

## CREDIT OPINION

14 November 2017

New Issue

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## Framingham (Town of) MA

New Issue - Moody's Assigns Aa2 to Framingham, MA's GO Bonds

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Town of Framingham, MA's \$36.2 million General Obligation Municipal Purpose Loan of 2017 Bonds. Concurrently, Moody's maintains a Aa2 rating on the town's outstanding general obligation bonds and the underlying issuer rating. The issuer rating is equivalent to the General Obligation Unlimited Tax (GOULT) rating we would assign to GOULT debt of the issuer; the limited tax rating is at the same level.

The Aa2 rating reflects the stable financial position, sizeable and expanding tax base, above average but manageable debt burden, and average pension liability.

### 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 2 ½

### Credit Challenges

- » Above average debt burden
- » Balancing capital needs with overall stable operations

### Rating Outlook

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

### Factors that Could Lead to an Upgrade

- » Continued increase in reserve levels
- » Significant decline in the debt burden
- » Material rise of income levels

### Factors that Could Lead to a Downgrade

- » Continued growth trend in the debt burden
- » Multi-year trend of operating deficits resulting in a decline in reserves

» Sizeable decline in the tax base

## Key Indicators

Exhibit 1

<b>Framingham (Town of) MA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 8,457,817	\$ 7,846,077	\$ 7,846,077	\$ 7,611,238	\$ 7,611,238
Full Value Per Capita	\$ 123,132	\$ 113,239	\$ 112,247	\$ 108,048	\$ 111,409
Median Family Income (% of US Median)	139.0%	137.1%	135.4%	131.9%	131.9%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 236,853	\$ 247,303	\$ 258,227	\$ 243,481	\$ 262,756
Fund Balance as a % of Revenues	8.4%	10.5%	12.4%	14.9%	17.8%
Cash Balance as a % of Revenues	15.2%	17.5%	18.8%	22.2%	25.1%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 102,375	\$ 103,409	\$ 113,663	\$ 191,972	\$ 219,990
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.8x	0.8x
Net Direct Debt / Full Value (%)	1.2%	1.3%	1.4%	2.5%	2.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	0.8x	0.9x	1.1x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.0%	2.6%	3.0%	3.4%	3.5%

As of June 30 fiscal year end; Full value = equalized value

Source: Moody's Investors Service and town's audited financial statements

## Recent Developments

On November 7, 2017, Framingham voters elected a mayor, an 11-member city council and 9-member school committee that will begin serving on January 1, 2018 under the new city form of government. The change to the city form of government has no adverse credit impact as the charter ensures continued management of fiscal operations and planning.

The detailed rating considerations include minor updates to the credit profile since our last credit opinion dated June 6, 2017.

## Detailed Rating Considerations

### Economy and Tax Base: Sizeable with diverse composition and expectation of growth

Framingham's sizable \$8.4 billion tax base (2017 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 town benefits from easy access to major transportation routes and has a healthy commercial and industrial presence. The 2017 equalized value increased by a healthy 11.4% since the last certification in 2015. While the 2017 assessed value increased by 6.9%, the third consecutive year of moderate growth.

While primarily residential in nature (76% of 2017 AV), the town benefits from a strong commercial component (18%) 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. Recently, the town 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 also includes two small residential subdivisions and multiple apartment buildings. Annual new growth revenue in 2017 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%. The 2017 equalized value per capita is strong at \$123,630.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

### Financial Operations, Reserves and Liquidity: Stability expected to remain over near term

The financial position will remain stable over the near term due to conservative fiscal management and multi-year budgeting. Fiscal 2016 audited financials reflect an operating surplus of \$5.8 million (net of proceeds from leases) attributable to positive variance in both revenues and expenditures as well as insurance proceeds. The surplus contributed to an increase in available general fund balance to \$46.7 million or 17.8% of revenues.

Fiscal 2017 unaudited year-end operations are positive with local revenues generating \$1.3 million in revenues over budget, while departmental turnbacks will continue similar to prior years and will be the primary contributor to the year-end surplus. Projected year end results indicate another surplus of close to \$6 million. The audit is expected to be released around March 2018.

The fiscal 2018 general fund operating budget increased 2.5% compared to 2017 due to education, pension and employee benefit costs. The budget is balanced with a 2% tax levy increase and \$2.9 million appropriation of Free Cash. The budget also includes the use of \$1 million in free cash to pay down pension liability and \$5 million transfer into the capital stabilization fund.

As of 2017, the town has increased its unused levy capacity to \$10.9 million equal to 4.2% of 2016 revenues, providing additional operating flexibility in future years. The long-range financial forecast (2018-2023) uses conservative assumptions including revenues growing an average 3% annually and expenditures increasing by an average 3.7% per year. The town's projections show a budget gap in 2019 of 1.8% of revenues that increases to 3.8% in 2023. We expect the town to close those gaps as the budget years arrive.

### LIQUIDITY

Cash and investments at the end of fiscal 2016 represented \$65.9 million or a healthy 25.1% of revenues.

### Debt and Pensions: Above-average debt position will continue but remain manageable

The net direct debt burden (including the current bond issuance and non-rated short term notes) of 3.4% of 2017 equalized value and 1.1 times general fund revenues is expected to remain elevated over the medium term based on the town'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 70% of principal retired in ten years. Fiscal 2016 debt service represented \$10.8 million or a manageable 4.3% of expenditures.

### DEBT-RELATED DERIVATIVES

Framingham is not party to any derivative agreements.

### PENSIONS AND OPEB

The town 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. The town is required by the state to fully fund its required contribution, which was \$12.4 million in 2016, or a manageable 4.9% of expenditures. The plan's 2016 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$266 million, or 1.01 times General Fund revenues and 3.5% 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 town 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 56% of the annual cost in 2016 equal to \$13.1 million. As of the valuation report dated July 1, 2016, the funded ratio is 1.4% with an unfunded liability of \$301.6 million.

Total fixed costs in 2016 including debt service, retirement contributions and retiree healthcare payments were \$36.4 million, or a manageable 14.4% of expenditures.

## Management and Governance

The town continues to practice conservative fiscal management including formal policies, long range financial forecasting, and a six-year capital improvement plan.

Massachusetts towns have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts towns 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.

## Legal Security

The bonds are secured by the town's general obligation limited tax pledge, as debt service has not been exempt from the tax levy limitations of Proposition 2 ½.

## Use of Proceeds

Bond proceeds will redeem approximately \$20.8 million in BANs and provide \$15.4 million in new money for various capital projects.

## 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.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Framingham (Town of) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2017 Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	\$36,186,000
Expected Sale Date	11/16/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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