



Global Credit Research

New Issue

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New Issue: Framingham (Town of) MA

MOODY'S ASSIGNS Aa3 RATING AND NEGATIVE OUTLOOK TO THE TOWN OF FRAMINGHAM'S (MA) \$7.3 MILLION G.O. BONDS

Aa3 AFFIRMATION AND ASSIGNMENT OF NEGATIVE OUTLOOK APPLY TO \$75.8 MILLION OF LONG-TERM G.O. DEBT

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bonds	Aa3
Sale Amount \$7,321,000	
Expected Sale Date 05/17/06	
Rating Description General Obligation Limited Tax	

Opinion

NEW YORK, May 16, 2006 -- Moody's Investors Service has assigned a Aa3 rating and negative outlook to the Town of Framingham's \$7,321,000 General Obligation Bonds. Concurrently, Moody's has affirmed the Aa3 rating and assigned a negative outlook to the town's \$75.8 million of outstanding long-term G.O. debt. Approximately \$3.9 million of the bond proceeds will be used to permanently finance outstanding notes originally issued for water and sewer infrastructure projects; the balance of the proceeds will primarily be used for fleet replacement and continued improvements to enterprise infrastructure. The bonds are secured by the town's general obligation limited tax pledge as voters have not exempted debt service from the levy limitations of Proposition 2 ½. The Aa3 rating is based on the strength of the town's sizeable tax base which is expected to experience healthy economic development activities throughout the medium-term, below-average wealth characteristics, and satisfactory debt position. The negative outlook reflects Moody's expectation that Framingham's financial position will continue to weaken in the short-term given the town's continued reliance on reserves to supplement increasing operating expenditures, limited financial flexibility in current budgets for any further unforeseen events, and the town's developing recovery plan to restore financial operations in the medium-term.

COMMERCIAL REDEVELOPMENT AND NEW HOUSING DRIVE TAX BASE GROWTH

Moody's believes that Framingham's substantial, \$8.2 billion tax base will continue to experience positive growth trends given significant market appreciation and sustained development opportunities across all sectors. Growth in equalized valuation has kept pace with regional trends, averaging 11.7% annually since 2000. Continued residential and commercial development reflects the town's proximity to Boston (rated Aa1/stable outlook) with ample highway and rail access. The town is well-diversified with nearly 20% of the base in the commercial sector and 3.2% in industrial. 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.

Town officials expect current residential and commercial growth rates to continue through at least the medium-term. Of the many development projects underway, one of the largest is the Arcade at Downtown Framingham, which is a \$52 million mixed-use development including 290 residential units, a hotel, and office and retail space. Construction on that project is expected to begin this year and the town anticipates receiving up to \$11 million in additional tax revenue at the end of the 20-year TIF agreement. Other significant developments either planned or underway include the Dennison Mill Rehabilitation-a mixed use development with 180 units of housing, a new six story Genzyme research laboratory, and Lowe's home improvement store. Framingham's wealth indices have been declining throughout the last two decades. Currently the median family (MFI) and per capita incomes (PCI), as a percent of the U.S., are 135% and

129%, respectively, and are in-line with the national medians for Aa3 rated communities. These levels trail the 156% MFI and 141% PCI medians for Aa3 rated Commonwealth communities. Equalized value per capita is strong at \$125,439.

DIMINISHED FINANCIAL POSITION, FURTHER NARROWING EXPECTED

Moody's believes the town's once healthy financial position has deteriorated to levels inconsistent with the Aa3 rating category as a result of a long-standing trend of appropriating free cash to support operations, as well as draws to finance several unforeseen events. In fiscal 2005, the available reserve, which includes the unreserved general fund balance and stabilization fund, declined for a second consecutive year to \$8.6 million (4.7% of general fund revenues) from a peak of \$10.1 million (5.9% of revenues) in fiscal 2003; this represents a 15% reduction in reserve levels over this time frame. The fiscal 2004 operating deficit is the result of reduced state aid revenues coupled with increased educational and employee benefit costs. The main drivers of the fiscal 2005 deficit were snow and ice overruns resulting from a particular demanding winter, and the town's inability to completely replenish the \$3.06 million free cash appropriation due to a general fund transfer to the health insurance fund to settle a \$2.1 million liability. To maintain the current estimate for the health insurance obligation, the town has taken a more active approach in managing this fund.

At year-end the fiscal 2006 the town's available reserve is expected to deteriorate further. The budget expanded by nearly \$6.0 million over the previous year's actual figures. Increases in energy, salaries, health insurance, and education costs were the primary drivers behind the increase in expenditures. These costs were expected to be covered through \$3.1 million Proposition 2 ½ levy growth, \$2.3 million new growth revenue, and a \$3.5 million appropriation of free cash. Despite positive budget variances associated with two mitigation settlements and an unexpected PILOT, the town expects to draw the available reserve to a very narrow \$6.8 million (proforma 3.5% of revenues) leaving the town very little room to manage any other unforeseen events. Positively, the town consistently exceeds the Commonwealth minimum spending requirement for education and historically has strong property tax collections (property taxes accounted for 69% of general fund revenues, and collections consistently exceed 99%).

Preliminary fiscal 2007 figures indicate that the town will continue to appropriate free cash to supplement revenues, but to a lesser extent than in previous years. Previously, the town established a policy to reduce free cash appropriations to a maximum of \$1.5 million by fiscal 2007. The free cash appropriation for fiscal 2007 is expected to be almost double this target at \$2.8 million. However, of this amount, the town plans to appropriate \$1.8 million for operations, \$769,000 to augment the stabilization fund and \$202,440 for capital projects. Additionally, in fiscal 2007, the town established another stabilization fund for open space acquisition--\$150,000 is budgeted to be added to this fund in fiscal 2007.

Framingham has a dated multi-year financial plan, which the town's new management officials intend to review and update in the fall of 2006. This team's stated goal is to first stabilize operations and then to restore reserves by tightening expenditures and reviewing recurring and sometimes volatile revenues. Specifically, management will monitor administrative costs, and has already resolved to limit annual total compensation package increases to 5%--which is below the historical 6.3% increase Framingham has typically offered. Additionally, the town intends perform a comprehensive review of Commonwealth aid to better forecast this revenue, and has reduced the new growth revenue assumption to a conservative \$1.9 million given average new growth revenue levels, with the exception of fiscal 2005, exceeded \$2.0 million per year since fiscal 2001. Framingham projects a 4.5% total revenue growth assumption beginning in fiscal 2008. Moody's notes the town's preliminary recovery plan, but believes the reserve position has narrowed substantially to levels inconsistent with the Aa3 rating category. We believe the inability to at least achieve fiscal 2006 expectations, and reverse the negative trend in the town's reserve position in fiscal 2007 will warrant downward rating action.

AFFORDABLE DEBT POSITION WITH MANAGEABLE FUTURE BORROWING PLANS

Moody's expects that the Framingham's average 2.9% overall unadjusted 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 2.7% of equalized value. The town is scheduled to receive between 60% and 90% reimbursement from the Massachusetts School Building Authority for the project in fiscal 2006. Principal is retired at an above-average rate of 79% in 10 years. The town has an extensive capital improvement plan which works within management's targeted goal of maintaining net debt service within 5% of expenditures. Future projects will primarily address sizeable maintenance projects, fleet replacement, road improvements, and enterprise infrastructure repair-which are expected to be self-supporting.

Outlook

Outlook:

The negative outlook reflects Moody's expectation that Framingham's financial position will continue to weaken given the town's continued reliance on reserves to supplement increasing expenditure pressures, albeit to a lesser degree than previous years, coupled with a developing but incomplete recovery plan to restore financial operations in the long term.

What could change the rating- DOWN?

*Further reserve level declines

*Lack of fund balance restoration to levels more typical of Aa3 rated credits

*Slower than anticipated tax base growth

What could change the rating- UP (remove the negative outlook)?

*End the town's reliance on reserves in the operating budget coupled with augmentation of reserves

*Further development and implementation of a solid recovery plan outlining conservative revenue and expenditure assumptions that would reestablish near-term financial stability

KEY STATISTICS

2000 population: 66,910

2005-6 Equalized Valuation: \$8.2 billion

2005-6 Equalized Value per capita: \$125,439

Average Annual Equalized Value growth (2000-2006): 11.7%

Per Capita Income: \$27,758 (107% of commonwealth median, 129% of U.S. Median)

Median Family Income: \$67,420 (109.3% of commonwealth median, 134.7% of U.S. median)

Direct debt burden: 1.0%

Debt burden, adjusted for overlapping debt, self-supporting debt and school aid: 2.7%

Amortization of principal (10 years): 79%

FY04 General Fund balance: \$11.0 million (6.4% of general fund revenues)

FY04 Stabilization Fund balance: \$4.1 million (2.4% of general fund revenues)

FY05 General Fund balance: \$9.1 million (5.0% of general fund revenues)

FY05 Stabilization Fund balance: \$4.1 million (2.3% of general fund revenues)

Post-sale long-term G.O. debt outstanding: \$75.8 million

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