

## CREDIT OPINION

20 February 2018

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### Contacts

**Nicholas Lehman** +1.617.535.7694  
*VP-Senior Analyst*  
 nicholas.lehman@moody's.com

**Thomas Jacobs** +1.212.553.0131  
*Senior Vice President*  
 thomas.jacobs@moody's.com

**Leonard Jones** +1.212.553.3806  
*MD-Public Finance*  
 leonard.jones@moody's.com

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EMEA 44-20-7772-5454

# Wayland (Town of) MA

## Update to credit analysis

### Summary

Wayland, Massachusetts' (Aaa negative) benefits from a stable tax base supported by unusually high resident incomes. The town's financial position has declined modestly in recent years as the town has drawn on reserves to fund operations. Reserves are currently below average for the Aaa rating category. Over the last two years, the town has worked to eliminate the use of reserves for operations and produce a structurally balanced budget. The debt burden and pension liability will remain manageable while the town continues to aggressively fund its OPEB liability.

### 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 2½

### Credit challenges

- » Below average reserves for the highest rating category
- » Limited revenue flexibility given the tax levy limitations of Proposition 2½

### Rating outlook

The negative outlook reflects a weakening in the town's financial position given reserves trending below historical averages due to the increased use of free cash to fund operations in recent years. While other credit factors remain strong, the trend in the financial position, notably the elimination of free cash appropriations for operations and a return to financial balance, is a key to the trajectory of the town's credit profile.

### Factors that could lead to an upgrade

- » Not applicable

### Factors that could lead to a downgrade

- » Fiscal 2018 operating deficit
- » Lack of improvement in the available fund balance as a percent of revenues
- » Increase in the debt burden or pension liability

» Sizeable debt issuance that is not excluded from the levy limitations of Proposition 2½

## Key indicators

Exhibit 1

Wayland (Town of) MA	2013	2014	2015	2016	2017
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$3,103,339	\$3,103,339	\$3,174,626	\$3,174,626	\$3,666,350
Population	-	-	13,432	13,294	13,684
Full Value Per Capita	\$235,709	\$233,439	\$236,348	\$238,801	\$267,930
Median Family Income (% of US Median)	256.3%	281.0%	279.2%	279.2%	279.2%
<b>Finances</b>					
Operating Revenue (\$000)	\$67,655	\$70,052	\$70,407	\$68,283	\$82,873
Fund Balance (\$000)	\$15,397	\$13,027	\$14,986	\$12,653	\$14,780
Cash Balance (\$000)	\$19,043	\$16,636	\$18,875	\$16,512	\$18,202
Fund Balance as a % of Revenues	22.8%	18.6%	21.3%	18.5%	17.8%
Cash Balance as a % of Revenues	28.1%	23.7%	26.8%	24.2%	22.0%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$70,532	\$77,130	\$77,611	\$74,520	\$70,797
3-Year Average of Moody's ANPL (\$000)	\$79,258	\$93,603	\$94,236	\$98,293	\$98,612
Net Direct Debt / Operating Revenues (x)	1.0x	1.1x	1.1x	1.1x	0.9x
Net Direct Debt / Full Value (%)	2.3%	2.5%	2.4%	2.3%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.3x	1.3x	1.4x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.6%	3.0%	3.0%	3.1%	2.7%

As of June 30 fiscal year end

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

## Profile

Wayland is a primarily residential town with a population of 13,166. 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 \$3.7 billion tax base (2018 equalized value) will remain healthy given its desirable location 18 miles west of Boston (Aaa stable), strong housing values and affluent population. The fiscal 2018 assessed value reflects year over year growth of 4.3%, bringing the five-year compound annual growth rate to 3.6%. The 2017-18 equalized value increased 15.5% compared to only 2.3% during the last revaluation in 2015. Both valuation trends 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 2018 was \$694,000, down slightly from an all time high of just under \$1 million in 2016 but still above historical average. 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 279% of the US median and 2018 equalized value per capita of \$267,930. Additionally, the unemployment rate of 2.8% (October 2017) continues to trend below the commonwealth's rate of 3.3% and the US rate of 3.9%.

### 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. The increase in free cash appropriations over the last five years has reduced available general fund balance to below average

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levels for the Aaa rating category. Positively, the town has renewed its effort to eliminate the use of appropriations that peaked in fiscal 2016 with the use of \$5.4 million. Since then, the town reduced the free cash appropriations to \$2.9 million in 2017, \$500,000 in 2018 and plans for no use of free cash in the upcoming 2019 operating budget. The ability to maintain a structurally balanced budget and improve reserves is a key to the trajectory of the town's credit profile.

The fiscal 2017 audited financials reflect a \$1.9 million surplus due to \$1.2 million in departmental turnbacks and positive variance in local revenues. The surplus increased the available general fund balance (assigned, unassigned and committed) to \$14.8 million or 17.7% of revenues. Property taxes are the largest revenue source, representing 77% of 2017 revenues, while education represents 56% of total expenditures.

The fiscal 2018 budget increased by 3.3% driven by retirement costs, information technology, and public works. The budget reflects a 2.5% increase in the tax levy and \$1 million in free cash appropriations, only \$500,000 towards operations. Year to date revenues and expenditures are on budget and the town projects a modest operating surplus pending any large unplanned expenses.

The fiscal 2019 budget is still being developed but the town is committed to not appropriating free cash for operating needs.

#### **LIQUIDITY**

Cash and investments at the end of fiscal 2017 totaled \$18.2 million or a healthy 21.7% 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 1.9% of equalized value and 0.9% of revenues will likely remain manageable over the next several years. We have also netted out \$10.4 million of water related debt that meets our definition of self-supporting beginning in fiscal 2017. Additionally, the town has voted to exempt 44% of outstanding debt outstanding from the levy limitations of Proposition 2½, 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 2½ to help mitigate the below average reserves.

#### **DEBT STRUCTURE**

All debt is fixed rate with 63% of principal retired in ten years. Fiscal 2017 debt service totaled \$7.6 million representing 9.3% of expenditures.

#### **DEBT-RELATED DERIVATIVES**

The town is not party to any interest rate swaps or other 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 \$4.2 million in 2017, representing a manageable 5.2% of general fund expenditures. The 2017 three-year average Moody's Adjusted Net Pension Liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$98.6 million, or an average 1.2 times general fund revenues or 2.7% of equalized value.

The town's teachers participate in the Massachusetts Teachers Retirement plan employer contributions to which are offset by on behalf payments from the commonwealth. On behalf payments in fiscal 2017 totaled \$8.3 million and the Moody's adjusted net pension liability based on the town's portion of the TRS totaled \$150.7 million.

The town has aggressively funded its OPEB annual required contribution since 2009, indicating a willingness to address the long term liability. In fiscal 2017, the town funded 57% of the ARC representing \$2.1 million. The town's OPEB liability is currently funded at 34%, with a total Unfunded Actuarial Accrued Liability (UAAL) of \$26.8 million as of the December 31, 2016 valuation report. Based on the latest valuation, the liability could be fully funded by 2039, well ahead of most local governments.

Total fixed costs in 2017 including debt service, required pension contributions and retiree healthcare payments totaled \$13.9 million representing 17% of expenditures.

**Management and governance: Renewed commitment to fiscal management could lead to stable financial operations**

The town is committed to eliminating the appropriation of free cash for operating costs while adhering to conservative budget assumptions and practices.

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.

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