

CREDIT OPINION

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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.

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	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$3,666,350	\$3,666,350	\$3,847,489	\$3,847,489	\$4,238,748
Population	13,700	13,720	13,802	13,823	13,823
Full Value Per Capita	\$267,617	\$267,227	\$278,763	\$278,340	\$306,645
Median Family Income (% of US Median)	281.1%	286.2%	286.9%	279.2%	279.2%
Finances					
Operating Revenue (\$000)	\$82,873	\$79,666	\$84,740	\$87,179	\$92,058
Fund Balance (\$000)	\$14,780	\$14,800	\$15,110	\$16,809	\$18,246
Cash Balance (\$000)	\$18,202	\$17,841	\$18,021	\$20,519	\$21,121
Fund Balance as a % of Revenues	17.8%	18.6%	17.8%	19.3%	19.8%
Cash Balance as a % of Revenues	22.0%	22.4%	21.3%	23.5%	22.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$70,797	\$77,960	\$72,676	\$76,666	\$71,362
3-Year Average of Moody's ANPL (\$000)	\$98,612	\$101,805	\$103,975	\$109,802	\$119,310
Net Direct Debt / Full Value (%)	1.9%	2.1%	1.9%	2.0%	1.7%
Net Direct Debt / Operating Revenues (x)	0.9x	1.0x	0.9x	0.9x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.7%	2.8%	2.7%	2.9%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.3x	1.2x	1.3x	1.3x

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 (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 \$4.4 billion tax base (2022-23 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 2022 assessed value reflects year over year growth of 5%, bringing the five-year compound annual growth rate to 4%. Growing assessed and equalized valuations are a result of a strong housing market that is expected to continue even as the broader housing market slows down due to higher interest rates making mortgages more expensive. 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 under development. Management expects enrollment to remain stable over the coming years, which counters the trend in much of New England where enrollment numbers have fallen materially. There have been no changes in the town's largest taxpayers who made up just 3% of 2022 assessed valuation.

Resident incomes in the town are strong with median family income equal to 280% of the US median and 2022 equalized value per capita of \$318,387.

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

We expect the town's financial position to remain stable based on unaudited 2022 numbers due to management's conservative budgeting practices. Fiscal 2021 audited financials reflected an \$812,000 surplus which pushed available fund balance to 20%, its highest level in the last five fiscal years. 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's commitment to eliminate the use of appropriations that

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peaked in fiscal 2016 with the use of \$5.4 million has restored fund balance levels to levels more appropriate with the highest rating category. The fiscal 2021 surplus was possible due to over \$2 million in expense turnbacks from department heads. Property taxes provide the vast majority of the town's revenues at 80% of total revenues, while the town's largest expenditures are education (54% of total expenditures) and employee benefits (17%).

Unaudited fiscal 2022 operations are expected to show breakeven results when finalized. The fiscal 2022 budget increased by 3% from the prior year with a 4% increase in the tax levy to balance the increase.

Additionally, the fiscal 2023 budget will increase by 3% with a 3% increase in the tax levy. Management reports no projects have been postponed or delayed due to the ongoing inflation challenges and various macroeconomic headwinds including staff shortages and lingering supply chain problems. 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 2021 represented \$21 million or 23% 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% 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 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 town's reserve position.

Legal security

The 2022 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 70% of principal retired in ten years. Fiscal 2022 debt service represented \$7.6 million or 8% 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 2021 pension and OPEB contributions and unfunded liabilities. The town intends to fund the unfunded portion of its pension liability by 2036, which is four years ahead of the state's mandate.

Exhibit 2

Wayland, MA

2021	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	92,058	n/a	n/a
Reported Unfunded Pension Liability	54,471	59%	7.30%
Moody's Adjusted Net Pension Liability	134,644	146%	2.52%
Reported Net OPEB Liability	34,274	37%	6.75%
Moody's Adjusted Net OPEB Liability	65,657	71%	2.84%
Net Direct Debt	71,362	78%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	271,662	295%	n/a
Pension Contribution	5,003	5.44%	n/a
OPEB Contribution	3,004	3.26%	n/a
Debt Service	7,553	8.20%	n/a
Total Fixed Costs	15,560	16.90%	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.

ESG considerations

Environmental

Environmental considerations are limited as the town maintains only medium risk to the various environmental risk hazards that are tracked by Moody's ESG Solutions.

Social

Social considerations include the town's significant resident wealth and incomes.

Governance

Management has improved the town's financial position for the last several years through a combination of conservative budgeting practices and matching expense increases with commensurate revenues.

Massachusetts cities have an institutional framework score¹ 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.

Exhibit 3

Wayland (Town of) MA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$4,401,062	Aa
Full Value Per Capita	\$318,387	Aaa
Median Family Income (% of US Median)	279.2%	Aaa
Notching Adjustments: ^[2]		
Other Scorecard Adjustment Related to Economy/Tax Base:		Up
Finances (30%)		
Fund Balance as a % of Revenues	19.8%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	6.1%	A
Cash Balance as a % of Revenues	22.9%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	5.0%	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 (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	1.0x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.3x	A
	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.

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

Source: Issuer's audited financial statements; Moody's Investors Service; 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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