

RatingsDirect®

Summary:

Natick, Massachusetts; General Obligation

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Credit Profile

US\$12.356 mil GO mun purp loan bnds ser 2013 dtd 06/01/2013 due 04/15/2033

<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' long-term rating to Natick, Mass.' series 2013 general obligation (GO) municipal purpose loan bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

The ratings reflect our view of:

- The town's proximity to and participation in the Boston metropolitan statistical area (MSA),
- The very strong income levels,
- The extremely strong wealth levels,
- The strong reserve levels, and
- The low debt to market value.

We understand a majority of the series 2013 proceeds will be used to fund various municipal projects, and approximately \$1.5 million will be used to refund prior town debt. These are GO bonds, to be paid from taxes levied on town property, albeit subject to certain limitations.

According to the U.S. Department of Commerce, Natick's population of 33,349 (as of fiscal 2011) is up 1% over the corresponding figure one year prior and 3.6% higher than the 2000 population count. Natick is located approximately 20 miles west of Boston, and town residents have easy access to employment opportunities in the greater Boston MSA.

The U.S. Department of Commerce lists Natick's median family income at \$117,259, well above that of the commonwealth (\$83,371). Natick's median household effective buying income, at 157% of the national level, is, in our view, very strong. These income levels are, in our view, attributable in part to higher education levels: 61% of town residents have a bachelor's degree or higher, comparing favorably to the commonwealth's 39%. In addition, 26% of Natick residents have graduate or professional degrees, compared to 17% for the commonwealth.

The town does not have industry or employer concentrations, in our opinion. The area's three largest employment industries are:

- Trade, transportation, and utilities (33.7%);
- Education and health services (19.0%); and
- Professional and business services (18.4%).

Other than the town itself (which employs approximately 1,700 workers), principal employers include:

- Math Works (1,900 employees),
- The U.S. Army (1,300),
- Natick Mall (1,200),
- Metro West Medial Center (600), and
- Boston Scientific (500).

Due to the wide-ranging employment opportunities, Natick's unemployment rate has consistently ranked well below state and national levels. The Massachusetts Department of Employment and Training lists a 4.3% unemployment rate for the town as of February 2013, comparing favorably to those of the state and nation (6.8% and 8.1%, respectively).

Assessed valuation (AV), after peaking at \$6.6 billion in fiscal 2010, has since receded by 5.6% to \$6.23 billion. Natick's AV is 77% residential and 21% commercial. The 10 leading taxpayers are, in our view, very diverse, accounting for 11% of total AV. Market value per capita stands at just over \$187,000, which we consider extremely strong.

Fiscal 2012 concluded with a \$3.35 million operating surplus. And including another \$4 million in transfers, the total fund balance increased by \$7.35 million to \$24.67 million, or, in our opinion, a very strong 20.6% of operating expenses. The fiscal 2012 surplus brought available reserves up to, in our view, a strong 14.7%, from 9.1% the prior year. With three quarters of the current fiscal year behind them, management expects another surplus for fiscal 2013.

The town must operate its budget -- and hence tax increases -- within the scope of Proposition 2½, a commonwealth law that effectively limits municipal tax increases based on a two-pronged test. If a town fails either test, a tax increase cannot occur without voters approving a binding referendum by a certain percentage. That being said, \$53.3 million in outstanding debt and \$5.78 million relating to series 2013 are not subject to the limitation. In addition, the town has over \$71 million in unused levy capacity.

Standard & Poor's views the town's financial management practices as "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

The debt-to-AV ratio is 1.5%, which we consider low. This figure is being brought down, however, by the relatively stronger AV levels. This debt is, in our view, a moderate \$2,770 per capita. Amortization is, in our opinion, rapid, with 72% scheduled to roll off in 10 years and 100% in 20 years. However, fast amortization leads to higher debt service. Carrying charges are moderate, in our view, at 10%, although they do drop to a level we would consider low within five years.

As of Jan. 1, 2011, Natick's pension system was 64% funded, including \$53.2 million in unfunded liability. The town has satisfied its full annual required contribution (ARC) each of the past five years. In fiscal 2012, Natick's pension ARC was \$5.95 million, or about 5% of general fund expenditures. In addition, the town's other postemployment benefits (OPEB) liability was \$119.2 million as of July 1, 2010. Its annual OPEB cost was \$11.55 million in fiscal 2012, of which

the town's pay-as-you-go payment equaled only 30%.

Outlook

The stable outlook reflects our view of the town's very strong credit factors, including both financial and economic factors. These factors are expected to provide stability, therein allowing the town to withstand certain stress levels should they occur. We expect the tax base to remain strong, which will allow the town to continue to maintain reserves at a level consistent with the rating. We do not anticipate a lowering of the rating during the two-year outlook period.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- Varying Property Tax Caps In The Eastern U.S. Result In Different Constraints, Jan. 7, 2013

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