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CREDIT OPINION
11 June 2018

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# Framingham (City of) MA

Update to credit analysis

## Summary

Framingham, Massachusetts (Aa2) benefits from a sizeable tax base with a significant commercial presence and above average resident income levels. The financial position is stable wit ha recent trend of growing reserves and liquidity that has helped mitigate a rise in the debt burden over the last three years. Additionally, the unfunded pension and OPEB liabilities are expected to remain manageable. The upcoming 2019 fiscal year will be the first full year of operations as a city form of government which converted from a town government in January 2018.

## Credit strengths

» Sizeable tax base with significant commercial and industrial sectors

» Conservatively managed and stable financial position

» Recent increase in unused levy capacity under Proposition 2½

## Credit challenges

» Above average debt burden

» Balancing capital needs with overall stable financial operations

» Maintaining structurally balanced operations given the recent increase in use of free cash in fiscal 2019 budget

## Rating outlook

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

## Factors that could lead to an upgrade

» Material growth in reserves

» Significant decline in the debt burden

» Sustained trend of higher resident income levels

## Factors that could lead to a downgrade

» Continued growth in the debt burden

» Multi-year trend of operating deficits resulting in a decline in reserves

## Key indicators

Exhibit 1

| Framingham (Town of) MA | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Economy/Tax Base | | | | | |
| Total Full Value ($000) | $7,846,077 | $7,846,077 | $7,611,238 | $7,611,238 | $8,446,149 |
| Population | 69,288 | 69,900 | 70,443 | 70,743 | 68,318 |
| Full Value Per Capita | $113,239 | $112,247 | $108,048 | $107,590 | $123,630 |
| Median Family Income (% of US Median) | 137.1% | 135.4% | 131.9% | 132.1% | 132.1% |
| Finances | | | | | |
| Operating Revenue ($000) | $247,303 | $258,227 | $243,481 | $262,756 | $285,835 |
| Fund Balance ($000) | $25,848 | $31,966 | $36,330 | $46,669 | $51,371 |
| Cash Balance ($000) | $43,330 | $48,425 | $54,137 | $65,898 | $71,703 |
| Fund Balance as a % of Revenues | 10.5% | 12.4% | 14.9% | 17.8% | 18.0% |
| Cash Balance as a % of Revenues | 17.5% | 18.8% | 22.2% | 25.1% | 25.1% |
| Debt/Pensions | | | | | |
| Net Direct Debt ($000) | $103,409 | $113,663 | $191,972 | $219,990 | $231,725 |
| 3-Year Average of Moody's ANPL ($000) | $204,768 | $238,713 | $257,744 | $266,162 | $286,067 |
| Net Direct Debt / Full Value (%) | 1.3% | 1.4% | 2.5% | 2.9% | 2.7% |
| Net Direct Debt / Operating Revenues (x) | 0.4x | 0.4x | 0.8x | 0.8x | 0.8x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 2.6% | 3.0% | 3.4% | 3.5% | 3.4% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | 0.8x | 0.9x | 1.1x | 1.0x | 1.0x |

As of June 30 fiscal year end
*Source: Moody's Investors Service and Framingham's audited financial statements*

## Profile

Framingham has a population of 70,743 and is primarily residential with a large commercial presence. The city is located in Middlesex County, approximately 20 miles west of Boston.

## Detailed credit considerations

### Economy and tax base: sizeable and diverse composition with an expectation of growth

Framingham's sizable $8.4 billion tax base (2017-18 equalized value) should experience moderate growth over the medium term driven by new residential developments and commercial expansion. Located approximately 20 miles west of Boston (Aaa stable) on MA I-90, the city benefits from easy access to major transportation routes and has a healthy commercial and industrial presence. The 2017-18 equalized value increased by a healthy 11.4% since the last certification in 2015. Additionally, the 2018 assessed value increased by 6.6%, the fourth consecutive year of moderate growth, bringing the five year compound annual growth rate to 3.1%.

While primarily residential in nature (76% of 2018 AV), the town benefits from a strong commercial component (17%) as well. Large employers in the town include Staples, Inc. (B1 stable), Bose Corporation, and TJX Companies Inc. (A2 stable), employing approximately 8,500 employees combined. In May 2018, TJX, Staples and Genzyme all announced layoffs with a large portion effecting the city locations. The city has focused on redeveloping its central business district including creating a tax increment financing district that will focus on mixed use and transit oriented projects. New development includes multiple apartment and condo buildings that are expected to add around 1,200 new units of housing over the next two to three years. Annual new growth revenue in 2018 was strong at $3.2 million and we expect this to continue to be above average over the near term.

Wealth and income levels are above national medians with median family income equal to 132% of the US median. While the city's unemployment rate of 3.1% (March 2018) continues to trend below the commonwealth's 3.8% and US 4.1%.

## Financial operations, reserves and coverage: Stability expected to continue while reserves remain satisfactory

The financial position is expected to remain stable over the near term due to conservative fiscal management and multi-year budget forecasting. The city has a long history of maintaining balanced operations including producing annual operating surpluses in each of the last six years (2012-2017). The city has used the surpluses to build up reserves to levels more appropriate for the rating category. The recent strengthening of reserves has also been helpful to the credit profile in mitigating a rise in the debt burden due an increase in capital projects over the last three years.

The fiscal 2017 audited financials reflect an operating surplus of $4.2 million (net of bond premium and proceeds) due to positive variance in both revenues and expenditures. The surplus increased the available general fund balance to $51.4 million or 18% of revenues. The primary revenue source is property taxes representing 63% of 2017 general fund revenues, followed by intergovernmental (29%). The largest expense is education representing 55% of 2017 general fund expenditures. Additionally, the city continues to grow unused levy capacity, currently at $12.9 million in 2018 and equal to around 4.5% of revenues, providing some operating flexibility in future years.

The fiscal 2018 budget increased 2.5% from 2017 due to education, pension and employee benefit costs. The budget was balanced with a 1.6% increase to the tax levy and $2.9 million free cash appropriation. Additionally, the city used $1 million of free cash to pay down the pension liability and another $5 million was transferred to the capital stabilization fund. Year-end operations are estimated to produce a $2-3 million surplus.

The fiscal 2019 budget increased by 2.5% over 2018 driven by the same primary expenses. Of note, the budget is balanced with a slight reduction of 0.3% to the tax levy and $4 million appropriation of free cash. This is a change from prior year budgeting preferences and relies on a greater use of reserves. We will monitor the city's budgeting trends going forward given the change in the form of government.

### LIQUIDITY

Cash and investments at the end of fiscal 2017 represented $71.7 million or a healthy 25.1% of general fund revenues.

## Debt and pensions: above-average debt burden and average pension liability will remain manageable

The net direct debt burden of 3.1% of 2017-18 equalized value and 0.9 times general fund revenues is expected to remain elevated over the medium term based on the city's capital plan including school projects. Fiscal 2017 capital projects totaled over $12 million with around $1.2 million funded with cash on hand. Additionally, the water and sewer debt has not been excluded from our debt burden calculation because it currently does not meet the Moody's definition of self-supporting for three consecutive years.

### DEBT STRUCTURE

The entire debt portfolio is fixed rate with 72% of principal retired in ten years. Fiscal 2017 debt service represented $13.6 million or 4.8% of expenditures.

### DEBT-RELATED DERIVATIVES

Framingham is not party any swap agreements or other derivative products.

### PENSIONS AND OPEB

The city participates in the Framingham Contributory Retirement System, a multi-employer defined benefit plan for all employees with the exception of teachers and certain school administrators who are covered by the state under the teachers retirement plan. The city is required by the state to fully fund its required contribution, which was $12.9 million in 2017, or a manageable 4.6% of expenditures. The contribution is equal to 121% of the “tread water” contribution that would prevent growth in the unfunded liability on a reported accounting basis. The plan's 2017 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $286 million, or 1 times general fund revenues and 3.4% of equalized value. Based on the latest valuation report, the anticipated funding date is 2030 and future pension contributions are expected to increase 5.8% annually.

The city has historically funded its other post employment benefits (OPEB) obligation on a pay-as-you-go basis, although a trust fund was established in fiscal 2013 and annual contributions are made to the trust. Framingham contributed 48% of the actuarial determined contribution in 2017 representing $12.9 million. The net OPEB liability is $314 million with a 1.7% funded ratio as of the July 1, 2016 valuation report.

Total fixed costs in 2017 including debt service, retirement contributions and retiree healthcare payments were $37.7 million, or a manageable 13.4% of expenditures.

### Management and governance: Conservative fiscal management expected to continue

The city continues to practice conservative fiscal management including formal policies, long range financial forecasting and a multi-year capital plan. Fiscal 2019 will be the first full fiscal year of government operations under a city form of government, that has transitioned to a mayor and city council from a town form of government.

Massachusetts cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

REPORT NUMBER 1128693

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