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Rating Action: Moody's assigns Aa2 to Framingham, MA's GO ref. bonds; outlook stable

31 Mar 2021

New York, March 31, 2021 -- Moody's Investors Service has assigned a Aa2 rating to the City of Framingham, MA's \$13.345 million General Obligation Refunding Bonds. Moody's maintains the city's Aa2 issuer rating and Aa2 rating on the city's outstanding general obligation limited tax bonds. The issuer rating is equivalent to the city's hypothetical general obligation unlimited tax (GOULT) pledge; there is no debt associated with this security. The outlook is stable.

RATINGS RATIONALE

The Aa2 issuer rating reflects the city's stable financial position, sizeable tax base with a large local economy, above-average but manageable debt burden and moderate unfunded pension and OPEB liabilities.

The absence of distinction between the GOULT rating and the issuer rating reflects the city's ability to override the property tax levy cap and its pledge of its full faith and credit.

The coronavirus is not a material driver for the rating given the city's reliance on property taxes as a primary revenue source and the continued dependability of collections. Although, the pandemic has impacted the city's utility enterprise fund that accounts for water and sewer operations. The fiscal 2020 financial report is expected to reflect a negative \$2.5 million fund balance in the utility fund, equal to approximately 5% of operating revenue, due to the dramatic decline in commercial property water and sewer usage during the fourth quarter of the year. The impact from the pandemic has also highlighted the recent draw down of utility fund reserves in prior years for capital needs that did not include corresponding rate increases to maintain reserves. The city has since performed a review of the utility fund and developed a multiyear plan to replenish reserves as well as gradually recover from a change in overall consumption trends. The plan includes a 12% rate increase effecting July 1, 2021 and the evaluation of alternative billing models given the diverse makeup of its rate payers that include large corporate offices to individual residential homes.

RATING OUTLOOK

The stable outlook reflects the healthy growth in the tax base that is expected to experience limited growth over the next two years as well as a balanced financial position given a strong management team.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Material growth in reserves and liquidity
- Significant decline in the debt burden
- Sustained trend of higher resident income levels

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Continued growth in the debt burden
- Decline in reserves and liquidity

LEGAL SECURITY

The bonds are secured by the city's full faith and credit general obligation limited tax pledge as debt service has not been voted excluded from the tax levy limitations of Proposition 2 1/2.

USE OF PROCEEDS

Bond proceeds will provide for the current refunding in part of the city's outstanding bonds dated June 15, 2009, June 15, 2010 and June 16, 2011 for an estimated net present value savings of \$2 million or 12% of

refunded principal with no extension of maturity.

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.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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