

Summary:

Natick Town, Massachusetts; General Obligation; Note

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Credit Profile		
US\$5.447 mil GO mun purp loan of 2010 bnds dtd 06/15/2010 due 06/15/2020		
<i>Long Term Rating</i>	AAA/Stable	New
US\$3.25 mil BANs dtd 06/30/2010 due 06/15/2011		
<i>Short Term Rating</i>	SP-1+	New
Natick Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to the town of Natick, Mass.' general obligation (GO) municipal-purpose loans of 2010 and its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs), which it is selling concurrently with the bonds.

Standard & Poor's also affirmed its 'AAA' long-term rating, with a stable outlook, on the town's existing GO debt.

The short-term rating reflects the town's underlying credit quality and demonstrated access to credit markets, evidenced by previous note borrowings.

The bond authorization includes the ability to issue these notes and the long-term bonds necessary to repay the notes at maturity.

In our opinion, the long-term rating reflects the town's:

- Stable local economy with a sound commercial and retail base, coupled with access to the broader employment bases in the Boston area;
- Favorable unemployment averages and very strong income levels;
- Extremely strong market value per capita;
- Good management policies and continued strong reserves despite a reduction in available reserves; and
- Low debt burden, net of self-supporting enterprise funds, with a rapid amortization schedule.

Natick, with a population estimate of 31,921, is located along Interstate 95, approximately 18 miles west of Boston. The town is primarily a residential community with a sound commercial and industrial base. Natick's local economy is concentrated in retail trade (32% of local employment), professional business services (20%), and education health services (17%). The town is home to:

- MathWorks Inc. (1,900 employees);
- U.S. Army Natick Research and Engineering Center (1,300); and
- Natick Collection (1,200), one of the larger retail centers in the New England area.

In addition, the town enjoys good access to a diverse mix of employers located along I-95, as well as through a commuter rail directly to downtown Boston. While rising during the national recession, unemployment, at 6.2% as of March 2010, remains below commonwealth and national rates. Moreover, household income levels, measured by median household effective buying income, are a very strong 155% of the national level.

Natick's property tax base is sizable with total assessed value (AV) at \$6.5 billion. The tax base is stable and diverse with the 10 leading taxpayers accounting for 11% of AV. Full market value is an extremely strong \$204,490 per capita, which we believe reflects the town's strong real estate values and sizable commercial and industrial base that is 20% of AV. The 2008 median home value was 249% of the national level.

In fiscal 2009, unreserved fund balances were, what we consider, a good \$8.1 million, or 7.4% of expenditures, up from \$7.2 million, of 6.9%, in fiscal 2008. The town closed fiscal 2010 with a separate stabilization fund, which provides additional operating flexibility, with a \$2.8 million balance. Overall, the unreserved general and stabilization fund balances were a combined \$10.9 million, or, in our opinion, a strong 10% of operating expenditures.

With one month remaining in fiscal 2010, management is projecting break-even operations at fiscal year-end and the stabilization fund to close with a similar balance. The 2011 budget totals \$106.9 million, a 2.9% increase over the 2010 budget. The budget includes a \$1.6 million appropriation to the stabilization fund to boost reserves. The local property tax, which accounts for 66% of total revenues, is the town's leading revenue source. The town bills property taxes quarterly; and current-year collections remain strong, typically exceeding 98%-99% of the levy. Moreover, Natick's operations are not overly susceptible to state aid cuts since the town derives roughly 21% of general fund revenues from intergovernmental sources.

Standard & Poor's considers Natick's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include a strong focus on financial and capital planning, evidenced by the town's five-year capital plan, which it reprioritizes annually; the capital plan is tied to a five-year financial plan that identifies trends under differing scenarios. Management performs conservative revenue and expenditure assumptions and makes quarterly reports to elected officials on budget performance. The town lacks a formal reserve policy; nevertheless, Natick's internal goal is to maintain overall reserves, both unreserved fund balance and the stabilization fund, close to 10% of expenditures. The town also lacks a formalized debt management policy.

In our view, Natick's debt position is favorable. After factoring in self-support to the town's water and sewer debt, overall net debt is a low \$1,330 per capita, or less than 1% of market value. The town maintains an above-average amortization schedule with officials planning to retire 90% of principal by 2020 and 100% by 2027. Projections have the debt service carrying charge remaining low-to-moderate at roughly 8% of expenditures.

Following this bond issue, the town will have roughly \$104 million of authorized, but unissued, debt remaining. Officials plan to issue the majority of the bonds for a new high school at a cost of \$88.9 million. The town is eligible to receive a 53% grant from Massachusetts School Building Authority for all construction costs. The town will also seek to construct a community center for \$12 million. These projects have all been excluded from Proposition 2 1/2 levy limits. Town officials plan to begin borrowing for these projects in 2011–2012.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's view that management should remain proactive and make the necessary adjustments to yield balanced results, as it has recently demonstrated, despite potential declines in revenues more sensitive to economic conditions. In our opinion, we believe the town's large and diverse property tax base should provide stability to property tax revenues, which are the town's leading revenue source. The town currently maintains a strong reserve position, which, in our view, should provide operating flexibility to manage through the near future. Moreover, we believe the electorate's record of approving operating Proposition 2 1/2 overrides, which it did last in 2009, indicates a willingness to support long-term budgetary growth.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Short-Term Debt, June 15, 2007

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