



RATING ACTION COMMENTARY

Fitch Affirms Natick, MA's GO Bonds Rating at 'AAA'; Outlook Stable

Fri 23 Jun, 2023 - 5:09 PM ET

Fitch Ratings - New York - 23 Jun 2023: Fitch Ratings has affirmed Natick, MA's Issuer Default Rating (IDR) and approximately \$73,940,000 million in outstanding GO bonds, series 2018 at 'AAA'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Natick (MA) [General Government]	LT IDR AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
Natick (MA) /General Obligation - Limited Tax/1 LT	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

SECURITY

The bonds are general obligations of Natick backed by its full faith and credit. Property taxes levied by the town are subject to limitation by the Proposition 2 1/2 statute, unless voters approve the exclusion of debt service on the bonds from the limitation. A large

portion of the town's outstanding bonds were approved by voters and are exempt from the limitations of Proposition 2 1/2.

ANALYTICAL CONCLUSION

The 'AAA' IDR and GO bond ratings reflect Fitch's expectation for Natick to maintain healthy financial flexibility throughout economic cycles, consistent with a history of strong operating performance and sound reserves. The town's strong financial profile reflects a wealthy property tax base, manageable expenditure growth and a solid level of expenditure flexibility, which provides superior gap-closing capacity if needed during future economic downturns. Fitch expects long-term liabilities associated with debt and retiree benefits to remain low as a percentage of the resource base based on manageable capital needs and expectations for continued growth in population and residents' personal income.

Economic Resource Base

Natick is a wealthy suburb located in Middlesex County approximately 18 miles west of Boston. It has a 2020 census population of 37,006 which is up 12% since 2010, exceeding state and national growth averages for the same period. The town's quality school system, commutable location to Boston and relatively more affordable housing options outside of the town has led to continued population and tax base growth.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Revenues are derived primarily from property taxes and general fund revenue growth has typically trended above U.S. GDP rates of growth, reflective of strong improvement in Natick's economy and tax base over the last several years. The town's independent legal ability to raise revenues within the Proposition 2 1/2 statutory cap is considered high by Fitch when combined with the ability to raise or implement other service fees and charges.

Expenditure Framework: 'aa'

Fitch expects the natural pace of spending growth to be marginally above natural revenue growth over time. Carrying costs for long term liabilities (LTL) currently claim a moderate proportion of government spending and are expected to rise, but remain manageable in the near term when considering future debt service costs associated with future debt plans and increases in annual pension funding. Management has demonstrated the flexibility and willingness to cut spending during economic downturns and exhibits strong legal control of employee wages, headcount, and work rules.

Long-Term Liability Burden: 'aaa'

Natick's LTL burden for net governmental debt and Fitch-adjusted net pension liabilities (NPLs) is low at 5% of personal income. Fitch expects the burden to remain low given the town's near-term debt plans, amortization of existing debt, and growth in the underlying resource base. The town fully funds its actuarially determined pension contributions.

Operating Performance: 'aaa'

The town's superior inherent budget flexibility and solid general fund reserves position it well to manage through economic downturns while maintaining a high level of fundamental financial flexibility. Management's conservative budgeting practices have helped to support the town's favorable operating performance and strengthening of reserves.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable given the 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A weakening of expenditure flexibility due, in part, to an increase in fixed costs from increases in retiree benefits and debt service that are sustained at a level consistently above 20% of total governmental spending;

--Although unlikely, an increase in the town's LTL burden associated with net pension liabilities and debt exceeding 10% of residents' personal income.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-

specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Natick ended fiscal year 2022 (FYE June 30) with strong unrestricted general fund reserve balances despite a net operating deficit of \$3.1 million (on a GAAP basis), decreasing its unrestricted general fund balance to \$39.6 million or about 22% of spending. Fiscal 2022 results reflect strong revenue results that exceeded the adopted budget assumptions by 4.3%. The adopted budget assumed the use of \$11.9 million in general fund balance; however, the town exceeded this budget assumption because expenditure came in below budget. Management currently reports that fiscal 2023 general fund revenues are anticipated to finish at 105% of the original budget values.

The town's fiscal 2024 adopted general fund budget of \$192 million is 7% higher than the prior year's adopted budget, and includes increases in state aid and local receipts. Operations are supported by the appropriation of \$4.4 million of free cash and \$3 million of American Rescue Plan Act (ARPA) funds. Natick received a total of \$10.7 million of ARPA grants and allocated \$6.6 million for revenue replacement due to pandemic related revenue losses. Fiscal 24 expense drivers are associated with health insurance, energy costs and debt service following issuance of its series 2023 bonds.

CREDIT PROFILE

The town has seen strong growth in population and residential real estate values as the median home price has risen 30% from \$553 thousand to \$782 thousand in the past five years according to [Zillow.com](https://www.zillow.com). Management reports a number of near-term debt plans, including issuing bond anticipation notes (BANs) in fall 2023 to cover outstanding appropriations, capital borrowing related to PFAs (Per- and Polyfluoroalkyl Substances, a harmful chemical found in the drinking water supply of Natick) regulations as the town has already appropriated \$2.5 million in capital to meet MassDEP's drinking water standards. In the next three to five years, the town anticipates borrowing an estimated \$49 million over the fiscal 2024 to 2026 period.

Pursuant to state law, Proposition 2 1/2 limits the town's ability to levy property taxes by a "levy ceiling", an absolute cap on the level of property taxation, set at 2.5% of overall market values, and a levy limit which restricts the annual growth in taxation by a 2.5% increase over the previous year's levy plus the value of new growth. Taxation in excess of the levy limit requires voter approval. Declines in market value lower the "levy ceiling" and vice

versa. The town's fiscal 2023 levy ceiling (currently \$267 million) is very high compared to its fiscal 2023 tax levy (\$135 million) due to continued growth in value over the years.

Management has historically levied close to the full 2.5% levy increase each year. Any excess in levy capacity is carried forward and available for use at any time. Additionally, voted debt can be excluded from Proposition 2 1/2 limits and the town has been successful in receiving exemption approval by voters for a large portion of this current bond issue and prior bond issuances for school related debt as well as for certain town projects.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

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APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

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