

RatingsDirect®

Summary:

Natick (Town Of), Massachusetts; General Obligation; Note

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Credit Profile

US\$4.715 mil GO mun purp loan bnds ser 2016 due 11/01/2035

Long Term Rating AAA/Stable New

Town of Natick GO

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating and stable outlook to the Town of Natick, Mass.' series 2016 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the town's existing GO debt

Standard & Poor's also affirmed its 'SP-1+' short-term rating on the town's GO bond anticipation notes (BANs).

We rate the town higher than the nation because we believe it can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention (for further information, please see the article, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect). In fiscal 2015, local property taxes generated 70% of general fund revenue, which demonstrated a lack of dependence on central government revenue.

The short-term rating reflects our criteria for evaluating and rating BANs. Based on our measures, we believe Natick shows a very strong ability to meet principal and interest payments when the BANs come due. The town has the legal authorization to take out the BANs with long-term GO bonds, and it has proven access to capital markets.

Natick's full-faith-and-credit-GO pledge, subject to the limitations of Proposition 2 1/2, secures the bonds and BANs. Officials intend to use bond and note proceeds to fund a variety of municipal purposes.

The rating reflects our opinion of the following factors for the town, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 29% of total governmental fund expenditures and 4x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 49.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 77.9% of debt scheduled to be retired within 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider Natick's economy very strong. The town, with an estimated population of 35,523, 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 172% of the national level and per capita market value of \$207,069. Overall, the town's market value grew by 5.3% over the past year to \$7.4 billion in 2016. The county unemployment rate was 4.6% in 2014.

A primarily residential community, Natick is approximately 18 miles from Boston and considered part of the Greater Boston area. The town has an established local economy with steady growth over the years. The property tax base is 77.6% residential and 22.4% commercial and industrial. Assessed value (AV) reached \$7.4 billion in fiscal 2016, and officials are projecting AV will continue to grow. Recently, Natick invested in a master plan as a way to ascertain what its residents want as far as economic development within the community.

Very strong management

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

Natick's management highlights include its:

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

Management submits quarterly reports on budget-to-actual results to the board with adjustments made when needed. The town performs a five-year forecast for all long-term financial needs. The town maintains a five-year, annually updated capital improvement plan that identifies funding sources for each project. The town has adopted state guidelines for its investment policy, with holdings reports prepared quarterly by the treasurer and reported to the board via annual audit.

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

Strong budgetary performance

Natick's budgetary performance is strong in our opinion. The town had operating surpluses of 4% of expenditures in the general fund and 1.9% of expenditures across all governmental funds in fiscal 2015.

Natick's budgetary performance should remain strong due to management's consistent conservative budgeting practices. In fiscal 2015, revenue exceeded budgeted expectations by roughly \$2.2 million; management attributes this

to its underbudgeting of the local meals and hotel tax, along with strong tax title collections. The town also approved an increase to its snow-and-ice budget to \$550,000 from \$100,000, which will give Natick less need to appropriate surplus revenue.

For fiscal 2016, Natick has already reached 100% of local receipts; it is projecting an excess of about \$2 million in revenue at fiscal year-end. Expenditures have been performing at about 61% of budgeted amounts. For fiscal 2017, officials report the town has submitted a balanced budget. The fiscal 2017 budget, which received unanimous approval from all departments, includes a similar amount of appropriations of surplus revenue.

Very strong budgetary flexibility

Natick's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 20% of operating expenditures, or \$25.8 million.

Available funds include assigned and unassigned fund balances, along with a variety of stabilization funds within and outside the general fund, which could be made available for general operational use. The town expects to maintain, if not grow, available reserves and refrain from using stabilization funds. With conservative financial practices and a practical maintenance of reserves, we believe 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 29% of total governmental fund expenditures and 4x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

The town regularly accesses the bond market by frequently issuing debt, supporting 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 a risk to its liquidity profile.

Very strong debt and contingent liability profile

In our view, Natick's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.2% of total governmental fund expenditures, and net direct debt is 49.9% of total governmental fund revenue. Overall net debt is low at 1% of market value, and approximately 77.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Subsequent to this issue, Natick will have \$86.4 million of direct debt outstanding. Within the next two years to three years, the town plans to issue \$3.2 million in debt as part of its upcoming middle school construction project. The entire project is estimated to cost about \$90 million, with an expected 49% reimbursement from the Massachusetts School Building Authority.

In our opinion, a credit weakness is Natick's large pension and OPEB obligation. Natick's combined required pension and actual OPEB contribution totaled 7.2% of total governmental fund expenditures in fiscal 2016. Of that amount, 4.9% represented required contributions to pension obligations, and 2.3% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2016. The funded ratio of the largest pension plan is 59%.

The town contributes to the Natick Contributory Retirement System. The plan has a net pension liability of \$79.6

million as of June 30, 2015; Natick plans to fund the plan in full by fiscal 2030. The town also provides OPEB to eligible retired employees. Its OPEB plan has an unfunded liability of \$125.1 million as of July 1, 2014. The town established an OPEB trust fund in fiscal 2011 to finance this liability. As of June 30, 2015, the trust fund balance was \$702,932.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's opinion of Natick's strong financial performance, enhanced by the town's very strong management conditions, and very strong economy. Therefore, we do not expect to change the rating within our two-year outlook period. However, we could lower the rating if operating performance were to weaken, leading to reserves falling below 15% of expenditures, or if the town were to fail to adhere to current management practices and financial policies.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of April 12, 2016)

Town of Natick GO mun purp ln of bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Town of Natick GO BANs due 06/16/2016		
<i>Short Term Rating</i>	SP-1+	Affirmed

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