

New Issue: Moody's assigns Aa1 to Medfield, MA's \$9.5M GO bonds

Global Credit Research - 05 Sep 2013

Affirms Aa1 on \$31M of outstanding GO debt

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

Moody's Rating

ISSUE	RATING
General Obligation Garage Bonds	Aa1
Sale Amount \$9,500,000	
Expected Sale Date 09/12/13	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, September 05, 2013 --Moody's Investors Service has assigned an Aa1 rating to the Town of Medfield's (MA) \$9.5 million General Obligation Garage Bonds. Concurrently, Moody's has affirmed the Aa1 rating on the town's \$31 million of outstanding general obligation debt. Of the town's total outstanding debt, approximately \$35 million, including this issue, is secured by the town's unlimited general obligation tax pledge, as debt service has been voted exempt from the levy limitations of Proposition 2 ½. Debt service on the remaining \$5.5 million is secured by a limited tax pledge given that it is subject to the levy limit. Bond proceeds will fund construction of a new municipal garage which houses the town public works and other department vehicles and equipment.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the town's healthy financial position with consistent reserve levels, stable residential tax base with strong wealth levels, and a modest debt profile with above average amortization of principal.

STRENGTHS

- Healthy financial position with consistent reserve levels
- Stable tax base with strong wealth levels
- Modest debt profile with above average payout
- Strong history of voter approvals for overrides and exclusions of Proposition 2 ½

CHALLENGES

- Limited levy capacity and budget flexibility
- Maintaining satisfactory financial reserves amidst ongoing spending pressures

DETAILED CREDIT DISCUSSION

HEALTHY FINANCIAL POSITION WITH CONSISTENT RESERVE LEVELS

We expect Medfield to maintain a healthy financial position given conservative budget practices and limited annual draws on reserves. Over the last five years, the town has averaged an annual operating deficit of \$1.3 million,

balancing annually operations through the use of planned draws on restricted fund balances attributed to debt exclusions for school building projects (approximately \$1.1 million) and free cash appropriations and other available funds if needed. The fiscal 2012 operating budget remained level relative to 2011, with the only material increase to the education expenditure of 1.7%. Due to lack of tax levy capacity, the town approved an override of the tax levy limit by \$500,000 to support the increase in town and education expenses. Voters approved previous overrides in 2008 and 2009, indicating strong support for education funding. The audited financials reflect positive variance in revenues attributed to additional local receipts and conservative expenditure budgeting which led to \$938,000 in departmental turn backs. The total General Fund balance declined to \$19.9 million (38.6% of revenues) due to the \$1.1 million use of restricted fund balance. The \$12.2 million restricted fund balance represents the remainder of a 2007 grant from the Massachusetts School Building Authority (MSBA) which is pledged to cover part of the town's outstanding school debt. The total General Fund balance is expected to gradually decline as the draw-down of the MSBA grant continues through 2023. Despite the reduction in total fund balance, the available fund balance increased to \$7.6 million (14.8% of revenues) and the unassigned fund balance increased to \$2.6 million (5% of revenues) due to the positive variance in revenues and expenditures.

Medfield derives the majority of its revenues from property taxes (68% of 2012 revenues) and continues to benefit from a strong collection rate of 99% within the fiscal year. Fiscal 2013 year-end projections reflect another year of nominally balanced operations supported by planned use of restricted fund balance, \$500,000 in free cash appropriations and \$400,000 in stabilization funds (sewer betterments). Revenues ended the year up \$227,000 over budget due to continued increase in local receipts while positive expenditure variance of \$613,000 was attributed to greater departmental turn backs than in prior years. The fiscal 2014 budget increased by 2.1% from the prior year and is balanced with a 1.8% tax levy increase and continued appropriations of reserves, including \$900,000 in free cash. The free cash appropriation continues to cover \$400,000 in special appropriations while the balance will be deposited into an OPEB trust fund and stabilization fund, and cover planning costs for capital projects. Our ongoing assessment of the town's credit quality will factor in management's ability to maintain a nominally balanced budget with sound fund balance levels.

STABLE RESIDENTIAL TAX BASE WITH STRONG WEALTH LEVELS

Medfield is a primarily residential community (94% of the 2013 assessed valuation) with a population of 12,024, located approximately 20 miles southwest of Boston (rated Aaa/stable). The town's \$2.4 billion tax base is expected to remain stable with limited growth, reflecting a slow turnaround in the regional real estate market. Assessed value increased 0.8% in 2013, rebounding from five consecutive years of declines and bringing the five year average annual growth to -1.2%. The town's equalized value per capita remains strong at \$197,461, reflecting the strength of the residential sector due in part to the town's top-ranked public and private schools. In addition, the town has a number of residential developments underway, including new construction of single family housing and condos which will continue to provide annual new growth revenue. Wealth levels in Medfield are also substantially higher than state and national averages, with median family income of \$126,276 (156% and 201%, respectively). Also, the town's unemployment rate of 6.2% (June 2013) continues to fall below the state (7.4%) and US (7.8%).

MODEST DEBT PROFILE WITH ABOVE AVERAGE AMORTIZATION

Medfield's debt position is expected to remain manageable, given its modest direct debt burden of 1.3% of equalized value and rapid principal amortization of 83.1% within 10 years. The town currently has no authorized but unissued debt; although it has a number of projects planned in the coming years, including a new public safety building with an estimated cost of \$15 to \$18 million. Approval of future projects would include debt exclusions from Proposition 2 ½. The town's portion of school debt makes up approximately 56% of the total debt outstanding, but after factoring in the \$12.2 million MSBA grant, the adjusted debt burden drops to 1.2% of equalized value. Annual debt service has declined, with the fiscal 2012 cost down to 9.9% of expenditures. The town has no variable rate debt outstanding and has not entered into any derivative agreements.

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 plans was \$1.5 million in fiscal 2012, or 2.8% of General Fund expenditures. The city's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$26.5 million, or a below average 0.53 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. The town maintains a Pension Trust Fund with a current balance of \$4 million as of fiscal 2012. Also, the town currently contributes to its OPEB liability on a pay-as-you-go basis plus annual appropriations into an OPEB trust fund with a balance of \$300,000. The town contributed 38% of its Annual OPEB cost in fiscal 2012, representing \$1.4 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is \$39.8 million, as of January 1, 2011. The town's total fixed costs for 2012, including pension, OPEB, and debt service, represented

\$8.1 million or 15.5% of expenditures.

WHAT COULD MAKE THE RATING GO UP

- Increased budget capacity and flexibility
- Increase to available and unassigned fund balance
- Increase in tax base size and wealth levels

WHAT COULD MAKE THE RATING GO DOWN

- Prolonged structural imbalance
- Significant reduction in General Fund balance
- Decrease in tax base or demographic profile
- Significant increase in debt burden

KEY FACTS:

Equalized Valuation 2012: \$2.4 billion

2010 Population (US Census): 12,024

Average Annual Increase in Assessed Valuation (2008-2013): -1.2%

Median Family Income: \$126,276 (156% of state, 201% of US median)

Equalized Value per Capita: \$197,461

Unemployment (June 2013): 6.2%

FY12 Total General Fund Balance: \$19.9 million (38.6% of General Fund revenues)

FY12 Available Fund Balance: \$7.6 million (14.8% of General Fund revenues)

FY12 Unassigned Fund Balance: \$2.6 million (5% of General Fund revenues)

Direct Debt as % of Full Value: 1.3%

Adjusted Direct Debt as % of Full Value: 1.2%

Amortization of Principal (10 years): 83.1%

Post-sale General Obligation Debt Outstanding: \$40.5 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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