MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Framingham, MA's $43.9M GO bonds, MIG 1 to $4.4M GO BANs

Global Credit Research - 23 Nov 2015

Affirms Aa2 on $153M outstanding GO debt, including current issue

FRAMINGHAM (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2015 Bonds		Aa2
Sale Amount	$43,914,000	
Expected Sale Date	12/02/15	
Rating Description	General Obligation	
General Obligation Bond Anticipation Notes		MIG 1
Sale Amount	$4,425,966	
Expected Sale Date	12/02/15	
Rating Description	Note: Bond Anticipation	

Moody's Outlook NOO

NEW YORK, November 23, 2015 --Moody's Investors Service has assigned a Aa2 rating to the Town of Framingham's (MA) $43.9 million General Obligation Municipal Purpose Loan of 2015 Bonds and MIG 1 rating to $4.4 million General Obligation Bond Anticipation Notes (dated December 11, 2015 and payable December 9, 2016). Concurrently, Moody's has affirmed the Aa2 rating on $153 million of outstanding GO debt.

SUMMARY RATING RATIONALE

The Aa2 underlying rating reflects the town's satisfactory financial position with stable cash balances, a sizeable and expanding tax base with above average wealth indicators, above average but manageable debt burden and manageable pension burden.

The MIG 1 rating reflects the town's strong fundamental credit characteristics, as mirrored in its long-term rating, ample projected liquidity at time of takeout, and demonstrated history of market access.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Maintenance of structurally balanced operations and increased reserve levels

WHAT COULD MAKE THE RATING GO DOWN

- Reduction of General Fund Balance and free cash

- Significant growth in debt burden

STRENGTHS

- Sizeable tax base with healthy commercial and industrial presence

- Improving reserve levels

- Above average wealth indices

CHALLENGES

- Reliance on annual free cash appropriation to supplement budget

- Above average debt burden

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIZEABLE TAX BASE WITH HEALTHY COMMERICAL AND INDUSTRIAL PRESENCE

Framingham's sizable $7.6 billion tax base is expected to experience moderate growth in the near term driven by new residential developments and commercial expansion of the town's largest employers. Located approximately 20 miles west of Boston (Aaa stable) on MA I-90, the town benefits from easy access to transportation, and has a healthy commercial and industrial presence.

While primarily residential in nature (76.9% of 2014 AV), the town benefits from its stabilizing commercial component (16.6%) as well. Large employers in the town include, Staples, Inc. (Baa2 on watch for downgrade), Bose Corporation, and TJX Companies Inc. (A2 stable), employing approximately 8,500 employees combined. The town recently renegotiated an agreement with TJX, ensuring that the company will remain headquartered there and provide an additional 250 jobs within the next five years. TJX is also undergoing a major expansion of its campus within the town.

Wealth and income levels in the town are above state and national medians. Per capita income and median family income were 120% and 137% of the national median, respectively, in 2013. The town's full value per capita is strong at $111,409.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL PERFORMANCE EXPECTED TO REMAIN STABLE; SUFFICIENT MARKET ACCESS EXPECTED TO REFINANCE NOTES AT MATURITY

The town's financial position will remain stable given management's conservative budgeting practices. The town ended fiscal 2014 with a $5.1 million operating surplus and total Available General Fund balance of $32 million or an adequate 12.4% of revenues. Town officials attribute the surplus to conservative revenue estimates and expenditure savings associated with its collective bargaining agreements and recent switch to the state's Group Insurance Commission (GIC) from self-insurance. The lower health insurance premiums are estimated to save the town approximately $21 million over the next 3 years.

For fiscal 2015, town management expects to report another operating surplus. Certified free cash as of fiscal 2015 was $11.5 million and the town added $851,000 to its Stabilization Fund. The Stabilization fund as of fiscal 2015 was $13.6 million (5.4% of expenditures), consistent with the town's policy of keeping the fund at no less than 5% of expenditures. Additionally, the town has closed its accumulated $2.5 million snow and ice deficit during the fiscal year, carrying no balance into the current year. The town also established a Capital Stabilization Fund in the amount of $2.4 million, as management begins to build the fund to $4.5 million over the next few years to offset future borrowings for capital projects in fiscal 2016 or 2017.

The fiscal 2016 budget includes a 2.9% increase in spending driven primarily by education costs, a 0.62% levy increase (below the 2.5% statutory limitation) and is balanced with a $4.9 million appropriation of free cash. The town currently has $5.5 million in excess levy capacity. The budget also includes a $999,866 allocation to the Capital Stabilization Fund, $400,000 to the Operating Reserve Fund, $199,973 to the Stabilization Fund, and $749,900 to the OPEB Trust.

Liquidity

The town's cash position at the close of fiscal 2014 was $48.4 million, or 18.7% of revenues. Cash across the town's water and sewer funds were also healthy at a combined $21.2 million, or 51.7% of revenues.

The town is a frequent issuer of debt and has a strong history of favorable capital market access. Framingham is expected to receive sufficient market access to refinance its outstanding notes at their stated maturities based largely on the town's stable long-term credit profile, satisfactory liquidity, and status as a frequent issuer of bonds and notes.

DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN SUPPORTED BY HEALTHY ENTERPRISE FUNDS

The town's direct debt burden of 1.3% of full value and 0.4 times revenues is expected to remain manageable despite future capital plans. Over the next 2-3 years, the town expects to renovate or build a new elementary/middle school. The town estimates their portion of the project will cost approximately $22 million. Aside from the school project, the town also expects to issue debt each year for the next five years to address various water and sewer improvements. Despite the additional future debt plans, the town plans to keep its general fund within its stated debt service policy of 5% of operating expenses. While debt service across the water and sewer funds are projected to exceed the stated cap in the near-term, the town expects future rate increases will offset this increase.

The town's water and sewer funds are self-supporting, providing over 1.0 times coverage in each of last 3 years. Total debt of the fund's as of fiscal 2014 was $111.4 million, and has been backed out of the net debt burden calculation. Including the town's enterprise debt, the net debt burden rises to a moderate 2.7% of full value.

Current principal amortization on the town's outstanding debt is expected to remain average with 70% repaid within 10 years and General fund debt service was a manageable 4.3% of fiscal 2014 expenditures.

Debt Structure

All of the town's debt is fixed.

Debt-Related Derivatives

The town has no derivatives.

Pensions and OPEB

The town maintains its own retirement plan for all town employees, with the exception of teachers and certain school administrators. The plan is administered by the Framingham Contributory Retirement System (FCRS), and as of January 1, 2013, was 67.3% funded on an actuarial basis. The town is required by the state to fully fund its Annually Required Contribution (ARC), which was $11.8 million in 2014, or a manageable 4.7% of expenditures. The plan's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $273 million, or 0.9 times operating revenues averaged over the last three years. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town has historically funded its Other Post Employment Benefits (OPEB) obligation on a current-year basis, although a trust fund was established in fiscal 2013 and has a current balance of $3.5 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB was $286 million, as of July 1, 2014, the latest actuarial valuation.

Fixed costs, including debt service and annual pension and OPEB contributions, are $34.8 million, or a manageable 13.7% of fiscal 2014 expenditures.

MANAGEMENT AND GOVERNANCE

The town's management is sound, as demonstrated by conservative budgeting practices and multi-year trend of operating surpluses. The town also maintains a capital budget and debt policy which helps to develop its multi-year budget projections.

Massachusetts cities and towns have an institutional framework score of 'Aa' or strong. The primary revenue source for Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 1/2 levy limit. Expenditures are largely predictable and cities have the ability to reduce expenditures.

KEY STATISTICS

- 2016 Full Value: $7.6 billion
- 2016 Full Value Per Capita: $111,409
- Median Family Income as % of US Median: 137%
- Available Fund Balance as % of Revenues, Fiscal 2014: 12.4%
- 5-Year Dollar Change in Fund Balance as % of Revenues: 9.7%
- Cash Balance as % of Revenues, Fiscal 2014: 18.7%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 11.6%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.02 times
- Net Direct Debt as % of Assessed Value: 1.3%
- Net Direct Debt / Operating Revenues: 0.4 times
- 3-Year Average ANPL as % of Assessed Value: 3.1%
- 3-Year Average ANPL / Operating Revenues: 0.9 times

OBLIGOR PROFILE

The town of Framingham is located in Middlesex County, approximately 20 miles west of Boston. As of the 2010 census, the town had an estimated population of 68,318.

LEGAL SECURITY

The current issues are secured by the town's limited general obligation tax pledge, as debt service has not been voted exempt from the levy limitations of Proposition 2 1/2

USE OF PROCEEDS

Proceeds of the BAN issue and $10.4 million of the bond issue will provide new money funding for various capital improvements focused primarily on water, sewer, and roadway improvements. The remaining bond issue ($33.5 million) will be used to redeem currently outstanding BANs.

PRINCIPAL METHODOLOGIES

The principal methodology used in the long term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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