

RatingsDirect®

Summary:

Franklin, Massachusetts; General Obligation

Primary Credit Analyst:

Hilary A Sutton, New York (1) 212-438-7093; hilary.sutton@spglobal.com

Secondary Contact:

Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Franklin, Massachusetts; General Obligation

Credit Profile

US\$7.58 mil GO rfdg bnds ser 2016 dtd 06/09/2016 due 03/01/2028

Long Term Rating AA+/Stable New

Franklin GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Franklin, Mass.' general obligation (GO) refunding bonds. 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.

Officials plan to use bond proceeds to refinance the town's 2009 GO municipal purpose loan. The town's full faith and credit pledge, subject to limitations of Proposition 2 1/2, secures the bonds. 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.

The long-term rating reflects what we view as 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 deficit in the general fund but break-even results at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 10% of operating expenditures;
- Very strong liquidity, with total government available cash at 20.2% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 64.5% 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 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 145% of the national level and per capita market value of \$141,473. Overall, the town's market value grew by 5.3% over the past year to \$4.7 billion in 2016. The county unemployment rate was 5% in 2014.

Franklin is equidistant (approximately 28 miles) from Boston, Worcester, Providence and has access to I-95 and I-495

and 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 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 [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 a slight deficit in the general fund of 0.8% of expenditures, but a break-even result across all governmental funds in fiscal 2015. General fund operating results have been stable over the past three years, with a result of 1% in 2014 and 0.3% in 2013.

Management indicates fiscal 2016 will close with break-even results with no use of fund balance due to strong motor vehicle excise tax revenue. The fiscal 2017 general fund budget, which will be adopted in May, is expected to be structurally balanced. Property taxes made up about 61% of 2015's general fund revenue, followed by intergovernmental aid at 29%. Current-year collections remain what we view as strong, typically exceeding 99%, providing the town with a stable and predictable revenue source.

Strong budgetary flexibility

Franklin's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 10% of operating expenditures, or \$10.8 million.

Management currently has no plans to spend down its fund balance. We expect the fund balance to remain strong based on projected break-even results for fiscal 2016. The town made a one-time transfer in fiscal 2015 of \$914,000 to complete construction of the second story of a senior. The town council has adopted a policy of maintaining at least 5% of the general fund budget, or \$4.5 million in the general stabilization account.

Very strong liquidity

Franklin's liquidity is very strong, with total government available cash at 20.2% of total governmental fund expenditures and 3.4x governmental debt service in 2015. 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 consistently has had very strong liquidity, and we do not expect its position to change. The town does not have any liquidity risks from private-placement or direct-purchase obligations.

Strong debt and contingent liability profile

In our view, Franklin's debt and contingent liability profile is strong. Total governmental fund debt service is 5.9% of total governmental fund expenditures, and net direct debt is 64.5% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is in our view a positive credit factor.

Total direct debt is \$99 million. The town does not expect to issue any additional debt in the next two to three years.

Franklin's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.5% of total governmental fund expenditures in 2015. Of that amount, 2.9% represented required contributions to pension obligations, and 1.6% represented OPEB payments. The town made its full annual required pension contribution in 2015.

Franklin participates in a cost-sharing, multiple-employer, defined-benefit plan of the Norfolk County Contributory Retirement System. It contributed 100% of the annual required contribution in fiscal 2015. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 68, the town's share of the unfunded liability is about \$40.2 million and was 60% funded as of 2015. The town provides OPEB through its own plan. The unfunded OPEB liability is approximately \$89.1 million. The town has started contributing to an OPEB trust fund to partially fund this liability, establishing a balance of \$1.9 million in fiscal 2016. It plans to contribute \$650,000 to the trust in fiscal 2017. Franklin's combined pension and OPEB contribution in fiscal 2015 was about 4.5% of total governmental expenditures.

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 and strong budgetary flexibility. In addition, Franklin's very strong economy and access to the Boston MSA lend 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 Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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 11, 2016)		
Franklin GO sch bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Franklin GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.