

Natick, Massachusetts

Credit Profile

US\$3.52 mil GO BANs dtd 06/30/2009 due 06/30/2010

Short Term Rating	SP-1+	New
-------------------	-------	-----

Natick GO

Long Term Rating	AAA/Stable	Affirmed
------------------	------------	----------

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Natick, Mass.' general obligation (GO) bond anticipation notes (BANs) and affirmed its 'AAA' long-term rating, with a stable outlook, on the town's existing GO debt.

The 'SP-1+' rating is based on the town's underlying credit quality and demonstrated access to credit markets. The town is issuing these notes to finance various town capital improvement projects; and the notes are a GO of the town, subject to its full faith and credit payment of principal and interest. According to state statutes, the bond ordinance, approved and voted on, authorizes the BAN issuance and the issuance of the bonds necessary to take them out, most likely when the notes come due on June 30, 2010.

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 of \$216,000 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, and moderate near-term capital needs.

Primary Credit Analysts:

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

Secondary Credit Analysts:

Karl Jacob
New York
(1) 212-438-2111
karl_jacob@
standardandpoors.com

*RatingsDirect
Publication Date*

June 12, 2009

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. Unemployment, while rising during the national recession, at 5.2% as of April 2009, remains below commonwealth and national rates. Moreover, household income levels, measured by 2008 median household effective buying income, are a very strong 161% of the national level.

Natick's property tax base is sizable with total assessed value (AV) at \$6.5 billion and a state equalized valuation of \$6.9 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 \$216,000 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.

Despite a recent planned reduction in available reserves due, in part, to the recession, Natick's financial performance and position remain strong. The town's financial position has been strong over the past five fiscal years with ending unreserved general fund balances ranging between 12% and 14% of expenditures. More recently, audited results for fiscal 2008 indicate a \$4.7 million ending unreserved general fund balance reduction closing the fiscal year with a \$7.2 million balance, or roughly 7% of expenditures. Management planned the reduction to help fund expenditure growth in education and the public works department. A separate stabilization fund, which provides additional operating flexibility, has been stable with no sizable reductions; this fund closed fiscal 2008 with a \$3.4 million balance. Overall, the unreserved general fund and stabilization fund balances were a combined \$10.6 million, or, in our opinion, a strong 10% of operating expenditures.

For fiscal 2009, the town's electorate approved a \$3.9 million Proposition 2 1/2 override to provide balance between recurring and nonrecurring expenditures. It is our opinion the electorate's willingness to authorize additional property tax revenues beyond Proposition 2 1/2 constraints is a long-term credit strength, indicating the town's ability to pay for general services and capital improvements when needed. While the town faced a challenging year because certain revenues came in less than budgeted, in particular those more sensitive to economic conditions, it is our understanding management has made the expenditure cuts needed to yield balanced operating results. While we believe there might be some further declines in operating reserves, as the town manages them down to offset revenue reductions during the recession, the town remains fundamentally in a favorable operating position.

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.

Based on a review of several key financial practices, 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 improvement 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 reports on budget performance to elected officials quarterly. The town lacks a formal policy on reserve levels. Nevertheless, Natick's internal goal is to maintain overall reserves (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 also favorable. After factoring in self-support to the town's water and sewer debt and state support for the town's schools, overall net debt is a low \$1,227 per capita, or less than 1% of market value. The town maintains an above-average amortization schedule with officials retiring 86% of principal by 2019 and 100% by 2027. Projections have the debt service carrying charge remaining low-to-moderate at roughly 8% of expenditures. Additional capital needs are limited; the town continues to explore the possibility of a new high school, but its plans remain preliminary.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's view that management will 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 recession for the near future. Moreover, we believe the electorate's record of approving Proposition 2 1/2 overrides indicates a willingness to support long-term budgetary growth. Currently, the town's additional capital needs are modest and not a credit concern due to its current net debt burden.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Short-Term Debt," June 15, 2007

■

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2009 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 800-852-1641 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280; or by e-mail to: research_request@standardandpoors.com.

The McGraw-Hill Companies

■