

Summary:

Natick Town, Massachusetts; General Obligation

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Credit Profile		
US\$57.820 mil GO bnds ser 2011 due 06/15/2031		
<i>Long Term Rating</i>	AAA/Stable	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 2011 bonds and affirmed the 'AAA' long-term rating, with a stable outlook, on the town's existing GO debt.

The long-term rating reflects our opinion of 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; and
- Low debt burden, net of self-supporting enterprise funds, with a rapid amortization schedule.

The GO bonds are secured by the town's full faith and credit pledge. About 60% of the town's GO is excluded from the Proposition 2 1/2 levy limits, per an authorization vote by the electorate. This new issue will be used primarily for high school construction costs.

Natick, with a population estimate of 33,000, 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 major employers are:

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

In addition, the town has good access to a diverse mix of employers located along I-95, as well as through a commuter rail line directly to downtown Boston.

We view other measures of the town's economy also to be strong. While rising during the national recession, unemployment, at 5.1% as of February 2011, remains below commonwealth and national rates. Moreover, household income levels, measured by median household effective buying income, are a very strong 156% of the national level.

Natick's property tax base is large, with total assessed value (AV) at \$6.32 billion after a 4% decline for fiscal 2011. The tax base is diverse with the 10 leading taxpayers accounting for 12% of AV. Per capita market value is an extremely strong \$192,000, which we believe reflects the town's strong real estate values and sizable commercial and industrial base that is 20% of AV.

In fiscal 2010, the town's unreserved fund balance was \$10.0 million, or 9.4% of expenditures, which we consider to be strong. The unreserved fund balance includes a \$2.9 million stabilization fund, and that fund requires a two-thirds legislative vote to transfer funds in or out. For fiscal 2011, management projects that the unreserved fund balance will end at least breakeven, despite about \$800,000 of overexpenditures for snow removal. The fiscal 2012 budget appropriates about \$2.0 million of fund balance, primarily for capital projects, but management estimates that this fund balance usage will be recouped due to conservative budgeting, based on historical results. The local property tax, which accounts for 70% of general fund 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 because the town derives approximately 20% 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.

As of Jan. 1, 2008--the latest available data--the town's pension system was 69% funded, with a \$40.4 million unfunded liability. The pension fund is currently scheduled to be fully funded by 2028, although officials are considering extending the liability to lessen the impact of recent investment losses on annual contributions. The state recently allowed communities to extend the full funding date to 2040, although Natick officials do not expect to extend the funding date that far. The town's other postemployment benefit (OPEB) plan as of Jan. 1, 2008, had an unfunded liability of \$111.7 million, and no trust fund has been established. The annual OPEB cost in fiscal 2010 was \$11.5 million, of which the town's pay-as-you-go payment was equal to only 30%.

In our view, Natick's debt position is moderate, when this current, relatively large issue is included. After factoring in self-support to the town's water and sewer debt and state support of some of its school debt, overall net debt is 1.4% and \$2,600 per capita. The town maintains an above-average amortization schedule with officials planning to retire 70% of principal in 10 years and 100% in 20 years. The fiscal 2010 debt service carrying charge was 6% of general fund expenditures. This issue will be used to complete the construction of a new high school and a community center, which are the town's largest capital needs. Following this issue, the town's projected future tax-levy debt needs are minimal, primarily for road maintenance.

Outlook

The stable outlook on the long-term rating reflects the town's strong economic metrics and financial position. Natick's tax base provides what we view as a strong source of general fund revenues, which we expect to continue. Due to this expected continued strength, we do not expect the rating will change within the two-year horizon of the stable outlook. Over the long term, however, the rating could be pressured if the funding needs for the unfunded portions of long-term unfunded liabilities such as pension and OPEB become a significantly larger part of the town's budget, or if these unfunded liabilities continue to grow significantly and officials do not introduce a plan to address them.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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