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Summary:

Natick Town, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$92.32 mil GO mun purp loan bnds ser 2018 due 09/01/2038		
<i>Long Term Rating</i>	AAA/Stable	New
Town of Natick GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Town of Natick GO mun purp ln of bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Natick, Mass.' series 2018 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

We rate Natick higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario due to its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2017, local property taxes generated 73% of general fund revenue, demonstrating a lack of dependence on central government revenue. (For further information, please see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

Officials intend to use series 2018 bond proceeds, totaling approximately \$92 million, to finance existing bond anticipation notes of \$7.4 million permanently and fund various projects townwide.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the GO debt. Despite commonwealth levy-limit laws, we did not make a rating distinction between Natick's limited-tax-GO pledge and general creditworthiness because our analysis of its financial and economic conditions already includes the tax limitation imposed on its revenue-raising ability.

The rating reflects our opinion of Natick's extremely strong property tax base that continues to grow within the Boston metropolitan statistical area (MSA), supporting continued positive budgetary performance that has led to improved reserves. The town has a manageable debt profile, in our view, with no significant debt plans. We think Natick's long-term liabilities will likely remain a credit risk due to low funding ratios for its pension plan and other postemployment benefits (OPEB).

Additional rating factors include our opinion of Natick's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment

(FMA) methodology;

- Strong budgetary performance, with an operating surplus in the general fund and breakeven operating results at the total governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with available fund balance in fiscal 2017 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 30% of total governmental-fund expenditures and 5.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 99.7% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and OPEB obligation; and
- Strong institutional framework score.

Very strong economy

We consider Natick's economy very strong. The town, with an estimated population of 36,402, is in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 178% of the national level and per capita market value of \$226,059. Overall, market value has grown by 6.8% during the past year to \$8.2 billion in fiscal 2018. The county unemployment rate was 3% in 2017.

The primarily residential Natick is approximately 18 miles from Boston in the Greater Boston area. The town's established local economy has experienced steady growth over the years. The tax base is 77.6% residential and 20% commercial and industrial. Assessed value (AV) is \$8.2 billion in fiscal 2018, and officials are projecting AV will continue to grow. Mathworks, which operates MATLAB, is the town's leading employer and a software developer that has recently expanded its Lakeside campus; the company expects to add an estimated 700-1,000 jobs over time. Natick commits to targeted and sustainable economic development to ensure the future of its strong commercial and industrial tax base.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include management's:

- Conservative budgeting,
- Strong budgetary monitoring, and
- Long-term financial and capital plans.

Management submits quarterly reports on budget-to-actual results to the board of selectmen with adjustments made when needed. The town performs a five-year forecast for all long-term financial needs. Management maintains a five-year capital improvement plan that it updates semiannually and that identifies funding sources for each project. The town has adopted commonwealth guidelines for its investment policy. Management provides the board with quarterly treasurer's reports on holdings through an annual audit.

Natick maintains its own formal debt and reserve policies under its financial-management principles. The reserve policy calls for maintaining a minimum general-stabilization-fund balance at 2% of revenue with a target of 5%.

Strong budgetary performance

Natick's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 4.6% of expenditures and balanced results across all governmental funds of 0.2% of expenditures in fiscal 2017. General fund operating results have been stable during the past three fiscal years, with 3.2% of expenditures in fiscal 2016 and 3% in fiscal 2015.

We adjusted fiscal 2017 audited general fund and total governmental-funds operating results for recurring and one-time transfers and bond proceed usage. In fiscal 2017, revenue exceeded budgeted expectations for new taxable growth, coupled with motor-vehicle-excise-tax and building permit revenue.

Management is projecting a surplus at fiscal year-end 2018 in-line with previous years due to increased revenue and strong collections. The adopted fiscal 2019 budget totals \$161.3 million, a 4.6% increase over fiscal 2018. We expect budgetary performance will likely remain strong due to historical performance and consistently conservative budgeting.

Very strong budgetary flexibility

Natick's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2017 of 24% of operating expenditures, or \$34.2 million.

Available funds include assigned, unassigned fund balances and a variety of stabilization funds within and outside the general fund that management could make available for general operations. The town expects to maintain, if not grow, available reserves and refrain from using stabilization funds. With conservative financial practices and practical reserve maintenance, we think budgetary flexibility will likely remain very strong.

Very strong liquidity

In our opinion, Natick's liquidity is very strong, with total government available cash at 30% of total governmental-fund expenditures and 5.1x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

Natick regularly accesses the bond market by frequently issuing debt, demonstrating its strong access to external liquidity. We also believe Natick's liquidity profile is conservative with no high exposure to refinancing risk, debt, or other potential obligations that could pose liquidity risk. Therefore, we expect liquidity will likely remain very strong during the next two fiscal years.

Adequate debt-and-contingent-liability profile

In our view, Natick's debt-and-contingent-liability profile is adequate. Total governmental-fund debt service is 5.9% of total governmental-fund expenditures, and net direct debt is 99.7% of total governmental-fund revenue. Overall net debt is low at 2.1% of market value, which is, in our view, a positive credit factor.

Subsequent to this issue, Natick will have \$174 million of direct debt outstanding. Within the next two years to three years, officials currently plan to issue between \$4 million and \$5 million of additional debt for projects; while we have

incorporated this into our view of the debt profile, we do not expect it to have a material effect on overall debt.

In our opinion, Natick's large pension and OPEB obligation is a credit weakness. Natick's combined required pension and actual OPEB contribution totaled 8.1% of total governmental-fund expenditures in fiscal 2017: 5.1% for required contributions to pension obligations and 3% for OPEB payments. The town made its full annual required pension contribution in fiscal 2017. The largest pension plan's funded ratio is 59.6%.

Natick contributes to Natick Contributory Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about \$86.5 million with 59.6% funding in fiscal 2017 based on an assumed rate of return of 7.375%. Due to the low funded ratio, we think contributions will likely continue to increase during the next few fiscal years.

Natick also provides OPEB to retirees. At July 1, 2016, the most recent actuarial valuation, management reported a \$168 million OPEB liability. Natick has traditionally funded OPEB through pay-as-you-go financing. It paid \$4.9 million, or 3% of expenditures, which was 36% of the annual required contribution, in fiscal 2017. The town established an OPEB trust fund in fiscal 2011 to finance this liability. As of fiscal 2017, the trust fund balance was \$3.26 million. Officials have appropriated \$441,723 for the trust fund in fiscal 2019.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion Natick will likely maintain very strong reserves, supported by strong management practices. We believe Natick's participation in the broad and diverse Boston MSA lends additional rating stability. Therefore, we do not expect to change the rating within the outlook's two-year period.

However, we note rising pension costs related to weak funding of the pension plan could pressure the debt-and-contingent-liability profile. For now, however, budgetary performance and flexibility remain unaffected by those long-term liabilities due largely to very strong management and budgetary flexibility. If management were to draw down reserves to maintain balanced operations due to this pressure, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

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