

New Issue: Moody's assigns Aa1 to Medfield, MA's \$18.7M GO Bonds

Global Credit Research - 07 May 2015

Affirms Aa1, affecting \$62.3M of parity debt, post-sale

MEDFIELD (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2015 Bonds	Aa1
Sale Amount	\$18,700,000
Expected Sale Date	05/12/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, May 07, 2015 --Moody's Investors Service has assigned a Aa1 rating to the Town of Medfield's (MA) \$18.7 million General Obligation Municipal Purpose Loan of 2015 Bonds. Concurrently, Moody's has affirmed the Aa1 rating on the town's outstanding GO debt. Post-sale, the town will have \$62.3 million of GO debt.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the town's sound financial position, stable residential tax base with strong wealth levels and a manageable debt and pension burden.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Increased budget capacity and flexibility
- Material increase in available fund balance
- Large increase in the tax base

WHAT COULD MAKE THE RATING GO DOWN

- Prolonged operating imbalance resulting in a decline in available reserves
- Material decline in tax base or demographic profile
- Significant increase in debt burden

STRENGTHS

- Sound financial position with healthy reserve levels
- Stable tax base with strong wealth levels
- History of voter approvals for overrides and exclusions of Proposition 2 ½

CHALLENGES

- Limited levy capacity and budget flexibility due to Proposition 2 ½
- Planned appropriation of reserves

RECENT DEVELOPMENTS

The fiscal 2014 audited financials reflect continued stability in the town's financial position. The \$1.2 million drawdown of General Fund balance in fiscal 2014 reflects the ongoing planned use of a restricted debt service reserve. Net of this draw, the town ran a surplus of \$709,000 with little change to available fund balance. Please see the Detailed Ratings Rationale for further details.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: STABLE RESIDENTIAL TAX BASE WITH STRONG WEALTH LEVELS

Medfield is a primarily residential community (95% of the 2015 assessed valuation) with a population of 12,024, located approximately 20 miles southwest of Boston (Aaa stable). The town's \$2.4 billion tax base is expected to remain stable with limited growth, reflecting a turnaround in the regional real estate market. Assessed value increased 4.5% in 2015, bringing the five-year compound annual growth to 0.6%. The town's equalized value per capita remains strong at \$199,561, reflecting the strength of the residential sector. In addition, the town has a number of residential developments underway, including new construction of high-end homes and condos, and a new apartment complex which will continue to provide annual new growth revenue. Wealth levels are also substantially higher than state and national averages, with median family income well over two times the national average. Also, the town's unemployment rate of 3.7% (January 2015) continues to fall below the state (5.6%) and US (6.1%).

FINANCIAL OPERATIONS AND RESERVES: SOUND OPERATIONS WITH PLANNED USE OF RESERVES; FUND BALANCE REMAINS HEALTHY

Medfield will maintain a healthy financial position over the near term given conservative budget practices and limited, planned draws on reserves. Since 2008, the town's financial statements reflect annual use of reserves due to the drawdown of a large grant of \$18.1 million from the Massachusetts School Building Authority (MSBA) to cover school-related debt service. The current balance of the grant is \$10.8 million and is classified as restricted fund balance. The annual drawdown averages \$1.2 to \$1.3 million and will continue to be reflected in the town's annual operations through 2023, the anticipated final draw date.

The fiscal 2014 operating results when netting out the use of \$1.3 million of debt service reserve appropriations reflects an operating surplus of \$708,000, attributable to positive variance in revenues and expenditures. Available fund balance remained relatively unchanged from the prior year at \$7.3 million, or 13.4% of revenues.

The fiscal 2015 budget increased by 3.9%, or \$2.2 million from the prior year, driven by education, health insurance and employee benefits. The budget was balanced with a 1.4% increase to the tax levy and free cash appropriations of \$1.3 million and \$1.2 million from the debt service reserve, covering both operating and capital needs. As of March, revenues are ahead of budget projections while expenditures are on budget.

The fiscal 2016 budget increased by 6% from 2015 due to the debt exclusion, education, and employee benefits. The budget is balanced with a 7.9% tax levy increase, free cash appropriation of \$898,000 and \$1.2 million from the debt service reserve.

Medfield derives the majority of its revenues from property taxes (67% of 2014 revenues) and continues to benefit from a strong collection rate of 99% within the fiscal year. Positively, the town benefits from a history of voter-approved general overrides to the Proposition 2 ½ tax levy limit. In each of 2008, 2009 and 2012, the town passed an override to aid in general operations of the town and education expenses, providing some additional revenue flexibility. Our ongoing assessment of the town's credit quality will factor in management's ability to continue to maintain a nominally balanced budget with sound fund balance levels.

Liquidity

Medfield's net cash position at the end of fiscal 2014 was \$23.2 million, or a healthy 42.4% of revenues.

DEBT AND OTHER LIABILITIES

Medfield's net direct debt burden of 2.3% of equalized value will remain above average, but manageable, given average amortization of principal and voter support for debt exclusions. The town currently has no authorized, but unissued debt, and future debt plans are limited to an elementary school project with an estimated cost of \$30 million and expected no sooner than 2020. Given its history, approval of future projects will likely include debt exclusions from Proposition 2 ½.

Debt Structure

The town's principal amortization is average with 78% retired in ten years. Fiscal 2014 annual debt service represented 8.4% of expenditures and the entire debt portfolio consists of fixed rate debt.

Debt-Related Derivatives

Medfield has no derivatives.

Pensions and OPEB

The town participates in the Norfolk County Contributory Retirement System, a multi-employer, defined benefit retirement plan. The town's annual required contribution (ARC) for the plan was \$1.6 million in fiscal 2014, or 2.9% of General Fund expenditures. The town's 2013 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$44.7 million, or a moderate 0.84 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.

Medfield also makes pay-as-you-go contributions to OPEB in the amount of \$1.5 million in 2014, representing 41% of the ARC. The UAAL is \$43 million and the town has established an OPEB trust and recently began making annual deposits of \$400,000. The 2014 total fixed costs for pension, OPEB and debt service represented \$7.8 million or 14% of expenditures.

MANAGEMENT AND GOVERNANCE

Massachusetts cities have an institutional framework score of 'Aa' or strong. The primary revenue source for Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 ½ levy limit. Expenditures are largely predictable and cities have the ability to reduce expenditures.

The town's management team has shown a long term trend of consistent and conservative fiscal management with multi-year capital planning.

KEY STATISTICS

-2015 Equalized Valuation: \$2.4 billion

-2015 Equalized Value Per Capita: \$199,561

-Median Family Income as % of US Median: 208.69%

-Fiscal 2014 operating fund balance as a % of revenues: 13.46%

-5-Year Dollar Change in Fund Balance as % of Revenues (2010-2014): 4.58%

-Fiscal 2014 Cash Balance as % of Revenues: 42.56%

-5-Year Dollar Change in Cash Balance as % of Revenues (2010-2014): 0.55%

-Institutional Framework: "Aa"

-5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 0.98x

-Net Direct Debt as % of Full Value: 2.29%

-Net Direct Debt / Operating Revenues: 1.0x

-3-Year Average of Moody's ANPL as % of Full Value: 1.35%

-3-Year Average of Moody's ANPL / Operating Revenues: 0.6x

OBLIGOR PROFILE

Medfield is a primarily residential community with a population of 12,024, located approximately 20 miles southwest of Boston.

LEGAL SECURITY

Of the current issue, \$18 million is secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limitations of Proposition 2 ½. The balance is secured by the town's general obligation limited tax pledge as debt service has not been excluded from the levy limit.

Of the town's \$45 million of outstanding debt, \$31.7 million is secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limitations of Proposition 2 ½. The balance is secured by the town's general obligation limited tax pledge as debt service has not been excluded from the levy limit.

USE OF PROCEEDS

Bond proceeds will be used to finance a public safety building project and solar project.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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Analysts

Nicholas Lehman
Lead Analyst
Public Finance Group
Moody's Investors Service

Thomas Compton
Backup Analyst
Public Finance Group
Moody's Investors Service

Geordie Thompson
Additional Contact
Public Finance Group

Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



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