

## CREDIT OPINION

22 February 2017

### New Issue

#### Contacts

Nicholas Lehman 617-535-7694  
 AVP-Analyst  
 nicholas.lehman@moodys.com

Heather Guss 617-535-7693  
 Analyst  
 heather.guss@moodys.com

## Wayland (Town of) MA

New Issue - Moody's Revises Wayland, MA's Outlook to Negative; Assigns Aaa to GO Bonds

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Wayland, MA's \$13 million General Obligation Municipal Purpose Loan of 2017 Bonds. Concurrently, Moody's has affirmed the Aaa rating on \$74 million of outstanding general obligation debt. The outlook has been revised to negative from stable.

The Aaa rating reflects a stable tax base with strong wealth and income levels, satisfactory financial position including a trend of reduced reserves, and manageable debt and pension burdens. The rating also incorporates the town's aggressive funding of its OPEB liability and conservative budgeting practices despite the recent use of fund balance.

### Credit Strengths

- » Stable tax base with strong wealth and income levels
- » Aggressive funding of OPEB liability
- » Plans to formalized comprehensive financial policies

### 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 negative outlook reflects a weakening in the town's financial position given reserve levels trending at or below 20% of revenues compared to reserves that equaled between 25% - 30% of revenues five years ago. The decline in reserves is due to increased reliance on free cash appropriations towards operations and capital needs. While the tax base remains strong, the reduced financial position and above average debt burden are not comparable to the highest rating category in Massachusetts or across the US. The town's commitment to eliminating free cash appropriations for operations and improving its financial position over the near term will be a key factor in future rating reviews.

### Factors that Could Lead to a Downgrade

- » Fiscal 2017 operating deficit

- » Trend of available General Fund balance below 20% of revenues
- » Further increase in the debt burden as a percent of equalized value
- » Sizeable debt issuance that is not excluded from the levy limitations of Proposition 2 ½

## Key Indicators

Exhibit 1

Wayland (Town of) MA	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,288,025	\$ 3,103,339	\$ 3,103,339	\$ 3,174,626	\$ 3,174,626
Full Value Per Capita	\$ 252,130	\$ 235,709	\$ 233,439	\$ 236,348	\$ 238,801
Median Family Income (% of US Median)	239.9%	256.3%	281.0%	279.2%	279.2%
Finances					
Operating Revenue (\$000)	\$ 70,731	\$ 67,655	\$ 70,052	\$ 70,407	\$ 68,283
Fund Balance as a % of Revenues	26.9%	22.8%	18.6%	21.3%	18.5%
Cash Balance as a % of Revenues	32.2%	28.1%	23.7%	26.8%	24.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 66,996	\$ 70,189	\$ 76,821	\$ 77,611	\$ 74,520
Net Direct Debt / Operating Revenues (x)	0.9x	1.0x	1.1x	1.1x	1.1x
Net Direct Debt / Full Value (%)	2.0%	2.3%	2.5%	2.4%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	1.2x	1.3x	1.3x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.6%	2.6%	3.0%	3.0%	3.1%

As of fiscal year end, June 30

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

## Recent Developments

The fiscal 2016 audited financials reflect a \$2.4 million operating deficit that was projected by the town during our last review. The fiscal 2017 operations in the first six months remain balanced with a smaller free cash appropriation and an expectation of balanced year-end results. The 2017 equalized value experienced a healthy increase from the 2015 value.

## Detailed Rating Considerations

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

Wayland's \$3.7 billion (2017 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 2017 assessed value increased by 2.7%, bringing the five-year compound annual growth to 3%. The 2017 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 result in modest valuation growth over the near term. New growth revenue in 2017 was an above average \$802,000, down slightly from an all time high of just under \$1 million in 2016. Wealth levels in the town are strong with median family income equal to 279% of the US median and 2017 equalized value per capita of \$275,790. Additionally, the unemployment rate of 2% (December 2016) continues to trend below the commonwealth (2.8%) and US (4.5%).

### Financial Operations and Reserves: Financial Position Remains Stable But Reserves Are Below Historic Levels

The financial position is expected to remain relatively healthy over the near term as the town plans to eliminate the use of free cash (reserves) to balance operations. The large use of free cash over the last five years has reduced General Fund reserves to levels that are insufficient to maintain the highest rating category given how they correlate with the town's other credit factors. Fiscal 2016 audited financials reflect an operating deficit of \$2.6 million due to planned use of \$5.4 million of free cash. Despite positive variance in both

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revenues and expenditures, the positive operations were not strong enough to fully replenish the appropriation. The deficit reduced the available General Fund balance (committed, assigned and unassigned) to \$12.7 million or 18.5% of revenues plus transfers. This is a material decline from fund balance levels that have represented 25% to 30% of revenues historically and as recent as 2011 and 2012.

The fiscal 2017 budget increased 2.8% or \$2 million driven by information technology, public safety, retirement and school costs. The budget is balanced with a 7.4% tax levy increase equal to \$4.3 million and a lesser \$2.6 million free cash appropriation, \$1.5 million used for operations. Halfway through the fiscal year, revenues and expenditures are on budget and the town anticipates ending the year balanced and replenishing the free cash appropriations.

Over the last year, the town has developed and enhanced its financial policies including a multi-year budget forecast. The forecast indicates a very limited use of \$500,000 of free cash in the fiscal 2018 budget and no further use of free cash for operations beginning in fiscal 2019. The ability for the town to formally adopt these comprehensive policies and use them to rebuild available General Fund balance to above 20% of revenues will be a key factor in future reviews.

#### LIQUIDITY

Cash and investments at the end of fiscal 2016 represented \$16.5 million or a healthy 24.2% of revenues.

#### Debt and Pensions: Above Average Debt Burden Remains Manageable; Average Pension Liability and Aggressive Funding of OPEB

Wayland's direct debt burden (including the new issuance) of 2.2% 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 and a commitment to increase annual pay-go capital funding. Additionally, 46% of the outstanding debt has been excluded from the levy limits of Proposition 2 ½, providing greater operating flexibility to meet debt service. Going forward, it will be important for sizeable debt financings to be excluded from Proposition 2 ½ by a vote of taxpayers to keep the debt burden manageable and mitigate the above average debt metrics for the Aaa rating category.

#### DEBT STRUCTURE

All debt is fixed rate with 62% of principal retired in ten years. Debt service in fiscal 2016 represented \$7.7 million or 10.8% of expenditures.

#### DEBT-RELATED DERIVATIVES

The town has no derivatives and is not party to any swap agreements.

#### PENSIONS AND OPEB

The town contributes to the Middlesex Regional Retirement System, a multi-employer cost-sharing plan. The town makes its full annual contribution each year, which was \$4 million in 2016, representing a manageable 5.5% of General Fund expenditures. The 2016 three-year average Moody's Adjusted Net Pension Liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$98.3 million, or an average 1.44 times General Fund revenues.

The town has aggressively funded its OPEB annual required contribution since 2009, indicating a willingness to address the long term liability. In fiscal 2016, the town funded 93% of the cost representing \$2 million. The town's OPEB liability is currently funded at 34%, with a total Unfunded Actuarial Accrued Liability (UAAL) of \$26.7 million as of the latest December 31, 2016 valuation report. Based on the latest valuation, the liability could be fully funded by 2039, well ahead of most local governments across the US.

Total fixed costs in 2016 including debt service, required pension contributions and retiree healthcare payments, represented \$13.7 million or 19.1% of expenditures.

#### Management and Governance

Despite the use of free cash, the town adheres to conservative budgeting and plans to formally adopt comprehensive fiscal policies in the next year that management expects will help to improve the financial position going forward.

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 the purchase of a conservation restriction on property in the town know as Mainstone Farm as well as various other smaller capital projects.

### 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 December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

### Ratings

Exhibit 2

#### WAYLAND (TOWN OF) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2017 Bonds	Aaa
Rating Type	Underlying LT
Sale Amount	\$13,010,000
Expected Sale Date	03/06/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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REPORT NUMBER 1059385

## Contacts

Nicholas Lehman                      617-535-7694  
AVP-Analyst  
nicholas.lehman@moodys.com

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
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