MOODY'S
INVESTORS SERVICE

CREDIT OPINION
18 November 2021

Rate this Research

Contacts

Nicholas Lehman +1.617.535.7694
VP-Senior Analyst
nicholas.lehman@moodys.com

Douglas Goldmacher +1.212.553.1477
VP-Senior Analyst
douglas.goldmacher@moodys.com

Framingham (City of) MA

Update to credit analysis

Summary

Framingham (Aa2 stable) benefits from a large tax base with a significant commercial presence and above-average resident wealth and income. The financial position has historically been very stable with a six year trend of balanced to positive operations. However, we expect the financial position to be challenged over the next few years as the impacts from the coronavirus pandemic limit tax revenue collections. This challenge is also in part due to limited property tax levy increases. The debt burden is slightly elevated but expected to remain level over the next few years. The pension and OPEB liabilities should remain manageable over the long-term.

Credit strengths

» Sizeable tax base with large commercial and industrial presence

» Historically stable financial position

Credit challenges

» Above-average debt burden

» Ability to maintain balanced general fund operations given limited tax revenue growth

Rating outlook

The stable outlook reflects the healthy growth in the tax base and benefits of the diverse economy as well as availability of some financial operating flexibility including unused tax levy capacity that could be tapped to help maintain balanced operations.

Factors that could lead to an upgrade

» Material growth in reserves and liquidity

» Significant decline in the debt burden

» Strengthening of resident income levels

Factors that could lead to a downgrade

» Decline in reserves and liquidity as a percent of revenue

» Multi-year trend of tax base value declines

» Continued growth in the debt burden

Key indicators

Exhibit 1

Framingham (City of) MA

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value ($000)	$7,611,238	$8,446,149	$8,446,149	$9,773,588	$9,773,588
Population	70,743	71,232	71,649	72,308	72,308
Full Value Per Capita	$107,590	$118,572	$117,882	$135,166	$135,166
Median Family Income (% of US Median)	132.1%	130.7%	134.8%	131.1%	131.1%
Finances					
Operating Revenue ($000)	$262,756	$285,835	$294,708	$311,519	$319,255
Fund Balance ($000)	$46,669	$51,371	$53,234	$60,881	$59,250
Cash Balance ($000)	$65,898	$71,703	$72,002	$72,930	$76,502
Fund Balance as a % of Revenues	17.8%	18.0%	18.1%	19.5%	18.6%
Cash Balance as a % of Revenues	25.1%	25.1%	24.4%	23.4%	24.0%
Debt/Pensions					
Net Direct Debt ($000)	$219,990	$231,725	$257,219	$264,149	$294,322
3-Year Average of Moody's ANPL ($000)	$266,162	$286,067	$305,718	$299,243	$295,237
Net Direct Debt / Full Value (%)	2.9%	2.7%	3.0%	2.7%	3.0%
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.9x	0.8x	0.9x
Moody's - ANPL (3-yr average) to Full Value (%)	3.5%	3.4%	3.6%	3.1%	3.0%
Moody's - ANPL (3-yr average) to Revenues (x)	1.0x	1.0x	1.0x	1.0x	0.9x

As of June 30 fiscal year-end

Sources: US Census Bureau, Framingham (Town of) MA's financial statements and Moody's Investors Service

Profile

Framingham has a population of 72,308 (2019 American Community Survey) and is primarily residential with a large commercial and industrial presence acting as a regional economic center. The largest industry sectors that drive the local economy are professional, scientific, technical services, health services and retail trade. The city is located in Middlesex County approximately 20 miles west of Boston (Aaa stable).

Detailed credit considerations

Economy and tax base: sizeable and diverse tax base expected to remain stable

Framingham's sizable $11.1 billion tax base (2021-22 equalized value) should experience moderate growth over the medium term driven by new residential developments and diverse commercial and industrial sectors. Over the short term, the city could experience more limited growth than seen in the last five years given the potential impact to the commercial and industrial sector due to the coronavirus pandemic. Located approximately 20 miles west of Boston on MA I-90, the city benefits from easy access to major transportation routes and has a healthy commercial and industrial presence. The 2021-22 equalized value increased by a healthy 13.6% since the last certification in 2019. Additionally, the 2021 assessed value increased by 7%, bringing the five year average annual growth rate to 6.6%. Importantly, the valuation growth has been driven by the strong residential sector and personal property. While the industrial sector grew by 3.3% and the commercial sector was flat from the prior year.

While primarily residential in nature (79% of 2021 AV), the city benefits from a strong commercial component (15%) as well. Large employers in the city include Staples, Inc. (B2 negative), Bose Corporation, and TJX Companies Inc. (A2 stable), employing approximately 8,500 employees combined. The city reports that most of these companies are operating a hybrid return to work model for the near term. 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 years.

Wealth and income levels are above national medians with median family income equal to 131% of the US median and a 2020 equalized value per capita of $143,060. The city's unemployment rate historically trends below the commonwealth and US.

Financial operations, reserves and liquidity: stable operations could be challenged over the next few years given limited tax increases

The city maintains a satisfactory financial position with a history of stability over the last ten years and reserves as a percent of revenue that are in line with state peers but below the national median for the rating category. We expect the city's finances could be challenged to maintain its position over the next few years given stalled local tax revenues from meals and hotel taxes that have declined due to the coronavirus pandemic and continue to struggle to return to pre-pandemic levels. These local receipts including motor vehicle excise taxes represent just under $10 million representing around 3% of revenue.

Another factor challenging the city's finances is a recent decline in tax levy increases and greater use of reserves to balance operating costs. For example, the average annual total tax levy increase was 2.5% in fiscal 2012 through 2018. However, since the city form of government was established in fiscal 2019, the average annual tax levy increase has been 1.3% through fiscal 2022 (fiscal 2021 total budget was a decline from the prior year). The limited tax levy increases has allowed the city to grow its unused levy capacity to $31.3 million representing 9.8% of fiscal 2020 general fund revenue. The unused capacity provides the city additional operating flexibility to increase revenue in the future although it will depend on the political willingness to tap.

The fiscal 2022 budget reflects a 3.5% increase from 2021 and is driven by education, health insurance, pension contributions, solid waste and recycling. The budget is balanced with a 1.45% tax levy increase, $6 million in reserves and $2.4 million in ARPA funding.

Fiscal 2021 year-end results indicated another small operating deficit in the general fund. Revenues and expenses ended roughly on budget but the variance will not be enough to replenish the use of reserves used in the budget.

Fiscal 2020 audited results reflect a $1.6 million deficit, the first in at least six years, due to planned use of reserves to help mitigate the decline in local revenues. The deficit led to a slight drop in available general fund balance to $59.3 million representing 18.5% of revenue.

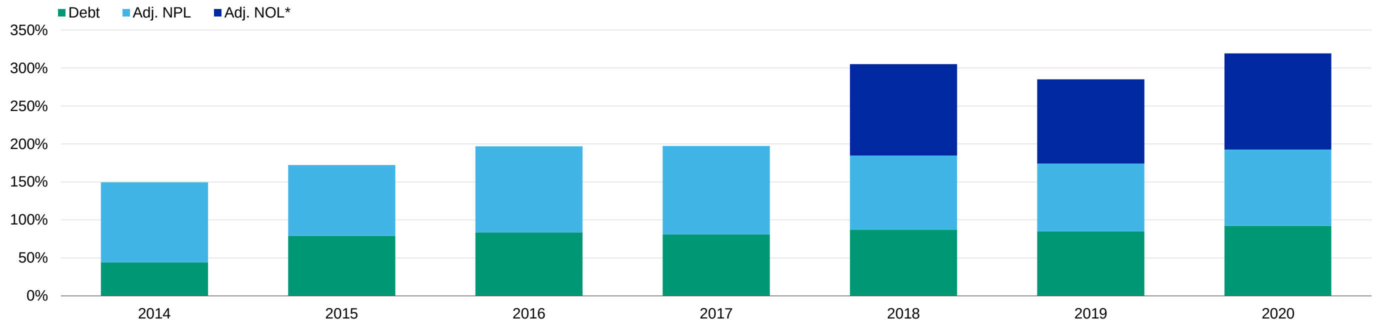
Liquidity

Cash and investments at the end of fiscal 2020 was $76.5 million representing a healthy 23.9% of revenue. The liquidity position is expected to decline slightly at the end of fiscal 2021 but monthly cash flow given quarterly property tax collections and monthly state aid receipts will remain sound.

Debt, pension and OPEB liabilities: above-average debt burden and modest pension and OPEB liabilities expected to remain manageable

The city's debt and long term liabilities are expected to remain manageable over the near term (see exhibit) given the city's debt policy and conservative budgeting towards long-term liabilities. Including the current issuances the net direct debt burden of $317.5 million represents 2.9% of equalized value and 1.0 times general fund revenue which is above average for the rating category but is manageable given the city's debt management, amortization of principal and debt exclusions. The city's debt policy limits the amount of debt service paid within the tax levy to no more than 5% of the budget. The city expects annual debt issuance of $10 million to $15 million.

Exhibit 2
Framingham's leverage is expected to remain slightly above-average but manageable
Leverage as a % of revenue



Adj. NOL not available pre-GASB 75
Sources: Moody's Investors Service and Framingham's audited financial statements

Legal security
The bonds are backed by the city's full faith and credit general obligation limited tax pledge as debt service has not been voted by town residents as excluded from the tax levy limitations of Proposition 2 ½.

Debt structure
The entire debt portfolio is fixed rate with 73% of principal retired in ten years. Fiscal 2020 debt service represented

Debt-related derivatives
Framingham does not have any debt-related derivatives.

Pensions and OPEB
Framingham's pension and OPEB liabilities are significantly larger than its debt burden and, though manageable at this time, represent a potential future credit challenge. The city participates in the Framingham Contributory Retirement System, a multi-employer defined benefit plan and makes annual required contributions based on at least its proportional share. The retirement plan expects to be fully funded by 2030 and currently uses a 7.25% discount rate. The city's teachers participate in the Massachusetts Teachers Retirement System in which the city receives on-behalf payments toward the liability that is covered by the Commonwealth. The city also funds its OPEB liability on a pay-go basis plus annual budgeted deposits into an OPEB trust, although the city did not make a deposit in fiscal 2021 or 2021 given financial concerns related to the pandemic. The table below summarizes the city's 2020 debt, pension and OPEB unfunded liabilities and contributions.

Exhibit 3
Framingham's fiscal 2020 debt, pension and OPEB unfunded liabilities and contribtutions

2020	$$$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	319,255	n/a	n/a
Reported Unfunded Pension Liability	99,479	31%	7.25%
Moody's Adjusted Net Pension Liability	320,355	100%	3.22%
Reported Net OPEB Liability	407,802	128%	2.66%
Moody's Adjusted Net OPEB Liability	404,957	127%	2.70%
Net Direct Debt	294,322	92%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	1,019,634	319.38%	
Pension Contribution	15,847	4.96%	n/a
OPEB Contribution	13,652	4.28%	n/a
Debt Service	14,584	4.57%	n/a
Total Fixed Costs	44,082	13.81%	n/a
Tread Water Gap	(4,102)	-1.28%	n/a
Moody's Adjusted Fixed Costs	39,980	12.52%	n/a

A negative tread water gap signals pension contributions that exceed the pension tread water payment
Source: Moody's Investors Service and Framingham's audited financial statements

The city's annual pension contributions over the past five years (2016-2020) have averaged a strong $3.5 million over the tread water indicator which is the amount required to keep the unfunded liability from increasing if all actuarial assumptions are realized. Failure to realize the assumed return on pension assets could result in larger required increases to meet the funding schedule. Fixed costs for debt service, pension and OPEB liabilities is a low, just under 14% of general fund revenue.

ESG considerations

Environmental

Environmental risks are not a material risk to the city at this time. The city continues to actively manage its environmental resiliency and sustainability through a new sustainability officer that started at the city in recent years. The city has previously participated in the commonwealth's municipal vulnerability preparedness program and is currently working on its green community designation. The capital plan includes green projects like stormwater improvements and fleet electrification. Moody's affiliate, Four Twenty Seven, assesses the city's climate risks based on county level data as having high risk for hurricanes, medium risk for water stress, extreme rainfall and sea level rise and low risk for heat stress.

Social

Social risks are incorporated into the economy and tax base discussion above. We consider the coronavirus pandemic a social risk that could impact the city's economy, tax base and finances over the next two to three years.

Governance

The city practices conservative fiscal management including formal policies and capital planning although recent budgets have included an increasing use of reserves for operations. The city also recently elected a new mayor who will take office in January 2022.

Massachusetts cities have an institutional framework score [1] of "Aa", which is strong. The sector's major revenue source of property taxes, are subject to the Proposition 2 1/2 tax levy cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed costs are generally less than 25%

of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Framingham (City of) MA

Framingham (City of) MA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$11,101,739	Aa
Full Value Per Capita	$153,534	Aaa
Median Family Income (% of US Median)	131.1%	Aa
Notching Adjustments:[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	18.6%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	7.2%	A
Cash Balance as a % of Revenues	24.0%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	7.0%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.9%	A
Net Direct Debt / Operating Revenues (x)	1.0x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.9x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Sources: US Census Bureau, Framingham's financial statements and Moody's Investors Service

Endnotes

1 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (July 2020) methodology report for more details.

REPORT NUMBER 1310353

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE