

# RatingsDirect®

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## Summary:

# Town of Natick, Massachusetts; General Obligation

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### Credit Profile

US\$12.5 mil GO bnds ser 2014 due 06/04/2034

<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

Standard & Poor's Ratings Services assigned its 'AAA' rating to 'Town of Natick, Mass.' series 2014 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the town's GO debt. The outlook is stable.

The rating reflects our view of the town's:

- Very strong economy, aided by its participation in the broad and diverse Boston-Cambridge-Newton metropolitan statistical area (MSA);
- Very strong management;
- Strong budgetary flexibility;
- Very strong liquidity;
- Strong budgetary performance;
- Very strong debt and contingent liabilities profile; and
- Strong institutional framework.

The town intends to use just under half of the series 2014 GO bond proceeds to refund, on a current basis, the remaining balance outstanding on the issuer's \$12.64 million 2004 debt. The remainder of the 2014 bond proceeds will be used to finance various municipal projects and renovations.

The bonds are supported by the town's GO pledge and are to be paid from taxes levied on all taxable property within the town.

### Very strong economy

Natick is located in Middlesex County, less than 25 miles west of Boston. Its 2012 estimated population is 33,760, exceeding the town's 2010 population count by 2.3%. We view Natick's local economy as very strong, with projected per capita effective buying income at 183% of the national average, and an approximate \$194,700 per capita market value. According to the U.S. Department of Commerce, Natick's median family income was \$118,527 in 2012,

comparing favorably to the commonwealth's \$84,380 during the same period. We attribute the higher income in part to the town's level of achieved higher education: according to the Department of Commerce, the most recent percentage of town residents with bachelor's degrees is 63%, well above the commonwealth's 39%.

After a town-wide reassessment in 2013, equalized value stood at \$6.58 billion, down 4.8% from three years prior. According to the U.S. Bureau of Labor Statistics, Middlesex County's 2013 unemployment rate was 5.6%. Natick's unemployment rate, by contrast, is more favorable. For the three most recent years, the town's average annual unemployment rate was 5.0% or lower. As of March 2014, the Massachusetts Executive Office of Labor and Workforce Development lists a 4.2% unemployment rate for Natick, comparing favorably to the commonwealth's and nation's 6.6% and 6.8%, respectively, for the same period. Residents benefit, in our view, from the town's participation in the Boston-Cambridge-Newton MSA. We consider this a credit strength and a contributing factor to the low unemployment levels.

### **Very strong management**

Natick's management conditions are, in our view, very strong, with strong financial practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight of budget-to-actual results during the year, and a long-term financial plan.

### **Strong budgetary flexibility**

With available reserves at 12.2% of operating expenditures in fiscal 2013, we view Natick's budgetary flexibility as strong. This is in line with 2012 and 2011 results, which were 13.50% and 9.1%, respectively. Year-to-date projections for 2014 show a slight increase in reserves.

### **Very strong liquidity**

In our view, very strong liquidity supports Natick's finances, with total government available cash at 27% of total governmental fund expenditures and at 4x debt service. Based on past debt issuance, we believe the issuer has strong access to capital markets to provide for liquidity needs, if necessary

### **Strong budgetary performance**

We view Natick's budgetary performance as strong overall, with 0.2% and 0.7% surpluses for the general and total governmental funds, respectively, in fiscal 2013. Based on year-to-date results, we see no indication that results for 2014 will be significantly different. Property taxes have consistently represented the town's largest revenue source, at approximately 71% of yearly revenue over the past three fiscals. Collections have been high, averaging over 100% (inclusive of prior-year collections). Tax abatements, which were a negligible 1.2% in 2010, further subsided to about half of 1% in fiscal 2013.

### **Very strong debt and contingent liabilities profile**

We view Natick's debt and contingent liabilities profile as very strong. Net direct debt to total governmental funds revenue and total governmental funds debt service to total governmental fund expenditures is 52.6% and 6.9%, respectively. Positive credit factors include rapid amortization, with approximately 76% of debt due to be repaid over 10 years, and 1.3% net debt to market value, which we consider low. Last year, Natick made 100% of its annual

required pension contribution (ARC). The town's combined ARC and other post-employment benefits obligation accounted for 7% of all fiscal 2013 total government expenditures. Additionally, we understand town residents have voted to exclude debt service on \$53 million in outstanding bonds from the municipality's Proposition 2½ levy limits.

### **Strong institutional framework**

We consider the institutional framework score for Massachusetts municipalities to be strong.

## **Outlook**

The stable outlook reflects our view of the town's very strong credit components, including both financial and economic factors. Participation in the broad and diverse Boston-Cambridge-Newton MSA, in our opinion, further stabilizes the aforementioned factors. As a result, we believe the town has the wherewithal to withstand certain stresses should they occur. We expect the tax base to remain strong, allowing maintenance of reserves at a level consistent with a 'AAA' rating. We do not expect to lower the rating within the two-year outlook period.

## **Related Criteria And Research**

### **Related Criteria**

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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