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Summary: Franklin, MA; Tax Secured, General Obligation; Tax Secured, Note

Credit Profile

US\$36.36 mil BANs dtd 04/01/2005 due
03/28/2006 SP-1+
Sale date: 24-MAR-2005
US\$14.5 mil GO bnds dtd 03/15/2005 due
03/15/2025 AA
Sale date: 24-MAR-2005

AFFIRMED

\$31.245 mil. Franklin GO AA
\$9.925 mil. Franklin GO (FGIC) AAA/AA(SPUR)

OUTLOOK: STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AA' standard long-term rating, and stable outlook, to the town of Franklin, Mass.' GO bonds.

Standard & Poor's also assigned its 'SP-1+' short-term rating to the town's BANs.

The ratings reflect the town's:

- Above-average wealth and income levels;
- Advantageous location along the High-Tech Interstate 495 Corridor with accessibility by commuter rail to Boston, Mass;
- Consistently strong financial performance and position with more than 20% of 2003 operating expenses undesignated or set aside in a stabilization fund; and
- Moderate and manageable debt profile.

The town's full faith and credit pledge secures the bonds and notes.

Franklin, with a population of about 30,000, is centrally located about 28 miles from New England's three largest cities: Boston; Worcester, Mass.; and Providence, R.I. Access to these employment centers has contributed to Franklin's population growth and strong real estate market. The town's population has increased by 33% since 1990, out-pacing the commonwealth's growth of an average 5.5% over the same period. The town controls growth pressures by limiting new housing permits to 100 annually. Although student school enrollments have increased by 17% over the past five years, town officials have projected slower enrollment growth; and capacity will be handled by ongoing school construction projects. In fiscal 2004, Franklin's median housing prices were a high \$399,900 with new-home construction typically beginning at roughly \$450,000. The property tax base is split 78% residential and 19% commercial and industrial. Total assessed valuation reached \$4.3 billion in fiscal 2005 following a full revaluation, up a strong 74% over fiscal 2001 valuation. Market value is a high \$148,579 per capita. With its residents' access to Boston and the High-Tech I-495 Corridor, town unemployment remains below commonwealth and national averages; the 2003

unemployment average was 4.7%. Wealth and income levels are also a credit strength. Median household effective buying income is 133% of the commonwealth's average and 160% of the nation's average.

Outlook

The stable outlook on the long-term rating reflects the expectation that the town's financial performance will remain strong and that its debt burden will remain manageable.

Finances/Debt

Finances

Experienced fiscal management and conservative budgeting practices have contributed to Franklin's consistent financial performance. Fiscal 2004 (draft audit results) closed with a slight operating surplus -- the town's third consecutive positive operating result. The unreserved general fund increased to \$6.5 million, or 9% of total operating expenditures. At 7% of expenditures, reserve levels have consistently been above the town's fund balance policy. Over the past five years, management has maintained an average unreserved general fund average balance equal to 11% of expenditures. The town's large stabilization fund, with a fiscal 2004 balance of \$9.3 million, or an additional 13% of operating expenditures, provides further flexibility. The stabilization fund's five-year average balance exceeds 9%. Combining the two, total available reserves have averaged close to 20% of expenditures. Franklin relies on property taxes for about 52% of its general fund revenues while state aid accounts for 38%. Strong tax collections of more than 100% of the total levy, which are among the commonwealth's highest collections, support property tax revenues, providing the town with a stable, growing revenue source. Fiscal 2005 is on track to close with another projected positive operating result.

Debt

Net of state school construction aid, for which the town receives a 69% reimbursement, Franklin's debt burden is moderate. Overall net debt is \$1,659 per capita, or a low 1% of total market value. Debt service expenditures accounted for a moderate 8% of total operating expenditures in fiscal 2004. Amortization of existing debt is rapid with 67% of principal outstanding being retired over 10 years. The town has issued \$55.4 million of BANs to finance the construction of two elementary schools; the town has voted to exempt the notes from the limits of Proposition 2 1/2. Of the bonds being issued, roughly \$7.3 million is to permanently finance the Keller-Sullivan new school construction project. The town will receive a \$13.6 million grant from the Massachusetts School Construction Authority (MSBA) on March 30, 2005, representing 75% of the original MSBA grant. Management will use bond proceeds, the expected grant, and \$4.56 million of BANs being concurrently issued to retire \$25.00 million of BANs originally issued for the Keller-Sullivan project. Officials will use the remaining amount of BANs being issued to finance the Horace Mann school construction project. Management expects MSBA grants and long-term financing to take place in fiscal 2006. Since undertaking two large school construction projects, Franklin's future capital needs are limited and might include a new fire station and high school renovations.

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