

CREDIT OPINION

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New Issue

 Rate this Research

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Wayland (Town of) MA

Update to credit analysis

Summary

Wayland, MA (Aaa stable) benefits from a stable tax base supported by very high resident wealth and incomes. The town maintains balanced financial operations though its reserves continue to trend lower than the Aaa median. Additionally, the town continues to aggressively fund its OPEB liability, and we expect both the debt burden and pension liability to remain manageable.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the town. However, the situation surrounding COVID-19 is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the town changes, we will update the rating and/or outlook at that time.

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 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
- » Sizeable debt issuance that is not excluded from the levy limitations of Proposition 2 1/2

Key indicators

Exhibit 1

Wayland (Town of) MA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$3,174,626	\$3,174,626	\$3,668,350	\$3,666,350	\$3,847,489
Population	13,432	13,544	13,700	13,720	13,720
Full Value Per Capita	\$236,348	\$234,393	\$267,617	\$267,227	\$280,429
Median Family Income (% of US Median)	279.2%	281.6%	281.1%	286.2%	286.2%
Finances					
Operating Revenue (\$000)	\$70,407	\$68,283	\$82,873	\$79,666	\$84,740
Fund Balance (\$000)	\$14,986	\$12,653	\$14,780	\$14,800	\$15,110
Cash Balance (\$000)	\$18,875	\$16,512	\$18,202	\$17,841	\$18,021
Fund Balance as a % of Revenues	21.3%	18.5%	17.8%	18.6%	17.8%
Cash Balance as a % of Revenues	26.8%	24.2%	22.0%	22.4%	21.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$77,611	\$74,520	\$70,797	\$77,960	\$72,676
3-Year Average of Moody's ANPL (\$000)	\$94,236	\$98,293	\$98,612	\$103,064	\$106,521
Net Direct Debt / Full Value (%)	2.4%	2.3%	1.9%	2.1%	1.9%
Net Direct Debt / Operating Revenues (x)	1.1x	1.1x	0.9x	1.0x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.0%	3.1%	2.7%	2.8%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.2x	1.3x	1.3x

Sources: 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 (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 \$4.2 billion tax base (2020-21 equalized value) will remain healthy given its desirable location 18 miles west of Boston (Aaa stable), strong housing values, and affluent population. The tax base is 97% residential. Fiscal 2020 assessed value reflects year over year growth of 6%, bringing the five-year compound annual growth rate to 5%. 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. In addition to the residential sector, the town could benefit commercially beyond the next few years with the planned expansion of sewer capacity in the town center and the Rivers Edge project that is expected to begin development in the next year. Management expects enrollment to remain stable over the coming years, and there have been no changes in the town's largest taxpayers.

Resident incomes in the town are strong with median family income equal to 286% of the US median and 2020 equalized value per capita of \$303,527.

Financial Operations and Reserves: Financial position is stabilizing but remains low compared to Aaa peers

We expect the town's financial position to improve modestly based on unaudited 2020 numbers and due to management's conservative budgeting practices. Fiscal 2019 audited financials reflected breakeven results with available fund balance improving modestly from \$14.8 million in 2018 to \$15.1 million in 2019. 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 use of \$5.4 million.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer's entity page on www.moody's.com for the most updated credit rating action information and rating history.

Unaudited fiscal 2020 operations are expected to show a \$800,000 surplus driven by significant turnbacks in expenditures. To date, the town has spent roughly \$200,000 related to COVID-19 expenditures; however, management expects most of those expenditures will be covered by FEMA and CARES Act reimbursements. The fiscal 2020 budget increased by 3.5% from the prior year. The tax levy increased by 3%, and management appropriated \$1.5 million of fund balance, which is down from prior years.

Fiscal 2021 results are trending according to budget throughout the first few months of the fiscal year. The budget increased by 4.2% from the prior year. The tax levy increased by 5.3%, and management appropriated no use of fund balance. Going forward, the ability of the town to maintain a structurally balanced budget and to improve reserves is key to the trajectory of the town's credit profile.

Liquidity

Cash and investments at the end of fiscal 2019 represented \$18 million or 21% 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 will likely remain manageable over the next several years. The town has voted to exempt about 45% of outstanding debt from the levy limitations of Proposition 2 1/2, 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 1/2 to help mitigate the below average reserves. The fiscal 2021 capital improvement plan calls for \$4.1 million of spending.

Legal security

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

Debt structure

The entire debt portfolio is fixed rate with 68% of principal retired in ten years. Fiscal 2019 debt service represented \$7.2 million or 9% of revenues.

Debt-related derivatives

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

Pensions and OPEB

The town's unfunded pension and OPEB liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The town participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis with some small amounts going to an OPEB trust. The table below summarizes the town's 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

2019	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	84,740	n/a	n/a
Reported Unfunded Pension Liability	59,226	70%	7.50%
Moody's Adjusted Net Pension Liability	106,354	126%	4.22%
Reported Net OPEB Liability	29,073	34%	7.00%
Moody's Adjusted Net OPEB Liability	50,943	60%	3.51%
Net Direct Debt	72,676	86%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	229,974	271.39%	
Pension Contribution	4,649	5.49%	n/a
OPEB Contribution	3,066	3.62%	n/a
Debt Service	7,219	8.52%	n/a
Total Fixed Costs	14,934	17.62%	n/a
Tread Water Gap	n/a	n/a	n/a
Moody's Adjusted Fixed Costs	n/a	n/a	n/a

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

The town has aggressively funded its OPEB annual required contribution since 2009, indicating a willingness to address the long term liability. According to management, the liability could be fully funded by 2041. Previously, the town estimated it would fund OPEB by 2039.

To the extent that the multiple-employer pension plans in which the town participates experience returns on assets that fall short of their assumptions, the town's required pension contribution will increase.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, represented a manageable 17.6% of operating revenues. However, return on assets in the state run pension plans and future escalation of OPEB costs could materially affect fixed costs going forward.

ESG considerations

Environmental

There are no major environmental considerations.

Social

Outside of the coronavirus information discussed above, there are no major social considerations.

Governance

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.

Wayland (Town of) MA		
Scorecard Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$4,238,748	Aa
Full Value Per Capita	\$308,947	Aaa
Median Family Income (% of US Median)	286.2%	Aaa
Notching Adjustments: ^[2]		
Other Scorecard Adjustment Related to Economy/Tax Base:		Up
Finances (30%)		
Fund Balance as a % of Revenues	17.8%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	2.5%	A
Cash Balance as a % of Revenues	21.3%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	1.6%	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 (%)	1.8%	A
Net Direct Debt / Operating Revenues (x)	0.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.5%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.3x	A
Notching Adjustments: ^[2]		
Other Scorecard Adjustment Related to Debt and Pensions:		Up
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[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 dated December 16, 2016.

[3] Standardized adjustments are outlined in the latest GO Methodology Scorecard Inputs publication.

Source: Issuer's audited financial statements; US Census Bureau

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.

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