

# RatingsDirect®

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## Summary:

# Natick, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$13.305 mil GO mun purp loan of 2023 bnds ser 2023 due 11/15/2042

*Long Term Rating* AAA/Stable New

Natick GO

*Long Term Rating* AAA/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Town of Natick, Mass' \$13.3 million general obligation (GO) municipal purpose loan.
- At the same time, S&P Global Ratings affirmed the 'AAA' GO rating on the town's existing debt.
- The outlook is stable.

### Security

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.

### Credit overview

Natick continues to experience development throughout the town, with a focus on life science buildings while also transforming previously underused space in the town. Despite 20% of its tax base considered commercial and industrial, the town reports no major loss of taxpayer, and continues to experience tax base appreciation and expansion in its residential space. We anticipate its tax base will continue to expand.

We have the town's unaudited 2022 results. We have continued to adjust for one-time capital expenditures paid for with bond proceeds. Property taxes are the leading general fund revenue source at 75% followed by state aid at 16.1%. Overall revenues outperformed budget, as economically sensitive revenue like hotel/motel taxes rebound from the impact of the COVID-19 pandemic. Expenses outperformed budget; however, the town did use a portion of its reserves during 2022. Management reports that 2023 is doing well, despite overall inflationary pressures on its expenditure profile and we anticipate at least balanced year-end results for 2023. The town continues to monitor fuel, employee, and other ancillary costs, while revenues are coming in strong, and in line with previous years. The town is using free cash along with American Rescue Plan funding to support its \$192.9 million fiscal 2024 budget. Management anticipates the 2024 budget will be a year of transition as it limits its use of free cash and federal funding, while also taking steps to ensure structural balance of town operations. Despite the slight use of reserves in 2022, we anticipate Natick will maintain its very strong level of reserves. Outside of what we view as available, the town has additional flexibility in its committed funds. 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 liquidity.

We anticipate the town's debt burden will remain stable, as it works through its capital improvement plan. Tempering our view of Natick's debt is elevated fixed costs driven by pension and other postemployment benefits (OPEB). The town participates in the Natick Contributory Retirement System, which is funded at 87.8%, and a 2.00% funded OPEB liability, with a net OPEB liability of \$230.7 million.

The rating also reflects the town's:

- Direct access to Boston, with a vibrant retail corridor and growing expansion into life sciences, coupled with a stable commercial component aid new growth and support of strong operations;
- Long standing, very strong policies and practices in place, with long-term planning and a strong institutional framework score;
- Consistently strong performance, bolstered by growing revenue, supporting very strong budgetary flexibility and liquidity; and
- Manageable debt burden, with some longer-term pressure driven by pension and OPEB costs, as costs could rise given market volatility.

### **Environmental, social, and governance**

We have assessed the environmental, social, and governance 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.

## **Outlook**

The stable outlook reflects strong management and active budget management and a growing local economy.

### **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.

### **Ratings above the sovereign**

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 2022, local property taxes generated 75% of revenue, which demonstrated a lack of dependence on central government revenue.

## Natick, Massachusetts--key credit metrics

	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	194			
Market value per capita (\$)	292,005			
Population (no.)		36,611	37,139	
County unemployment rate(%)		4.6		
Market value (\$000)	10,690,612	9,835,967	9,266,987	
Ten largest taxpayers % of taxable value	10.9			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		(1.8)	0.4	(0.1)
Total governmental fund result % of expenditures		0.4	0.4	0.0
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		15.4	18.1	18.1
Total available reserves (\$000)		27,465	33,038	31,356
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		20	20	22
Total government cash % of governmental fund debt service		274	285	298
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		7.3	7.2	7.5
Net direct debt % of governmental fund revenue	71			
Overall net debt % of market value	1.3			
Direct debt 10-year amortization (%)	68			
Required pension contribution % of governmental fund expenditures		6.1		
OPEB actual contribution % of governmental fund expenditures		2.8		
<b>Strong institutional framework</b>				

Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

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 1, 2023)

Natick GO		
Long Term Rating	AAA/Stable	Affirmed
Natick GO		
Long Term Rating	AAA/Stable	Affirmed

**Ratings Detail (As Of June 1, 2023) (cont.)**

Natick GO

*Long Term Rating*

AAA/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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