

Franklin, Massachusetts

Primary Credit Analyst:

Victor Medeiros
Boston
(1) 617-530-8305
victor_medeiros@
standardandpoors.com

Secondary Contact: Henry W
Henderson
Boston
(1) 617-530-8314
henry_henderson@
standardandpoors.com

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Credit Profile

Franklin GO bnds

Long Term Rating

AA/Stable

Affirmed

Ratings Detail

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term rating, with a stable outlook, on Franklin, Mass.' outstanding general obligation (GO) bonds.

The rating reflects our view of the town's:

- Good location along the high-tech Interstate 495 Corridor with access to Boston by commuter rail and other regional employment centers,
- Very strong household income and below-average unemployment,
- Good financial position despite recent declines in reserves, and
- Low debt burden with rapid amortization and limited additional capital needs.

Franklin, with a population estimate of 31,780, is located about 28 miles from New England's largest cities: Boston; Worcester, Mass.; and Providence, R.I. Access to these employment centers has enhanced Franklin's desirability, boosting population growth and real estate values in the past decade. The primarily residential town has a sizable commercial and industrial base that accounts for 18.5% of assessed value (AV).

Franklin unemployment averaged 6.5% as of April 2011 and has historically been below commonwealth and national rates. We view household income levels as very strong, with median household effective buying income at 164% of the national level in 2010.

In our view, the property tax base is strong and very diverse despite recent declines. For fiscal 2011, the community's AV was \$4.1 billion, down 16% from its peak in 2007. The city's market value remains, in our opinion, extremely strong at \$126,000 per capita, mainly reflecting the town's strong real estate. Franklin has a median home value more than two times the national level.

In our opinion, Franklin's financial position remains strong despite recent revenue pressures. The city closed fiscal 2010 with an unreserved fund balance of \$2.9 million, or 2.9% of expenditures, and its stabilization accounts closed with a \$5.2 million balance. The town reported a combined available reserve of \$8.1 million, or 8.1% of general fund expenditures at the fiscal year-end.

For the current year, management sees revenues trending ahead of budget and projects that general fund expenditures, other than snow removal, will not exceed budget projections. Management expects general fund reserves to be in line with previous years.

In our opinion, the town will maintain good operating reserves heading into fiscal 2012. Most, if not all, revenues appear to be stabilizing, easing near-term budgetary challenges. The property tax levy, which we view as a stable revenue source, generates 53% of general fund revenues, while state sources generate about 40%. Current-year property tax collections remain healthy; the town has historically collected more than 99% of its current-year tax levy.

Standard & Poor's considers Franklin's financial management practices "good" under its Financial Management Assessment methodology, indicating that practices exist in most areas but governance officials might not formalize or regularly monitor all of them.

The town's overall debt is, in our opinion, a low \$1,718 per capita, or 1.4% of total market valuation. We consider amortization of principal above average, with officials retiring 65% of debt by 2018 and 100% by 2028. This is somewhat favorable given that the town's debt service carrying charge is low, in our view, at 6% of general fund expenditures.

Another credit consideration, however, is the town's long-term pension and other postemployment benefits (OPEB) liabilities. As of July 1, 2009, the OPEB unfunded actuarial accrued liability was \$79.9 million. In fiscal 2010, the annual required contribution was \$6.6 million (roughly 6.6% of general fund expenditures), and the city's payment was \$1.7 million, 26% of the annual OPEB cost.

The town participates in the contributory retirement system of Norfolk County. In 2010, it contributed \$3.4 million to the plan, or 3.5% of expenditures.

Outlook

We do not expect to revise the rating within the two-year parameter of the stable outlook because we believe management will make the necessary adjustments to produce balanced operations and maintain good reserves. In our opinion, the town's diverse property tax base and strong economic fundamentals contribute to the future stability of its property tax revenue.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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