

RatingsDirect®

Summary:

Natick, Massachusetts; General Obligation

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US\$12.15 mil GO mun purp loan of 2022 bnds due 03/01/2042

Long Term Rating AAA/Stable New

Natick GO

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Natick, Mass.' approximately \$12.15 million series 2022 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

Natick'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 the town's limited-tax GO pledge and general creditworthiness because our analysis of Natick's financial and economic conditions already includes the tax limitation imposed on the town's revenue-raising ability.

Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we rate Natick higher than the sovereign because we think the town 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 bond debt service is at limited risk of negative sovereign intervention. In 2019, local property taxes generated 71% of revenue, which demonstrated a lack of dependence on central government revenue.

Officials intend to use series 2022 bond proceeds to finance various capital-improvement plan (CIP) components.

Credit overview

The rating reflects our view of Natick's very strong and growing economy, supported by its participation in the Boston-Cambridge-Newton metropolitan statistical area (MSA). Wealth-and-income indicators are well above national averages, and Natick has a record of stable finances. The town has continued to experience reserve growth throughout COVID-19 despite negative effects on meals and hotel tax revenue, representing a small portion of overall general fund revenue. The town faces long-term pressure from retirement liabilities and costs, but Natick will likely manage these costs due to conservative budgeting and active funding of an other postemployment benefits (OPEBs) trust fund. We do not expect to change the rating within the two-year outlook.

The rating reflects our view of the town's:

- Very strong economy with access to a broad, diverse MSA;

- Conservative budgeting with very strong management with strong financial-management policies, practices under our Financial Management Assessment (FMA) methodology and a strong Institutional Framework;
- Stable budgetary performance supporting growing reserves; and
- Strong debt-and-contingent-liability profile with large pension and OPEB obligations.

Environmental, social, and governance

We have assessed the environmental, social, and governance (ESG) risks relative to Natick's economy, management, financial measures, and debt-and-liability profile and have determined all are neutral in our rating analysis. The town owns a dam in its southern area on the Charles River, which the commonwealth considers in poor condition; the town is assessing its options to address the dam's condition. Natick did not construct the dam for flood control; therefore, its possible removal would not pose a flood risk. The town has been working to remediate two areas with polychlorinated biphenyls contamination, and it has also installed enhanced drinking-water filtration to cleanse perfluoroalkyl substance contaminants from groundwater.

Stable Outlook

Downside scenario

We could lower the rating if budgetary performance were to deteriorate due to low pension and OPEB funding or other factors, leading to a sustained reserve drawdown.

Credit Opinion

A stable local economy that benefits from the Boston MSA

Natick, with a population estimate of 36,426, is in Middlesex County, approximately 18 miles from Boston in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town is located along U.S. routes 9 and 128. In addition, Massachusetts Bay Transportation Authority serves the area with its commuter rail, providing access to employment opportunities areawide and downtown Boston and supporting very strong wealth and income, which we expect will likely remain stable.

The local economy remains very strong, supported by a stable real estate market and continued commercial and residential developments that should underpin near-term stability. The property tax base is 79% residential and 20% commercial and industrial. The town reports the retail centers have continued to perform well. The town has also seen interest regarding mixed-use development near commuter-rail stations and activity associated with biotech lab space and adult-use cannabis.

Conservative budgeting, reporting underpin very strong financial-management policies, practices

Natick hired a new town administrator in 2021 who has worked for the town for seven years, most recently as Deputy Town Manager for Operations; it has also recently hired a new comptroller. 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 long-term financial needs, which it updates annually. Management maintains a five-year, semiannually updated CIP that identifies project funding.

The town has adopted commonwealth guidelines for its investment-management policy. Management reports holdings, prepared quarterly by the treasurer, to the board through an annual audit. Natick maintains its own formal debt-management and reserve policies. The reserve policy calls for maintaining a general stabilization-fund balance at a minimum of 2% of revenue with a 5% target.

Natick has taken steps to mitigate exposure to cyber-related risk, and it has been addressing concerns related to climate change that could directly affect taxable properties. It has instituted sustainable practices in its public buildings to save energy. The town has received grants from the municipal-vulnerability-preparedness grant, providing support to begin planning for climate change and resilience and implementing priority projects.

Stable financial performance, allowing reserves to grow

Fiscal 2021 results include adjustments for one-time capital expenditures paid for with bond proceeds. Property taxes are the leading general fund revenue source: They generated 70% of revenue in fiscal 2021 followed by state aid at 22% and excise taxes at approximately 2%. The town adjusted the fiscal 2021 budget to prepare for potential COVID-19 effects on finances. Property tax collections remained strong at 98%. The largest effect on Natick's revenue was the decrease in hotel-and-meals taxes; Natick collected about \$1.2 million in those taxes in 2020 and only \$414,000 in 2021. This did not have a material effect on Natick's operations because it is not a major revenue source.

Natick also implemented a hiring freeze for fiscal 2021 and paused some CIP projects. The town also asked departments to identify potential savings, which resulted in about \$3.7 million in departmental savings. Fiscal 2021 results led to an increase in available fund balance to more than \$33 million. Available funds include assigned, unassigned fund balances and a variety of stabilization funds within the general fund that Natick could make available for general operational use. Natick's American Rescue Plan Act of 2021 allocation is about \$10.6 million: It has assigned a portion of this funding for revenue replacement and projects, including perfluoroalkyl-substances mitigation in the town's water.

The fiscal 2022 budget totaled approximately \$168 million, and Natick reports actual results have performed well relative to the budget. Excise tax revenue has recovered to pre-COVID-19 levels while hotel-and-meals taxes have continued to recover at a slower pace. The town expects departmental savings due to unfilled positions caused by labor market conditions, and it reports recent inflation has not pressured other costs. We expect modest reserve growth with no significant change to fund balance in the near future.

Natick adopted an approximately \$175 million fiscal 2023 budget, a 4% increase over fiscal 2022. It developed the budget with the knowledge local receipts have still not fully recovered to pre-COVID-19 levels, including an estimated 13% increase in state aid and assumed new growth of about \$1 million, slightly below the prior two fiscal years. It developed expenses with price increases on goods and services in mind and funded level services with the addition of one full-time firefighting position.

A manageable debt profile

Subsequent to the series 2022 issuance, the town has approximately \$156 million of direct debt outstanding. It currently expects to issue about \$8 million in bond anticipation notes in the second half of fiscal 2023 to support additional town-authorized capital projects.

Pension and OPEB liabilities

In our opinion, Natick's large pension and OPEB obligations are a credit weakness, particularly due to pension and OPEB trust funding. While we consider the use of an actuarially determined contribution a positive, we think some assumptions used to build the pension actuarially determined contribution reflect, what we view as, slightly weak assumptions and methodologies; we think this increases the risk of unexpected contribution escalations. Although Natick funds OPEB liabilities on a pay-as-you-go basis, costs remain low despite the large liability; we expect the town will likely continue to add to its OPEB trust fund.

As of June 30, 2021, the town participates in:

- Natick Contributory Retirement System, which is 75% funded, with a \$61.4 million proportionate share of the net pension liability; and
- Natick's OPEB plan--a single-employer, defined-benefit plan that provides health, dental, and life insurance to retirees and their beneficiaries--which is 2% funded, with a net OPEB liability of \$217.8 million.

Natick's combined required pension and actual OPEB contribution totaled 7.5% of total governmental fund expenditures in fiscal 2021: 5% for pension obligations and 2.5% for OPEB. The town made its full annual required pension contribution in fiscal 2021. The Natick Contributory Retirement System is a multiple-employer, defined-benefit pension plan; however, the town accounts for nearly 98.5% of the total system liability. We understand the system revised its discount downward to 7%; however, we still consider this discount high for municipal systems, which could lead to volatile contributions.

Massachusetts requires all pension systems to achieve full funding no later than 2040, and Natick has plans to achieve full funding by 2030. We generally view closed amortization schedules as positive; however, for Natick to meet its adopted funding schedule to achieve full funding in fiscal 2030, costs must increase due to low funding. The town met our static-funding metric and minimum-funding-progress calculation in the most recent year.

Natick also provides OPEB to retirees, which it funds on a pay-as-you-go basis. The town established an OPEB trust fund in fiscal 2011 to finance this liability. The trust fund balance was \$5.6 million at fiscal year-end 2021. We think Natick's large pension and OPEB liabilities could pressure the budget during the next few fiscal years, particularly if actuarial assumptions are not met. Should costs grow, particularly if OPEB pay-as-you-go costs were to increase, with no material progress in prefunding the liability, we could revise our view of the town's plan for addressing retirement liabilities.

Strong Institutional Framework

The Institutional Framework score for Massachusetts municipalities is strong.

Natick, Massachusetts Select Key Credit Metrics			
	Most recent	--Historical information--	
		2021	2020
Very strong economy			
Projected per capita effective buying income as a % of U.S.	193.2		
Market value per capita (\$)	270,026		

Natick, Massachusetts Select Key Credit Metrics (cont.)

	Most recent	--Historical information--		
		2021	2020	2019
Population		36,426	37,139	37,181
County unemployment rate(%)		4.6		
Market value (\$000)	9,835,967	9,266,987	8,931,858	
10 leading taxpayers as a % of taxable value	9.9			
Strong budgetary performance				
Operating fund result as a % of expenditures		0.4	(0.1)	(0.4)
Total governmental fund result as a % of expenditures		0.4	0	(0.3)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		18.1	18.1	18.8
Total available reserves (\$000)		33,038	31,356	29,876
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		20.5	22.3	27.4
Total government cash as a % of governmental fund debt service		285.3	297.5	519.2
Very strong management				
Financial Management Assessment		Strong		
Strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		7.2	7.5	5.3
Net direct debt as a % of governmental fund revenue	68.0			
Overall net debt as a % of market value	1.4			
Direct debt 10-year amortization (%)	66.5			
Required pension contribution as a % of governmental fund expenditures		5.4		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		2.6		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 30, 2022)		
Natick GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Natick GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Natick GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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