



Moody's Investors Service

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO THE TOWN OF FRAMINGHAM'S (MA) \$2.5 MILLION G.O. BANS

Global Credit Research - 07 Dec 2009

A1 RATING AFFIRMED AFFECTING \$66 MILLION OF OUTSTANDING G.O. DEBT

Municipality
MA

Moody's Rating

ISSUE	RATING
Bond Anticipation Notes	MIG 1
Sale Amount \$2,545,000	
Expected Sale Date 12/08/09	
Rating Description Bond Anticipation Notes	

Opinion

NEW YORK, Dec 7, 2009 -- Moody's Investors Service has assigned a MIG 1 rating to the Town of Framingham's \$2.5 million General Obligation Bond Anticipation Notes (dated December 17, 2009 and payable April 17, 2010). Concurrently, Moody's has affirmed the town's A1 long-term general obligation bond rating affecting approximately \$66 million of outstanding long-term debt. The current issue is secured by Framingham's general obligation limited tax pledge, as debt service has not been excluded from the levy limitations of Proposition 2 ½. The notes renew maturing BANS originally issued to finance wastewater system projects; associated debt service is expected to be fully self-supporting through sewer revenues. The MIG 1 rating incorporates the town's satisfactory history of access to the capital markets as well as its above-average long-term credit profile. Affirmation of the A1 rating reflects of the town's sizeable and diverse tax base, narrow financial position with limited flexibility, wealth characteristics above state and national medians and a satisfactory debt position.

DEMONSTRATED MARKET ACCESS

Framingham has demonstrated satisfactory access to the capital markets, having received three bids each on its most recent note and bond sales, both dated June 19, 2009, one bid on its note sale dated November 14, 2008, and four bids on its note sale dated June 20, 2008. Bids were received from major local and regional financial institutions. Moody's believes that this history indicates the town's ability to refund this note issue, if necessary, at the April 2010 maturity.

SLIM FINANCIAL POSITION STRAINED BY STATE AID CUTS

Moody's believes Framingham's financial strength will remain challenged in the medium term. Structural imbalance has eroded the town's reserve position as ongoing reliance on free cash to support operations has produced five consecutive operating deficits through fiscal 2008. Furthermore as revenue growth diminishes, compounded by significant declines in state aid, expenditure pressures persist, particularly related to education and employee benefits. Although the decline in fiscal 2008 was a modest \$249,000, significantly lower than the \$1.48 million average deficit in the four prior years, available reserves (unreserved General Fund and Stabilization Fund) remain slim at \$8 million and represent only 3.8% of annual General Fund revenues, down from a more satisfactory 5.9% in fiscal 2003. Further, despite expenditure cuts totaling \$1.2 million another modest operating deficit is projected for fiscal 2009 after absorbing a \$1.2 million mid-year state aid reduction, \$1.2 million in unanticipated snow and ice expenditures and moderate declines in local receipts. Available reserves are anticipated to remain narrow at levels roughly equivalent with fiscal 2008, and progress has stalled in achieving management's goal to maintain 5% of budget in the Stabilization Fund. Layoffs and a town-wide hiring freeze, spurred by the fiscal 2009 reductions, will be maintained in fiscal 2010 and the total budget appropriation is \$1.1 million less, a drop of approximately 2.5% from the initial fiscal 2009 budget, due in part to a further reduction in state aid of \$2.9 million. Additionally, the town's OPEB liability, estimated at \$173 million (assuming an 8%

discount rate) indicates retiree health care obligations will be an increasing burden on future budgets. Future budgets are also expected to be pressured due to limited anticipated revenue growth; however, the town recently adopted local option meals and hotel occupancy excise taxes that are projected to yield up to \$1.7 million annually in additional revenue. Going forward, the town's credit strength will heavily weigh its progress towards maintaining balanced operations and adequate reserve levels.

SIZEABLE AND DIVERSE TAX BASE WITH LONG-TERM REDEVELOPMENT POTENTIAL

Moody's believes that Framingham's \$9.5 billion tax base will continue to benefit from its favorable location and healthy commercial and industrial presence but notes a weakened real estate market may depress values in the near term. Despite relatively healthy new growth construction activity, the town's overall assessed valuation declined by 0.8% in fiscal 2009 due to slumping residential real estate values. Assessed values are again expected to decline by up to 10% in fiscal 2010 while new growth activity, outside of a new \$1.2 million utility valuation, is expected to be modest. While bank foreclosure activity has increased, current-year tax collections are holding steady and are projected to total at least 98% at fiscal year-end, which is consistent with prior years. Overall tax collections are healthy due to the sale of \$1.8 million in tax titles. The town's proximity to Boston (rated Aa1/stable outlook), with ample highway and rail access, lends stability and vibrancy to its tax base. The town is well-diversified with nearly 22% of the base in the commercial and industrial sectors. The town's large commercial component is centered on a regional shopping mall and big-box retail outlets where town officials report low vacancy rates.

Management expects development efforts to continue at a modest pace, primarily through redevelopment and expansion of existing commercial properties. Progress has stalled at the Arcade at Downtown Framingham, one of the town's largest potential redevelopment projects, although Massachusetts Bay Community College plans to expand its downtown presence. Other significant developments either planned or underway include the Dennison Mill Rehabilitation—a mixed use development with 180 units of housing; The Villages at Danforth Farms, a mixed apartment and condominium development; and the expansion of Genzyme Corporation's research laboratory, a project expected to add nearly \$10 million in assessed value in coming years. Also, contributing the town's well diversified tax base is the stable corporate presence of Staples, Inc. (senior unsecured rated Baa2/stable), Bose Corporation and TJX Companies Inc. (senior unsecured rated A3/negative outlook) and Gulf Oil/Cumberland Farms, employing approximately 9,700 employees combined.

Framingham's wealth indices have been declining, relative to state and national norms, throughout the last two decades. Currently the median family (MFI) and per capita incomes (PCI), as a percent of the nation, are 134% and 128%, respectively. Equalized value per capita is strong at \$146,940, reflecting the town's solid residential base and large commercial sector.

SOUND DEBT POSITION SUPPORTED BY STATE SCHOOL AID AND ENTERPRISE REVENUE

Moody's expects that Framingham's average 2.7% overall debt burden will remain manageable given both the continued self-support of the water and sewer obligations and the substantial funding of the school construction program through commonwealth grants. Adjustments for commonwealth construction aid and overlapping debt for regional water, sewer, transportation and vocational/technical education bring the town's adjusted debt burden to an affordable 2.6% of equalized value. Principal is retired at an above-average rate of 80.4% within 10 years. The town is updating its multi-year capital improvement plan, which is expected to conform to management's informal targeted goal of maintaining net debt service within 5% of expenditures. Future projects will address sizeable maintenance needs, fleet replacement, road improvements, and enterprise infrastructure upgrades—which are expected to be self-supporting. Framingham has no exposure to variable or auction rate debt or derivative agreements.

KEY STATISTICS:

2008 Estimated Population: 64,885 (-3% since 2000 census)

2009 Equalized Value: \$9.5 billion

2009 Equalized Value Per Capita: \$146,940

1999 Per Capita Income: \$27,758 (107% of MA; 128% of US)

1999 Median Family Income: \$67,420 (109% of MA; 134% of US)

2008 General Fund Balance: \$5.7 Million (2.7 % of revenues)

2008 Undesignated Fund Balance: \$2.8 Million (1.4% of revenues)

2008 Available Reserves: \$8 Million (3.8% of revenues)

Adjusted Debt Burden: 2.6%

Principal Amortization within 10 years: 80.4%

General Obligation Long-Term Debt Outstanding: \$60 Million

METHODOLOGY AND LAST RATING ACTION TAKEN

The principal methodology used in rating the Town of Framingham was Moody's "Bond Anticipation Notes and Other Short-Term Capital Financings," published in May, 2007 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on June 9, 2009 when a MIG 1 short-term rating was assigned to Framingham's bond anticipation notes and an A1 rating was assigned to its Municipal Purpose Loan of 2009 Bonds.

Analysts

Susan Kendall
Analyst
Public Finance Group
Moody's Investors Service

Conor McEachern
Backup Analyst
Public Finance Group
Moody's Investors Service

Patrick Mispagel
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653



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