

CREDIT OPINION

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Wayland (Town of) MA

Update to credit analysis following revision of outlook to stable

Summary

Wayland, MA (Aaa stable) benefits from a stable tax base that is supported by high resident wealth and incomes. While the town's financial position declined modestly in recent years as the town drew on reserves to fund operations, management has eliminated the use of reserves for operations going forward. The debt burden and pension liability will remain manageable while the town continues to aggressively fund its OPEB liability.

On March 27, 2019 we revised the rating outlook to stable from negative and affirmed the Aaa rating.

Credit strengths

- » Stable tax base with strong resident wealth and incomes
- » Aggressive funding of OPEB liability
- » Large portion of debt is excluded from levy limits of Proposition 2 ½

Credit challenges

- » Below average reserves for the highest rating category
- » Limited revenue flexibility given the tax levy limitations of Proposition 2 ½

Rating outlook

The stable outlook reflects our expectation that Wayland will reverse the slight decline in its financial position given management's focus on returning to structurally balanced operations. The outlook incorporates the town's commitment in addressing its long-term liabilities while maintaining a conservative approach to budgeting and expenditure management. The sizeable tax base with very high resident wealth and income levels with a history of taxpayer support for capital expenditures provides additional stability.

Factors that could lead to a downgrade

- » Lack of improvement in the available fund balance as a percent of revenues
- » Inability to maintain structurally balanced budgets
- » Increase in the debt burden or pension liability

Key indicators

Exhibit 1

Wayland (Town of) MA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$3,103,339	\$3,174,626	\$3,174,626	\$3,666,350	\$3,666,350
Population	13,294	13,432	13,544	13,684	13,827
Full Value Per Capita	\$233,439	\$236,348	\$234,393	\$267,930	\$265,159
Median Family Income (% of US Median)	281.0%	279.2%	281.6%	281.6%	281.1%
Finances					
Operating Revenue (\$000)	\$70,052	\$70,407	\$68,283	\$82,873	\$79,666
Fund Balance (\$000)	\$13,027	\$14,986	\$12,653	\$14,780	\$14,800
Cash Balance (\$000)	\$16,636	\$18,875	\$16,512	\$18,202	\$17,841
Fund Balance as a % of Revenues	18.6%	21.3%	18.5%	17.8%	18.6%
Cash Balance as a % of Revenues	23.7%	26.8%	24.2%	22.0%	22.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$77,130	\$77,611	\$74,520	\$70,797	\$77,960
3-Year Average of Moody's ANPL (\$000)	\$93,603	\$94,236	\$98,293	\$98,612	\$103,064
Net Direct Debt / Full Value (%)	2.5%	2.4%	2.3%	1.9%	2.1%
Net Direct Debt / Operating Revenues (x)	1.1x	1.1x	1.1x	0.9x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.0%	3.0%	3.1%	2.7%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.3x	1.4x	1.2x	1.3x

Data as of June 30 fiscal year end

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

Profile

Wayland is a primarily residential town with a population of 13,700. It is located 18 miles west of Boston, Massachusetts (Aaa stable).

Detailed credit considerations

Economy and Tax Base: Stable residential valuation expected to continue and benefit from high wealth and income levels

Wayland's \$3.8 billion tax base (2019-20 equalized value) will remain healthy given its desirable location 18 miles west of Boston (Aaa stable), strong housing values, and affluent population. The fiscal 2019 assessed value reflects year over year growth of 4.5%, bringing the five-year compound annual growth rate to 4.4%. Growing assessed and equalized valuations are a result of a strong housing market that is expected to continue to provide modest valuation growth over the near term. Annual new growth revenue in 2019 was \$436,000, down slightly from an all time high of just under \$1 million in 2016. In addition to the residential sector, the town could benefit commercially beyond the next few years with the expansion of sewer capacity in the town center and the Rivers Edge project that is expected to begin development in the next year.

Resident incomes in the town are strong with median family income equal to 281% of the US median and 2019 equalized value per capita of \$278,259. Additionally, the unemployment rate of 2.0% (December 2018) continues to trend below the commonwealth's rate of 2.7% and the US rate of 3.7%.

Financial Operations and Reserves: Financial position has weakened but showing signs of stabilization and gradual increase in reserves

The financial position will remain healthy over the near term as the town eliminates the use of reserves to balance annual operating budgets. Previously, the town's use of free cash appropriations reduced available general fund balance to below average levels for the Aaa rating category. However, the town is now committed to eliminating the use of appropriations that peaked in fiscal 2016 with the

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use of \$5.4 million. Going forward, the ability of the town to maintain a structurally balanced budget and to improve reserves is a key to the trajectory of the town's credit profile.

While the town originally budgeted appropriating over \$1.9 million of free cash for the fiscal 2018 budget, the town completely eliminated free cash appropriations during the year. As a result, the 2018 audit reflects a small \$516,000 operating deficit as better than expected property tax revenues and motor vehicle excise revenues along with unspent budgets of \$1.2 million were not enough to make up for the planned use of free cash at the beginning of the year. Property taxes generated 82% of fiscal 2018 revenues, while education costs represented 55% of total expenditures.

Fiscal 2019 results are trending favorably and should result in a small \$400,000 operating surplus. The 2019 budget increased by \$2.8 million or 3.6% with education, health insurance, and retirement costs driving the budget higher. The budget was balanced with a 4.9% increase in the tax levy and no use of appropriated free cash.

The fiscal 2020 budget represents an increase of 3.5% and was balanced with a 3.2% increase in the tax levy. Management is expecting a one time \$340,000 payment to employees as part of a contract negotiation agreement completed in prior years. The town is committed to maintaining a minimum of 20% general fund balance to revenues.

LIQUIDITY

Cash and investments at the end of fiscal 2018 represented \$17.8 million or 22.4% of revenues.

Debt and Pensions: Debt burden remains manageable with average pension liability and strong funding towards OPEB liability

Wayland's direct debt burden of 2.1% of equalized value will likely remain manageable over the next several years. The town has voted to exempt about 45% of outstanding debt outstanding from the levy limitations of Proposition 2 ½, providing greater flexibility to generate revenues to meet debt service. While the debt burden is manageable, it remains important for the town to continue to receive voter support for exclusions for large capital projects from Proposition 2 ½ to help mitigate the below average reserves. The fiscal 2020 capital improvement plan calls for \$3.2 million of spending with the largest single item being \$500,000 allocated toward town-wide road reconstruction.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with 65% of principal retired in ten years. Fiscal 2018 debt service represented \$7.6 million or 9.4% of expenditures.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or derivative agreements.

PENSIONS AND OPEB

The town contributes to the Middlesex Regional Retirement System, a multi-employer cost-sharing plan covering non teacher employees. The town makes its full annual contribution each year, which was \$4.4 million in fiscal 2018, representing a manageable 5.4% of general fund expenditures. The 2018 three-year average Moody's Adjusted Net Pension Liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$103 million, or an average 1.3 times general fund revenues or 2.8% of equalized value. The town's teachers participate in the Massachusetts Teachers Retirement plan. Employer contributions for the plan are offset by on behalf payments from the commonwealth. In fiscal 2018 the on behalf payments totaled \$8.8 million.

The town has aggressively funded its OPEB annual required contribution since 2009, indicating a willingness to address the long term liability. In fiscal 2018, the town contributed \$2.1 million toward its net OPEB liability, which measured \$27.9 million at the end of the year. The town's net OPEB liability is currently funded at 37%. According to management, the liability could be fully funded by 2039, well ahead of most local governments.

Fixed costs, including annual debt service, pensions, and OPEB costs, totaled 17.4% of fiscal 2018 operating expenditures.

Management and Governance

The town's commitment to eliminating the appropriation of free cash for operating costs while adhering to conservative budget assumptions and practices is key to the Aaa rating. Starting in fiscal 2020, the town will move from single year capital planning to developing a five-year capital plan.

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.

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