New Issue: Moody's assigns Aa1 to Medfield, MA's $7.2M GO Bonds

Global Credit Research - 25 Sep 2014

Town has $36.5M GO bonds outstanding

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

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2014 Bonds	Aa1
Sale Amount $7,200,000	
Expected Sale Date 10/01/14	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, September 25, 2014 --Moody's Investors Service has assigned a Aa1 rating to the Town of Medfield's (MA) $7.2 million General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's has affirmed the Aa1 rating on the town's $36.5 million of outstanding general obligation debt. Approximately $1.4 million of the bonds are 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 $5.8 million secured by a limited tax pledge, given that it is subject to the levy limit. Bond proceeds will fund the construction of a water main replacement project and land acquisition.

SUMMARY RATING RATIONALE

The Aa1 rating reflects a sound financial position that includes planned use of reserves, stable residential tax base with strong wealth levels and a modest debt and pension liability.

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

DETAILED CREDIT DISCUSSION

SOUND FINANCIAL POSITION WITH HEALTHY RESERVE LEVELS DESPITE ANNUAL APPROPRIATIONS

Medfield will maintain a healthy financial position over the near term given conservative budget practices and limited, planned draws on reserves. Over the last five years, the town has averaged an annual operating deficit of $1.2 million, balancing annually operations through the use of planned draws on restricted fund balances attributed to debt exclusions for school building projects (approximately $1.3 million) and free cash appropriations and other available funds if needed. In fiscal 2013, the town appropriated $500,000 of Free Cash to balance operations and $1.3 million from restricted fund balance as part of its annual draw-down of Massachusetts School Building Authority (MSBA) grant funds to cover school related debt service. Positive variance in both revenues and expenditures replenished the Free Cash appropriation and offset a portion of the draw on restricted reserves. Audited financials reflect an operating deficit of $981,000 and contributed to a decline in the available fund balance to $7 million or 13.2% of revenues. The total fund balance remains healthy at $23.1M, or 43.5% of revenues. Reserves include $12 million in MSBA grants restricted for school debt service which will be gradually drawn down through 2023.

The fiscal 2014 year-end estimates reflect similar operating results as in 2013. Due to an increase in Free Cash at the end of 2013, the town appropriated $910,000 for operations and capital needs. Projections indicate revenues from local receipts were over budget by $318,000 and expenditure turn backs of $534,000 will help to offset a large portion of the reserve appropriations with minimal changes to fund balance levels. The fiscal 2015 budget increased by 4.4% and is balanced with a tax levy increase of 1.4%, a $1.3 million appropriation of Free Cash, and a $1.3 million appropriation from the debt service reserve.

Medfield derives the majority of its revenues from property taxes (67% of 2013 revenues) and continues to benefit from a strong collection rate of 99% within the fiscal year. Positively, the town benefits from a recent history of voter-approved general overrides to the Proposition 2 ½ tax levy limit. In each of 2008, 2009 and 2012, the town passed a 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.

STABLE RESIDENTIAL TAX BASE WITH STRONG WEALTH LEVELS

Medfield is a primarily residential community (94% of the 2014 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 slow but gradual turnaround in the regional real estate market. Assessed value increased 1.4% in 2014, bringing the five-year compound annual decline to -0.5%. The town's equalized value per capita remains strong at $197,461, reflecting the strength of the residential sector. In addition, the town has a number of residential developments underway, including new construction of high-end apartments and condos 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 5.4% (July 2014) continues to fall below the state (6.1%) and US (6.5%).

MODEST DEBT AND PENSION LIABILITY

Medfield's debt position is expected to remain manageable, given its modest direct debt burden of 1.5% of equalized value and average principal amortization of 77% 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 $19 million. Approval of future projects would include debt exclusions from Proposition 2 ½. The town's portion of school debt represents over half of the total debt outstanding, and after factoring in the $12.2 million MSBA grant, the adjusted debt burden drops to 1.4%. Fiscal 2013 annual debt service represented 8.7% of expenditures and the entire debt portfolio consists of fixed rate debt with no exposure to derivative products.

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 $1.6 million in fiscal 2013, or 2.9% of General Fund expenditures. The city's 2012 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $26 million, or a below average 0.51 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.

WHAT COULD MAKE THE RATING GO UP

- Increased budget capacity and flexibility

- Material increase in available and unassigned fund balance

- Large increase in tax base size

WHAT COULD MAKE THE RATING GO DOWN

- Prolonged operating imbalance resulting in a decline in available reserves

- Significant reduction total reserves

- Material decline in tax base or demographic profile

- Significant increase in debt burden

KEY STATISTICS:

2014 Equalized Valuation: $2.4 billion

2014 Equalized Value Per Capita: $197,461

Median Family Income as % of US Median: 230.3%

Fiscal 2013 General Fund balance as a % of Revenues: 13.2%

5-Year Dollar Change in Fund Balance as % of Revenues (2009-2013): 3.0%

Fiscal 2013 Cash Balance as % of Revenues: 44.3%

5-Year Dollar Change in Cash Balance as % of Revenues (2009-2013): -0.96%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures (2009-2013): 0.98x

Net Direct Debt as % of Full Value: 1.5%

Net Direct Debt / Operating Revenues: 0.68x

3-Year Average of Moody's ANPL as % of Full Value: 1.08%

3-Year Average of Moody's ANPL / Operating Revenues: 0.50x

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.moodys.com for a copy of this methodology.

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