

## CREDIT OPINION

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 Rate this Research

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# Medfield (Town of) MA

## Update to credit analysis

### Summary

Medfield, MA (Aa1 issuer and GOLT) benefits from a sound financial position, stable residential tax base with strong wealth levels, and manageable debt, pension, and OPEB liabilities.

### Credit strengths

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

### Credit challenges

- » Limited levy capacity and budget flexibility due to Proposition 2 ½

### Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Material increase in available fund balance
- » Large increase in the tax base

### Factors that could lead to a downgrade

- » Prolonged operating imbalance resulting in a decline in available reserves
- » Material decline in tax base or demographic profile
- » Material growth in debt burden without exclusions from Proposition 2 ½

### Key indicators

Exhibit 1

#### Medfield (Town of) MA

	2016	2017	2018	2019	2020
<b>Economy/Tax Base</b>					
Total Full Value (\$'000)	\$2,399,519	\$2,639,413	\$2,639,413	\$2,801,486	\$2,801,486
Population	12,510	12,610	12,748	12,841	12,841

Full Value Per Capita	\$191,808	\$209,311	\$207,045	\$218,167	\$218,167
Median Family Income (% of US Median)	241.8%	249.0%	231.5%	240.9%	240.9%
<b>Finances</b>					
Operating Revenue (\$000)	\$59,772	\$62,814	\$64,775	\$68,522	\$72,138
Fund Balance (\$000)	\$9,429	\$7,318	\$5,515	\$8,134	\$9,929
Cash Balance (\$000)	\$24,439	\$21,586	\$19,984	\$18,654	\$19,631
Fund Balance as a % of Revenues	15.8%	11.6%	8.5%	11.9%	13.8%
Cash Balance as a % of Revenues	40.9%	34.4%	30.9%	27.2%	27.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$45,374	\$42,445	\$37,935	\$33,463	\$29,060
3-Year Average of Moody's ANPL (\$000)	\$44,944	\$41,691	\$43,190	\$44,733	\$49,783
Net Direct Debt / Full Value (%)	1.9%	1.6%	1.4%	1.2%	1.0%
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	0.6x	0.5x	0.4x
Moody's - ANPL (3-yr average) to Full Value (%)	1.9%	1.6%	1.6%	1.6%	1.8%
Moody's - ANPL (3-yr average) to Revenues (x)	0.8x	0.7x	0.7x	0.7x	0.7x

Sources: US Census Bureau, Medfield (Town of) MA's financial statements and Moody's Investors Service

## Profile

Medfield is a primarily residential community with a population of 12,800, located approximately 20 miles southwest of Boston, MA (Aaa stable).

## Detailed credit considerations

### Economy and Tax Base: Stable residential tax base with strong wealth levels

We expect Medfield's tax base to continue to increase driven by residential upgrades and new and ongoing multifamily housing developments. In 2021, equalized value increased by 6.6% from the prior year to \$3 billion, representing a new high for the town. Over the past five years, the tax base has grown at a 3.7% compound annual growth rate. Ongoing developments include a 49 unit condominium and a 24 unit apartment building. In addition, the town is anticipating \$750,000 in proceeds from the sale of land to a developer who is expected to build senior living units in the community.

Wealth levels remain substantially higher than state and national averages, with median family income well over two times the national average and equalized value per capita of \$232,510 is roughly 65% above the state average.

**Financial Operations and Reserves: Sound operations with planned use of reserves; available fund balance remains healthy**  
The town's financial position should continue to improve given conservative budgeting practices and increased federal aid. Fiscal 2020 audited results reflected a \$665,000 surplus which increased available fund balance to \$9.9 million or 14% of revenues. Property taxes and state aid make up the town's largest revenue sources at 68% and 25% respectively, while its largest expenditures are education and pension benefits at 52% and 14% of total expenditures, respectively.

Fiscal 2021 results are expected to reflect an even larger surplus when the audit is finalized. The fiscal 2021 budget increased by 2.7% from the prior year. To offset the increase in the budget, management increased the tax levy by 2.4% and appropriated \$792,597 of available fund balance.

The town received \$1.1 million of CARES Act funds, and has spent substantially all of those funds to date. Additionally, the town has received 50% of its \$1.36 million in APRA funding with the remainder expecting to be received in fiscal 2022. In addition, Medfield expects to receive \$2.5 million in additional ARPA funding through Norfolk County.

### Liquidity

Cash and investments at the end of fiscal 2020 represented \$20 million or 27% of revenues.

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## Debt and Pensions: Debt burden will remain manageable

Medfield's net direct debt burden of 1.3% of equalized value will remain above average given plans for a new \$82 million school building project the town intends to begin over the next several years. The town expects to be responsible for \$63 million in debt payments with MSBA providing subsidies to cover the remaining amount. Until the project is formally voted on by town members in November 2021, exact debt issuance amounts and timing are uncertain; however, management expects the project to be exempt from Proposition 2 1/2.

### Legal security

The 2021 bonds are payable from the town's full faith and credit general obligation unlimited tax pledge as debt service has been voted excluded from the tax levy limitations of Proposition 2 1/2. Meanwhile, the town's outstanding rated bonds are payable from the town's full faith and credit general obligation limited tax pledge as debt service has not been voted excluded from the tax levy limitations of Proposition 2 1/2.

### Debt structure

The entire debt portfolio is fixed rate with 78% of principal retired in ten years. Fiscal 2020 debt service represented \$5.6 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 additional contributions to an OPEB trust fund. The table below summarizes the town's 2020 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

2020	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	72,138	n/a	n/a
Reported Unfunded Pension Liability	20,990	29%	7.75%
Moody's Adjusted Net Pension Liability	54,850	76%	3.22%
Reported Net OPEB Liability	32,692	45%	7.25%
Moody's Adjusted Net OPEB Liability	59,023	82%	2.70%
Net Direct Debt	29,060	40%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	142,933	198%	n/a
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Pension Contribution	2,678	3.71%	n/a
OPEB Contribution	1,810	2.51%	n/a
Debt Service	5,599	7.76%	n/a
Total Fixed Costs	10,087	13.98%	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

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. Favorably, the town has established an OPEB Trust which was

funded with \$3.5 million as of June 30, 2019. In fiscal 2020, the town contributed an additional \$425,000 to the trust. Management expects to increase its contributions over time.

## ESG considerations

### Environmental

Environmental concerns are not a key risk at this time, although Moody's affiliate Four Twenty Seven has assessed the town's risk of water stress and hurricanes at high.

### Social

Social factors are not a key driver of the rating given the town's wealthy population base.

### Governance

While the town has run operating deficits in recent years, management budgets conservatively and generated a surplus in fiscal 2020. Additionally, another surplus is expected in fiscal 2021. As a result, we expect the town's financial position to remain stable.

Massachusetts cities have an institutional framework score <sup>1</sup> 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

### Medfield (Town of) MA

Rating Factors	Measure	Score
<b>Economy/Tax Base (30%)[1]</b>		
Tax Base Size: Full Value (in 000s)	\$2,985,655	Aa
Full Value Per Capita	\$232,510	Aaa
Median Family Income (% of US Median)	240.9%	Aaa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	13.8%	A
5-Year Dollar Change in Fund Balance as % of Revenues	2.2%	A
Cash Balance as a % of Revenues	27.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-4.0%	Baa
<b>Management (20%)</b>		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	1.0%	Aa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.7x	Aa
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa1

[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 GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, issuer's financial statements and Moody's Investors Service

## 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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