challenge, and loss. Yet despite these professionally and personally challenging times for everyone, the overall quality of life in Franklin, as well as Massachusetts as a whole, could be considered some of the best in the United States.

The Town has exceptional, diverse schools and education opportunities, unprecedented achievement in public education, one of the most prepared local public safety operations in the state, a dedicated and well-trained public works department and countless exceptional amenities for families and citizens of all ages and backgrounds. The Town is an attractive area for major corporate businesses and has a strong local economy with many diverse economic sectors. The Town continues to make historic investments in open space and recreation to add to the great quality of life in town.

The Town has developed a proven financial management strategy. We have had strong financial audits for many consecutive years. For the first time in the Town's history, a AAA Bond rating was awarded due to prudent financial management, a diverse economy and well executed financial policies. For details, please visit the S&P Global Rating from May 2022 for the facts surrounding the AAA Bond rating. It is one of the most important documents to read for any member of the community.

From a bird's eye view, everyone should feel an incredible sense of achievement for being a model community that is supportive, innovative and full of continued promise. We owe an immense amount of gratitude to our municipal and school employees for their incredible dedication over the last three years, by not only weathering a global pandemic, but improving the organization and continuing to succeed at an elite level. The social fabric of the community and citizens remains very good with a positive outlook given the countless events, festivals, community organizations and opportunities for all. As we move into a fiscal year without any COVID-19 restrictions or regulations for the first time in three years, I believe Franklin is more resilient and prepared for the future than we were three years ago. The organization remains very stable.

FY22 Closeout

Fiscal Year 2022 (FY22) closed out on June 30th. July is one of the busiest times for the Finance staff closing out the past fiscal year, entering the new one, working on state required reporting and closing out budgets. I am pleased to report that all departments did a phenomenal job managing their budgets in FY22. As a result, very few year end transfers were required and another sterling financial audit was presented in May for FY21.

The revenue source with the greatest fluctuation to economic conditions, "Local Receipts", ended up coming in at pre-pandemic levels, which is very good news. This dynamic was predicted and reflected in the FY23 budget revenue assumptions.

This trend is bolstered by a slowly returning local economy. Hotel revenues are now about 60% back to pre-pandemic numbers. The new cannabis excise (sales) tax provided an additional $104,000 in new revenue for less than a half a year of collections. Motor vehicle excise taxes were higher than budgeted due to the valuation of cars increasing. Ambulance receipts have increased due to higher demand for EMS services. As the Town enters FY23, revenues remain steady in this category, but FY24 may need some expenditure adjustments in order to deliver the services that we see trending in demand.

That said, Local Receipts are revenues mostly generated based on consumer behavior (hotels, meals, cannabis, licenses) and public demand (such as ambulance runs or building permits). Thus, they can stabilize or decrease with the changes in consumer patterns and the broader economy. They can also increase, which the Town must consider that staffing or equipment may be needed to adjust to meet those demands. The fees in this category need to mirror the capacity at the staff level to deliver the services.

Indications from the Federal Reserve and leading local economists acknowledge that to quell inflation, policy will be focused on reducing demand for goods, services and products to help ease cost increases. I tend to believe any policy action at the federal or state levels will take a while to settle into the local consumer patterns that drive revenues in local receipts. Nonetheless, this is an area of revenue that the Town will need to monitor in FY23 heading into FY24 to ensure we have the capacities to meet the demand for services. We'll also need to monitor any major declines in revenues from attempts to quell inflation.

A couple of final statistics to close out FY22: only ten (10) single family homes were built in Franklin during Fiscal Year 2022. By comparison, in 1994, at the Town's peak, the Town built 172 single family homes. Population in 2021 decreased for the 1st time in over four decades.

Year	Population	Change in Population	% Increase in population
2021	33,261	-383	-1.14%
2020	33,644	782	2.38%
2010	32,862	3,124	10.51%
2000	29,738	7,064	31.15%
1990	22,674	5,370	31.03%
1981	17,304		

FY23 Financial Outlook

Revenues

As the Town enters FY23, revenues look to be stable in all areas: local receipts, state aid, and new growth. Up until FY23, state aid has remained at less than a 1% annual increase due to the dynamics of the Chapter 70 formula, town demographics and the Town's growing affluence. Local receipts have remained on a steady increase due to the incredible work of our municipal staff due to an increased demand in services, such as ambulance, EMS services and permitting. FY22 saw a decrease in New Growth from FY19, FY20 and FY21. I expect a modest, stable year again. It is important to reemphasize that our permitting boards continue to see a lukewarm construction market relative to the pre-pandemic years with a notable leveling off of applications before the permitting boards. With supply chain problems continuing globally, I expect property improvement investments will maintain a plateau until there is greater confidence in those goods being provided and/or cost increases subside.

Property values, which are the foundation of the entire town budget through the property tax levy, remain strong due to supply and demand dynamics in the real estate and housing markets. Property taxes are the baseline, as well as largest source of revenue, for the town's services. As long as property values maintain a high value, the town will see decent stability in the budget.

As usual, once the state legislature is done with the legislative session and the various legislative packages being considered are complete, including the state budget, staff will see where all the numbers fall later this summer and propose any adjustments to the Town budget prior to the tax rate hearing in December. I anticipate an increase in state aid, but as discussed for years, not by enough to make a significant new investment impact in the local budget. Any additional revenues will be used to cover shortfalls in other areas due to rising costs of goods and services and labor/personnel.

<u>Expenditures</u>

As of this publication, the main fiscal concerns and challenges for the Town in FY23 are the issues we are all seeing in the news: rising interest rates; inflation; gas/diesel and electricity/gas costs; rising costs of goods and services; health care costs; labor and personnel costs; and the overall uncertainty of the economy. FY23 appears to be a “settle into a new normal” year of actually *feeling* the impacts of inflation within the local budget.

There will be stress on the FY23 budget due to inflation and increased costs. For example, the Town is looking at a doubling of the cost of fuel/diesel over FY22. Additionally, we are looking at escalating electricity rates of possibly two-plus cents a KW higher. As basic operating costs, such as utilities rise, this will have an impact on other areas of the budget.

We are also seeing bids for construction projects coming in much higher than anticipated. For example, the recent SNETT trail project we are working on with the state DCR was estimated at $200,000 a year ago when the work was designed and approved by the Conservation Commission. The bids came in between $400,000 to $800,000 - double to four times the estimated cost from one year ago! We are seeing similar issues on smaller projects. The Red Brick Schoolhouse bids came in $50,000 to $250,000 over the estimated cost, which was just designed four months ago! These examples depict an environment everyone will need to get used to: money will not be going “as far” as it did a year ago. The Town is only one month into the fiscal year and inflation is going to settle into the budget.

To weather this storm, the Town must use nimble strategies throughout the fiscal year to make sure there are no significant cost overruns by next spring. The community should be prepared that costs for basic services, such as snow and ice removal, parts, supplies, personnel, goods, services, etc., will all place a strain on the FY23 budget throughout the year and therefore may require services to be reduced in areas of the budget. FY23 has all the markings of an adjustment year in terms of what levels of service the tax levy can support and how consistent the economy can be for revenues.

FY23 should also see all major collective bargaining agreements being resolved, which is good for labor relations and recruitment, staff morale, as well as financial predictability. The downside is that to complete these contracts, the use of one-time revenues for the school and town unions sets up an inflationary situation within the Town's operating budget come the expiration of those funds in the next couple of years.

FY23 capital projects

To ensure the Town is ready for the altering dynamics in FY23, any new capital improvement projects (facilities, roads, infrastructure, borrowing) that come to our attention after August 1st, 2022 will be postponed and put on hold for discussion to ensure the Town has the accurate resources to fund current projects. All capital projects currently authorized by the Town Council or in the Town Council's goals for 2022-2023 will continue to move forward. However, as we move through the phases of a project (design, procurement, borrowing, awarding contracts, beginning work), I will not commit to any new projects until the town has greater certainty around the cost effects of that project. In other words, unless there is a significant public emergency, do not expect new projects entering the pipeline. As described above, inflation is caused by the high demand in spending with not enough supply to accommodate the demand. Franklin will need to consider doing our part to decrease the demand in the marketplace.

I will have to evaluate and view the FY22 capital program in a new light when free cash is certified later this fall. I cannot make any commitments for new projects due to rising interest rates and the fact that many of the projects currently in the pipeline are seeing cost increases that may need to be augmented from capital funding later this fall and winter.

The American Rescue Plan Act (ARPA) federal stimulus money is proving to be a bridge for the town on many fiscal obligations that could have had a negative effect on the town's budget and delivery of services. ARPA money allowed the town to push the implementation date of the new stormwater utility fee out one year to FY24 (July 1, 2023), which has provided financial relief to all citizens for this upcoming FY23. Other financial obligations such as water main infrastructure, sewer infrastructure, personnel and labor costs, and the mental health crisis are all areas that the Town would not have been able to subsidize or invest in without these funds.

Speaking of sewer, an issue to watch in FY23 is the Beaver Street Interceptor project: the 109-year old pipe that hauls ⅔ of all town sewerage to the Charles River Pollution Control District. This will be one of the most expensive and complicated public works projects in town history. Sewer rates are expected to rise in late FY23/FY24 to pay off the borrowing with this project. While some may say to put a project like this on hold, the truth is the cost of inaction will be far more expensive and damaging to the community than the cost of the rate increases. Nonetheless, a project of this size and importance will be taken step by step to ensure the best return on investment for the ratepayers and may require nimble decision making based on market conditions as the project moves forward. These rate increases will only affect sewer system customers, not private septic residents.

In closing, FY23 appears to be a transitional year toward a new, inflated normal with inflation, interest rates and rising costs. I remind all readers, what happens in the news on a daily basis around the economy can take months or years to actually settle in at the local level. That relates to both the good and bad news. Also, reversal of these trends also can take months or years (even decades) to recover from. As everyone knows, every day has both positive and negative signs for future economic fortunes. I have provided a few economy related reference points as the fiscal year starts to offer context as to how international and national affairs have an impact on the state and local budgets:

- The Federal Reserve has recently increased interest rates multiple times and will continue to raise them until a recession-like economy is inevitable.
- On July 27, 2022, WBUR provided a great summary on the national economics and the Federal Reserve. Many of the trends in this story ring true in Franklin.
- Massbenchmarks' latest "Current and Leading Index" report shows what we all know: inflation, labor supply, labor and personnel costs, and uncertainty weigh on consumers in Massachusetts.
- The message coming from Fortune 500 CEOs shows a recession is inevitable.

One thing is for certain: economic volatility and mixed signals will continue for the foreseeable future, as the country struggles to get into a pre-pandemic economic rhythm. ALL departments need to be cautious about overspending. The effects of inflation could be significant as the fiscal year evolves.

FY24 Financial Outlook

FY24 will be the fiscal year to monitor the new impacts of inflation and/or a recession on the quantity of town services that can be delivered. FY24 will also be the year to monitor the overall condition of the economy, consumer spending and trends on residential households and their ability to withstand the cost increases that we know will be going into effect: stormwater and the Beaver Street Interceptor. A year from now, all town officials should keep a close eye on the ability of residents to afford the increases that are coming from these mandatory projects. These projects could have an effect on other town services.

As written above, rising costs will likely set up a sustainability imbalance with what the purchasing power was in FY22 versus FY24. The Town will begin its FY24 budget process later this fall where we will look at our local summer and fall revenue trends, as well as take a cautiously optimistic gaze toward how the global economy modifies over the next six months. Keep your fingers crossed!

I would expect a Joint Budget Subcommittee meeting sometime in October to check in on FY23 revenues and early prospects for FY24.

Areas of expected operational increases due to inflation include: roads, snow and ice removal, construction supplies, all basic goods and services, and personnel and labor costs. The DPW and Facilities Departments will see the greatest impacts from rising inflation on expenses. Most departments will feel this increase as both of their departments supply basic services such as fuel, gas, electricity, water to other departments. All departments will see an increase in personnel costs due to the competetive labor market and the successful performance of our current staff.

The stormwater utility fee goes into effect townwide for all property owners on July 1, 2023. The average fee per household on a half-acre lot will be about $56. As a result, stormwater expenditures from the DPW will be transferred to the utility. A significant reduction in the DPW budget will show in FY24. This dynamic will be deceiving given the cost increases coming from goods, services, and labor/personnel throughout the entire organization, but most notably the DPW. Also, additional funds will be needed for roads and infrastructure due to rising costs. Most of the reduction of stormwater will likely give way to overall cost increases from inflation.

Lastly, FY24 is when the effects of interest rates will possibly alter town services. As I have pointed out in every budget narrative in recent years, the ratio of debt and interest as a percentage of the town budget has been slowly shrinking as old debt and interest are paid off. Of all seven major budget categories, Debt & Interest was the only category to decrease in the FY23 budget. As a result, other services are taking up a larger percentage of the budget pie, leaving less room for capital projects that require borrowing. With rising interest rates and rising project costs, future capital projects may be in jeopardy if they require borrowing. For more information, please read the Budget Narratives on Debt & Interest from previous fiscal years.

FY23 debt levels are currently at about 2.5% of recurring general fund revenues. These line items support both school and municipal projects.

The town will have some difficult decisions to possibly postpone projects. These projects will undoubtedly become much more complicated, expensive and difficult to fund based on rising interest rates and costs. The following projects will require some borrowing authority, which will increase interest in the operating budget or enterprise funds:

- Beaver Street Interceptor;
- The future of Davis-Thayer;
- A future decision on a new or renovated police station;
- A future decision on the Remington-Jefferson School renovation; and
- A future decision on a new recycling center.

Those are just the large projects that have been in the pipeline for years. This list is obviously not exhaustive and this is even before we tackle the issues of infrastructure, roads, sidewalks, parks, open space plans, staffing investments, among many other things the community has on its wishlist.

The Town recently received a 3.38% interest rate *with* the AAA bond rating. I suspect those rates will climb closer to five percent (at best) in FY23 and FY24.

In short, FY24 will likely begin a harsh reality in the community. There will likely be choices to postpone capital projects or move forward with those projects and operating services may need to be adjusted to reflect the costs of services. Unless the economy can hit a rhythmic state, some difficult financial decisions will have to be made.

FY25 Financial Outlook

It is impossible to predict the state of our economy or world next week, let alone three years from now. Regardless of those factors, FY25 is when the confluence of flooded rivers *are likely* to converge for a very challenging year. Those factors are:

- FY25 will be a full two fiscal years into a 40-plus year high of inflation with most costs rising;

- There will not be any remaining authorized federal stimulus money and there will be less one-time revenues to plug gaps;

- Difficult choices will need to be made regarding investments in schools, public safety, public works and capital projects and equipment;

- The full assessment of the regional dispatch center ("The MECC") will be coming back on the town's operating budget at about $1.5 million; and, most notably

- The Franklin School Department's financial sustainability on one-time revenues, continued declining enrollment and the required net school spending dynamic sets up a possible budget deficit in FY25. The outgoing Superintendent warned that FY25 could be facing “more [financial] challenges given the continued needs of the district, the local fiscal forecast and the expiration of the local coronavirus relief funding.”

Franklin Public School District

The Franklin School Department has three current trends that should give the community a pause for concern over the long term financial sustainability and challenges of the department.

1. Declining Enrollment. At its peak in 2008, the District had 6,464 students enrolled. The enrollment in 2021-2022 was 4,764 students, or a decrease of 24% in 14 years. The Kaestle Boos Associates, Inc study suggests the District is projected to lose enrollment throughout the rest of the decade. In the 2029-2030 school year, the district is estimated to have 4,458 students enrolled - a near 2,000 student enrollment drop in two decades.

   The Kaestle Boos analysis also “indicates that the Franklin Public Schools facilities are currently 26% under capacity and are anticipated to continue to decline to 31% in the next 10 years. If no changes were to occur the school facilities would: all continue to operate under capacity, continue to create a financial burden in the maintenance of these underutilized facilities [and] suffer reduced educational adequacy in schools built prior to 1996.” Closing Davis-Thayer has produced some savings and space, but not nearly the amount of savings envisioned.

   The Kaestle Boos Associates, Inc. study released on December 1, 2020 shows plenty of data on this topic and the options before the School Committee. A Space Needs and Facilities Use Subcommittee of the School Committee has been established and will be charged to “analyze data sources and forecast space utilization to comprehensively review Franklin's school facilities' needs.” A redistricting analysis has also commenced to follow up on the Kaestle Boos study from last December.

2. Net School Spending. As has been discussed at many legislative and local forums, the Franklin Public School District is seeing a very unique dynamic in its finances relative to state aid. This dynamic is real and is a result of the extreme spike in growth and enrollment in the 1980’s through 2010, followed by an significant pause in growth and enrollment in the 2010’s continuing on in the 2020’s.

   In short, due to state education finance law, the “required local district contribution” is accelerating at a pace that far exceeds the rate of state aid increases. Please view the Superintendent's slide on page 12 to see this trend. This dynamic presents some short and long term sustainability concerns.

Despite these two dynamics, local investments have continued in the School Department budget by almost $15 million in total dollars since 2015, an average of over $1.8 million a year, despite the two lower pandemic years.

3. One-time revenues. The schools will be using one-time revenues from revolving funds and federal assistance to augment their operating budget for at least the next two fiscal years. The good news is the School Department has its highest amount of reserves in at least the past five fiscal years. Even if the Town does not have enough revenue to maintain a $2.4 million-a-year increase, which will be challenging, the Schools should have enough reserves in those one-time sources to meet their budget projections over the next two years.

FY26 and Beyond Financial Outlook

After reading the first eight pages of this document and with the adversity and challenges we are experiencing in our own personal lives, I can relate to most readers who feel as if FY26 is an eon away! Yet, our professional perspective is to always keep a keen eye into the future. But what we do know is:

- As long as property revenues continue to increase, the town should see steady growth in order to work within the Proposition 2 ½ constraints. Without any adjustments to the tax levy, it is critical for the community to understand real estate values are the key sustainability factor to local expenses in the budget. The Town cannot count on a state aid bailout and should not count any additional federal assitance.

- FY26 will see collective bargaining return for most school and municipal unions.

- One-time federal assistance in the form of ARPA and ESSER funds will be exhausted.

- The status of the Beaver Street Interceptor project and other capital projects will still be in development.

After the busy "end of fiscal year/start of the fiscal year" this summer, I will prepare a full five year revenue forecast before the FY23 tax rate hearing on November 30th, 2022.

How can I learn more?

- All municipal budget matters will always be posted on our town budget archive

- The School Department budget page is here.

- Finance committee meetings can be found on their website.

- Town Council meeting agendas, Town Blog News, Legal Notices, Job Postings and more on the Town's email notifications page.

- The School Committee connections are here.

As a savings to each homeowner, call your homeowners insurance company to get a savings on the Fire Department's ISO-1 designation. Many property owners will see a reduction in their homeowners insurance. Just print out the linked paperwork and submit it to your insurer.

What can I do to help TODAY?

Let's end the forecast on a fun note; and maybe some homework!

People always ask me what we can do today to support the Town today? Answer: Eat Local!

Like many towns, Franklin has a .75 percent of every one cent out local option tax on meals purchased in Franklin. It's the one area of our "local receipts" revenue source that is driven by consumer choice. Since the pandemic, the town has been fortunate to see most of its restaurants continue in business today. We have also seen an influx of new places to eat out and more will be opening in 2022 & 2023. It's an excellent opportunity to eat local, support our large profile of locally owned restaurants and also support the town budget.

So have fun eating out in Franklin with your family and friends and ultimately support the town's schools, public safety, DPW, roads and other excellent town services!

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S&P Global
Ratings

RatingsDirect®

Summary:

Franklin, Massachusetts; General Obligation

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Summary:

Franklin, Massachusetts; General Obligation

Credit Profile		
US$4.84 mil GO mun purp loan of 2022 bnds dtd 05/26/2022 due 05/15/2042		
Long Term Rating	AAA/Stable	New
Franklin Twn GO		
Long Term Rating	AAA/Stable	Upgraded
Franklin Twn GO		
Long Term Rating	AAA/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating to 'AAA' from 'AA+' on the Town of Franklin, Mass.' general obligation (GO) debt outstanding, due to the town's strong financial performance and an improved reserve position that will likely be sustained despite ongoing economic uncertainties.

At the same time, we assigned our 'AAA' long-term rating to the town's $4.8 million series 2022 GO municipal-purpose loan bonds. The outlook is stable.

We rate the town above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.

Securing the bonds is Franklin's full-faith-and-credit GO pledge, subject to Proposition 2 1/2 limitations. Despite limitations imposed by the commonwealth's levy limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledges because the ad valorem tax pledged is not from a measurably narrower property tax base and there are no fungibility resource limitations.

Proceeds from the bonds will finance the acquisition of land and provide funding toward upgrades of its town hall. A small amount of the bonds will also provide funds toward school drainage improvements.

Credit overview

Franklin has had four consecutive operating surpluses, increasing reserves to very strong levels. Management made prudent budgetary modifications amid the pandemic, positioning the town well heading into fiscal year 2023. The town's reserves are at its strongest level ever, and management is projecting ongoing maintenance at these levels, even as they continue to work through their capital improvement plan. The town maintains good financial policies, and its local economy is affluent and proved resilient during the pandemic, as its employment and tax base saw little deterioration. Ongoing economic development projects and a strong real estate environment have led to substantial tax base growth, keeping tax rates low and affordable. Moreover, the town has maintained a favorable debt profile and pension and other postemployment benefits (OPEB) costs are manageable.

Additional factors considered in our 'AAA' rating include the town's:

- Strong growing per capita taxable market values, very high residential incomes as a percentage of the U.S., and participation in the broad and diverse Boston metropolitan statistical area (MSA) economy;
- Good financial policies under our Financial Management Assessment (FMA) methodology, and strong institutional framework score;
- Strong budgetary performance exhibited over the course of the pandemic and increasing reserves and liquidity to their highest level ever, which should provide the town flexibility to manage for unforeseen budgetary challenges; and
- Strong debt and contingent liability profile, with a net direct debt that is 39% of total governmental fund revenue and a debt service carrying charge of 4.5%. The city's debt burden is low and affordable when compared with its tax base. Pensions and other long-term liabilities are also low and manageable.

Environmental, social, and governance

When analyzing the town's environmental, social, and governance (ESG) risks relative to its economy, budgetary outcomes, management, and debt and liability profile, we view them as consistent with those of the sector. We note Franklin's favorable demographics, including a growing population base as well as affluent wealth and income indicators, along with voter support for increasing revenues, are a social opportunity, and support the town's historically strong and balanced financial operations through consistently strong economic activity.

Stable Outlook

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.

Credit Opinion

Growing local economy and tax base within the broad and diverse Boston-Cambridge-Newton, MSA

Franklin is an affluent community about 30 miles from Boston and Providence. Its residents have access to employment throughout the broad and diverse Boston MSA. The town is located along Interstate 95 and 495, and the Massachusetts Turnpike is in proximity. The town also maintains direct commuter rail service to Boston.

In recent years, the town has invested in revitalization initiatives to its downtown area to foster economic development, which management indicates has helped fuel growth. The tax base is very diverse, and its values reflect the town's strong real estate and commercial and industrial base. Since 2018, taxable market values in Franklin have increased 23%, due in part to strong commercial and industrial development, along with general real estate appreciation. This has boosted property tax revenues while maintaining steady competitive tax rates.

The regional economy in Norfolk County is well-diversified, proving resilient amid the pandemic. The county unemployment rate has come down over the past few months as the economic recovery has taken hold. We note that the U.S. economy has cooled off and recent supply-chain disruptions, among other factors, have weakened national GDP forecasts. Nevertheless, our view is that the town's economy and tax base should remain stable, given its strength and diversity. For more information on S&P Global Economics' view, see "Economic Outlook U.S. Q2 2022: Spring Chills," published March 29, 2022, on RatingsDirect.

Strong budgetary monitoring and emphasis on capital planning highlight management's strengths

The town's financial policies emphasize structural balance in operations and maintenance of several stabilization accounts for general purposes and capital. The town reviews its policies at least every two years to ensure a policy framework for good financial management. Key management practices include monthly monitoring and reporting of budget-to-actual results and investment (earnings and holdings) performance monthly. The town also maintains a reserve policy that establishes a stabilization fund floor of $6 million, or 5% of recurring general fund revenue for its General Stabilization Account and a target floor of $2 million or 2% for its Budget Stabilization Account, which is used to manage short-term budget issues. Additionally, the town maintains a five-year financial forecast, that it will resume in 2023, after a brief pause immediate following the pandemic, and a five-year capital improvement plan that management updates annually with funding sources identified. The town's debt management policies are basic, but they include debt affordability guidelines that limit net general fund debt service to 3.5% of operating revenues (less debt exclusions and MSBA reimbursements).

Strong budgetary performance exhibited over the course of the pandemic improving reserves to its strongest levels ever

Budgetary performance has been strong, with the town producing four consecutive general fund surplus and another anticipated at the close of fiscal 2022. At the onset of the pandemic, the town implemented several cost-saving initiatives to preserve operating stability. It lowered its revenue estimates in several key areas and kept tight control of its operating budget. The town receives most of its general fund revenues from property taxes and intergovernmental aid, at 65% and 30%, respectively, and collections remained strong despite management's initial concerns.

The town had a bottom-line fiscal 2021 general fund surplus of approximately $3.1 million. The fiscal 2022 budget totals $138.1 million, and management states it's on track to produce another operating surplus, building on its historically high reserve balances. Notably, Franklin is receiving upward of $10 million in funds from the American Rescue Plan Act (ARPA), and the schools are benefiting from Elementary and Secondary School Emergency Relief (ESSER) funds, which should continue to provide support to operations over our outlook period. The town anticipates earmarking the stimulus funds for eligible infrastructure and economic development initiatives.

Management currently has no plans to spend down its available reserve balances, which have grown to $23.8 million, or a very strong 17.7% of expenditures. These balances include the town's general and capital stabilization accounts, along with smaller dedicated reserves which are in its general fund unassigned, assigned, and committed balances on a generally accepted accounting principles (GAAP) basis.

Future pensions costs will remain a budgetary pressure, given the low funded ratio of the county-administered plan. We note the town is actively managing these liabilities and mitigating this risk with stronger reserve balances, and through timely budget adjustments. Costs are currently manageable, and Franklin is funding the actuarially determined contributions (ADCs) and prefunding into OPEB.

Very strong debt and contingent liability profile and pension and OPEB liabilities are low and manageable

Following this issuance, we estimate the town will have about $82 million in net direct debt outstanding, and will have authorized, but unissued, debt totaling about $45.4 million for a variety of projects. Most of the projects are for water and wastewater infrastructure and payable from the town's enterprise accounts. While management will authorize additional debt over the next several years, based on current projections we do not expect material changes to its debt profile from current levels. Total governmental fund debt service is 4.7% of total governmental fund expenditures and net direct debt is 50.5% of total governmental fund revenue. Overall net debt is low, at 1.2% of market value, which is in our view a positive credit factor.

Pension and OPEB:

- We think Franklin's pension costs could increase over the longer term due to a below-average pension-funded ratio, although we note that historically annual retirement costs have been very affordable, including a total pension and OPEB expense of just 6.6% of total governmental expenses in fiscal 2021.
- We note the town's ADC is based on a 7.75% discount rate assumption, which is weak compared with our guidelines. This may result in the risk of unexpected contribution escalations if the equity market underperforms.

Franklin participates in the following pension and OPEB plans as of June 30, 2021:

- Norfolk County Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan: 70.2% funded ratio, with the town's net pension liability at $39.3 million.
- Town of Franklin OPEB plan, a single-employer, defined-benefit health care plan that provides medical, dental, and life insurance to eligible retirees; 12.3% funded ratio and a net OPEB liability of $69.6 million.

Franklin funds 100% of its ADC, and actual contributions exceeded our view of minimal funding progress, as well as static funding. The pension system is on target to achieve full funding by 2029; however, in our opinion, the plan's assumed long-term rate of return of 7.75% exceeds our 6.00% guidelines and could lead to contribution volatility.

For more on our view of the state's pension plans and recent reforms, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020.

The town established an OPEB trust that allows prefunding of future liabilities. In fiscal 2021, the town contributed $945,000 to the trust. The town's current OPEB trust balance is $10.2 million as of January 2022.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Franklin--Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very strong economy				
Projected per capita EBI % of U.S.	145			
Market value per capita ($)	183,836			
Population			33,936	33,633
County unemployment rate(%)			8.3	
Market value ($000)	6,238,648	5,774,083	5,582,137	5,273,780
Ten largest taxpayers % of taxable value	7.3			
Strong budgetary performance				
Operating fund result % of expenditures		2.4	0.0	0.8
Total governmental fund result % of expenditures		1.8	0.5	1.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		17.7	13.8	14.3
Total available reserves ($000)		23,835	18,369	18,350
Very strong liquidity				
Total government cash % of governmental fund expenditures		26	21	19
Total government cash % of governmental fund debt service		584	448	411
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.5	4.7	4.7
Net direct debt % of governmental fund revenue	39			
Overall net debt % of market value	1.2			
Direct debt 10-year amortization (%)	63			
Required pension contribution % of governmental fund expenditures		4.2		
OPEB actual contribution % of governmental fund expenditures		2.4		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

1000 Bishops Gate Blv. Ste 300
Mt. Laurel, NJ 08054-5404

t1.800.444.4554 Opt.2
f1.800.777.3929

March 28, 2022

Mr. Jamie Hellen, Administrator
Franklin
355 East Central Street
Franklin, Massachusetts, 02038

RE: Franklin, Norfolk County, Massachusetts
Public Protection Classification: 01/1X
Effective Date: July 01, 2022

Dear Mr. Jamie Hellen,

We wish to thank you and Mr. James McGlaughlin for your cooperation during our recent Public Protection Classification (PPC) survey. ISO has completed its analysis of the structural fire suppression delivery system provided in your community. The resulting classification is indicated above.

If you would like to know more about your community's PPC classification, or if you would like to learn about the potential effect of proposed changes to your fire suppression delivery system, please call us at the phone number listed below.

ISO's Public Protection Classification Program (PPC) plays an important role in the underwriting process at insurance companies. In fact, most U.S. insurers – including the largest ones – use PPC information as part of their decision- making when deciding what business to write, coverage's to offer or prices to charge for personal or commercial property insurance.

Each insurance company independently determines the premiums it charges its policyholders. The way an insurer uses ISO's information on public fire protection may depend on several things – the company's fire-loss experience, ratemaking methodology, underwriting guidelines, and its marketing strategy.

Through ongoing research and loss experience analysis, we identified additional differentiation in fire loss experience within our PPC program, which resulted in the revised classifications. We based the differing fire loss experience on the fire suppression capabilities of each community. The new classifications will improve the predictive value for insurers while benefiting both commercial and residential property owners. We've published the new classifications as "X" and "Y" — formerly the "9" and "8B" portion of the split classification, respectively. For example:

- A community currently graded as a split 6/9 classification will now be a split 6/6X classification; with the "6X" denoting what was formerly classified as "9."
- Similarly, a community currently graded as a split 6/8B classification will now be a split 6/6Y classification, the "6Y" denoting what was formerly classified as "8B."

- Communities graded with single "9" or "8B" classifications will remain intact.
- Properties over 5 road miles from a recognized fire station would receive a class 10.

PPC is important to communities and fire departments as well. Communities whose PPC improves may get lower insurance prices. PPC also provides fire departments with a valuable benchmark, and is used by many departments as a valuable tool when planning, budgeting and justifying fire protection improvements.

ISO appreciates the high level of cooperation extended by local officials during the entire PPC survey process. The community protection baseline information gathered by ISO is an essential foundation upon which determination of the relative level of fire protection is made using the Fire Suppression Rating Schedule.

The classification is a direct result of the information gathered, and is dependent on the resource levels devoted to fire protection in existence at the time of survey. Material changes in those resources that occur after the survey is completed may affect the classification. Although ISO maintains a pro-active process to keep baseline information as current as possible, in the event of changes please call us at 1-800-444-4554, option 2 to expedite the update activity.

ISO is the leading supplier of data and analytics for the property/casualty insurance industry. Most insurers use PPC classifications for underwriting and calculating premiums for residential, commercial and industrial properties. The PPC program is not intended to analyze all aspects of a comprehensive structural fire suppression delivery system program. It is not for purposes of determining compliance with any state or local law, nor is it for making loss prevention or life safety recommendations.

If you have any questions about your classification, please let us know.

Sincerely,

Alex Shubert

Alex Shubert
Manager -National Processing Center

cc: Mr. Doug Martin, Water Superintendent, Franklin, Town of
Mr. James McGlaughlin, Chief, Franklin Fire Department
Mr. Gary Primo, Director, Metacomet Communications Center