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Summary:

Franklin, Massachusetts; General Obligation

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Credit Profile		
US$3.8 mil GO land acquis bnds ser 2022 dtd 12/15/2022 due 12/15/2042		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Franklin, Mass.' $3.8 million series general obligation (GO) land acquisition bonds.
- The outlook is stable.

Security

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.

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.

Proceeds from the bonds will finance the acquisition of land.

Credit overview

Franklin has had consecutive operating surpluses, increasing reserves to very strong levels. The town did well managing through the pandemic. Reserves are at their strongest level ever, and management is projecting ongoing maintenance at these levels, even as it continues to work through its capital improvement plan (CIP) and despite the prospect of a recession. 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 benefit (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 unforeseen budgetary challenges; and
- Strong debt and contingent liability profile. 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.

Outlook

The stable outlook reflects strong budgetary performance and maintenance of very strong reserves. Franklin's very strong economy and broader participation in the Boston MSA also lend stability to its credit profile.

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 on Interstates 95 and 495, and the Massachusetts Turnpike is in proximity. It 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 back to pre-pandemic levels. With that said, S&P Global Economics now expects full-year U.S GDP growth of just 1.6% in 2022, and a mere 0.2% for 2023, with the likelihood of a recession. For more information on S&P Global Economics' view, see "Economic Outlook U.S. Q4 2022: Teeter Totter," published Sept. 26, 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. It 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 it uses to manage short-term budget issues. Additionally, Franklin maintains a five-year financial forecast, that it will resume in 2023 after a brief pause immediately following the pandemic, and a five-year CIP 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).

The institutional framework score for Massachusetts municipalities is strong.

Strong budgetary performance exhibited over the course of the pandemic improved reserves to their strongest levels ever

Budgetary performance has been strong, with the town producing four consecutive general fund surpluses and another anticipated at the close of fiscal 2022. At the onset of the pandemic, it 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 67% and 24%, 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 on a GAAP basis, and management anticipates another surplus for the close of fiscal 2022 of $4.3 million on a budgetary basis. Notably, Franklin still maintains unspent funds from the American Rescue Plan Act, 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 has been earmarking the stimulus funds for eligible infrastructure and economic development initiatives.

The fiscal 2023 budget totals $142.9 million, and management states it's on track to produce balanced operating results, maintaining its high reserve balances. 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 OPEBs.

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 $53.6 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 OPEBs

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

- Norfolk County Retirement System, a cost-sharing, multiple-employer, 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, it contributed $945,000 to the trust. The town's current OPEB trust balance was $10.2 million as of January 2022.

Franklin, MA -- 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

Franklin, MA -- Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Ten largest taxpayers % of taxable value	7.3			
Strong budgetary performance				
Operating fund result % of expenditures		2.4	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 (%)	61			
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.

Related Research

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