

**CREDIT OPINION**

22 February 2016

**New Issue**
**Contacts**

**Nicholas Lehman** 617-535-7694  
*Analyst*  
 nicholas.lehman@moody's.com

**Robert Azrin** 212-553-7436  
*VP-Senior Analyst*  
 robert.azrin@moody's.com

## Wayland (Town of) MA

New Issue - Moody's Assigns Aaa to Wayland MA's \$4.7M GO Ref. Bonds

**Summary Rating Rationale**

Moody's Investors Service has assigned a Aaa rating to the Town of Wayland, MA's \$4.7 million General Obligation Refunding Bonds. We maintain a Aaa rating on \$74.6 million of outstanding general obligation (GO) debt. The outlook is stable.

The Aaa rating reflects a stable tax base with strong socio-economic indicators, satisfactory financial position, and manageable debt and pension burdens. The rating also incorporates the town's comprehensive fiscal management that includes aggressive funding of long-term liabilities.

**Credit Strengths**

- » Comprehensive fiscal management
- » Stable tax base with strong wealth and income levels
- » Aggressive funding of OPEB liability

**Credit Challenges**

- » Recent use of reserves to balance operations
- » Limited revenue flexibility given the tax levy limitation of Proposition 2 1/2
- » Above average debt burden

**Rating Outlook**

The stable outlook reflects the positive trend in valuation of the tax base and above average socio-economic indicators of taxpayers that bolster the town's financial operations. While the town has relied more on reserves to balance operations in recent years, we expect budgeted operations to return to a more structurally balanced position over the near term. Although failure to achieve balanced operations could lead to downward rating pressure.

**Factors that Could Lead to a Downgrade**

- » Fiscal 2016 and 2017 operating deficits
- » Trend of available general fund balance below 20% of revenues
- » Material increase in the debt burden

## Key Indicators

Exhibit 1

Wayland (Town of) MA	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 3,288,025	\$ 3,288,025	\$ 3,103,339	\$ 3,103,339	\$ 3,174,626
Full Value Per Capita	\$ 253,042	\$ 247,499	\$ 230,834	\$ 230,834	\$ 236,137
Median Family Income (% of US Median)	N/A	239.9%	239.9%	239.9%	239.9%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 71,963	\$ 70,731	\$ 67,655	\$ 70,052	\$ 70,407
Fund Balance as a % of Revenues	29.8%	26.9%	22.8%	18.6%	21.3%
Cash Balance as a % of Revenues	111.6%	32.2%	28.1%	23.7%	26.8%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 62,422	\$ 66,996	\$ 70,189	\$ 76,821	\$ 77,611
Net Direct Debt / Operating Revenues (x)	0.9x	0.9x	1.0x	1.1x	1.1x
Net Direct Debt / Full Value (%)	1.9%	2.0%	2.3%	2.5%	2.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	1.2x	1.3x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.6%	2.6%	3.0%	N/A

As of fiscal year end, June 30

Source: Moody's Investors Service

## Recent Developments

There are no material changes to the credit profile of the town since our last credit opinion released on January 25, 2016. Debt ratios have declined by 0.1 due to debt that has since matured.

## Detailed Rating Considerations

### Economy and Tax Base: Stable Residential Valuation with Strong Wealth Levels

Wayland's \$3.2 billion (2016 equalized value) tax base will remain healthy given its desirable location 18 miles west of Boston (Aaa stable), strong housing values and affluent population. The fiscal 2016 assessed value reflected a 3.9% increase, bringing the five year compound annual growth rate to 1.8%. New growth in 2016 increased by \$974,000 representing the strongest year of growth in recent history, attributed to the town center project including new condos coming online. Wealth levels in the town are strong with median family income equal to 240% of the US median and full value per capita of \$236,137. The unemployment rate of 3.3% (November 2015) continues to trend below the commonwealth (4.5%) and US (4.8%).

### Financial Operations and Reserves: Increased Appropriations of Reserves Uncharacteristic of Rating Category

The town's financial position has been reduced in recent years after three consecutive years (fiscal 2012-2014) of operating deficits attributed to the reliance on free cash to balance operations. While the position remains healthy, it is uncharacteristic of towns within the highest rating category. We expect this trend to stabilize over the near term given the town's history of conservative fiscal management. The fiscal 2015 audited financials reflect a \$1.4 million operating surplus (net of bond premium) due to positive variance in both revenues and expenditures. The surplus helped to improve the available general fund balance (committed, assigned and unassigned) to \$15 million or 21.3% of revenues including transfers. The primary revenue source is property taxes (84% of 2015 revenues) with strong collection rates, while the largest cost is education (51% of 2015 expenditures).

The fiscal 2016 budget increased by 3% over 2015 driven by education and health insurance costs. The budget is balanced with a reduction of 1.9% in the tax levy and increased free cash appropriations of \$4.5 million for operations and an additional \$300,000 towards capital expenditures. Year-to-date revenues and expenditures are trending positive, but given the increased use of free cash compared to 2015 (\$2.3 million), management does not expect to fully replenish the appropriations and could end the year with

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an estimated \$2.2 million operating deficit. The deficit could reduce available general fund balance to below the 20% of revenues threshold.

Based on the preliminary fiscal 2017 budget, expenditures are expected to increase 2.9% over the prior year due to increased spending on IT, energy and school projects. The tax levy is expected to increase at this point by 8.75%. Over the next two to three years we expect the town to reduce annual free cash appropriations for operations and return reserve levels to above 20% of revenues. Wayland has \$10.1 million of unused levy capacity in 2016, which could provide additional revenue flexibility. We expect this capacity to be tapped as the town's preliminary budget forecast for fiscal years 2017 through 2020 indicate, and with a reduced \$1.5 million in free cash appropriations. A continued trend of reducing reserves in fiscal 2017 and beyond could lead to downward rating pressure.

#### LIQUIDITY

Cash and investments at the end of fiscal 2015 represented \$18.9 million or a healthy 26.8% of revenues including transfers.

#### Debt and Pensions: Above Average Debt Burden Remains Manageable; Strong Management of Long Term Liabilities

Wayland's direct debt burden of 2.4% of equalized value is above average for the rating category but does include school project debt. We expect this burden to remain manageable given plans for moderate, future annual borrowing of an estimated \$4-5 million. The town's capital budgets in recent years have averaged around \$6 million with most funded through debt.

#### DEBT STRUCTURE

All debt is fixed rate with 63% of principal retired in ten years. Debt service in fiscal 2015 represented an elevated 11% of expenditures.

#### DEBT-RELATED DERIVATIVES

The town has no derivatives.

#### PENSIONS AND OPEB

The town contributes to the Middlesex Regional Retirement System, a multi-employer cost-sharing plan. The town is required to fully fund its Annual Required Contribution (ARC), which was \$3.7 million in 2015, representing a manageable 5.4% of general fund expenditures. The town's three-year average 2014 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$93.6 million, or an average 1.34 times general fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town has fully funded its OPEB annual required contribution since 2009, indicating an aggressive willingness to address the long term liability. In fiscal 2015, the town funded 147% of the cost representing \$1.9 million. The town's OPEB liability is currently funded at 40.9%, with a total Unfunded Actuarial Accrued Liability (UAAL) of \$17.8 million as of the latest December 31, 2014 valuation report. Based on the latest valuation, the liability could be fully funded by 2045.

Total fixed costs in 2015 including debt service, required pension contributions and retiree healthcare payments, represented \$13.4 million or 19.2% of expenditures.

#### Management and Governance

The town adheres to comprehensive fiscal policies including a long-range financial plan and five-year capital plan.

Massachusetts towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Towns have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for towns that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Towns have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

#### Legal Security

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

## Use of Proceeds

Proceeds will go towards a current refunding in part, of the town's bonds dated September 15, 2005 and November 1, 2003. Proceeds will also advance refund in part, the town's bonds dated July 1, 2006 and January 15, 2007. The combined net present values savings are estimated to be \$409,000 or 8.4% of refunded par with no extension of maturity.

## Obligor Profile

Wayland is primarily residential with a population of 13,166 and is located 18 miles west of Boston, MA.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### WAYLAND (TOWN OF) MA

Issue	Rating
General Obligation Refunding Bonds	Aaa
Rating Type	Underlying LT
Sale Amount	\$4,705,000
Expected Sale Date	02/25/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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