

## CREDIT OPINION

21 April 2016

New Issue

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## Belmont (Town of) MA

New Issue - Moody's assigns Aaa to Belmont, MA's \$1.9M GO Bonds and MIG 1 to \$27.6M GO Taxable BANs

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Belmont, MA's \$1.9 million General Obligation Municipal Purpose Loan of 2016 Bonds and a MIG 1 rating to \$27.6 million General Obligation Taxable Bond Anticipation Notes (BANs, dated May 6, 2016 and payable May 5, 2017). Concurrently, we have affirmed the Aaa rating on \$72.8 million in outstanding long-term general obligation bonds. The outlook is stable.

The Aaa rating reflects the town's healthy financial operations and reserve position, a moderately-sized tax base with strong wealth levels and close proximity to New England's largest employment center, and manageable debt burden. The rating also incorporates aggressive funding of its moderate pension liability.

The MIG 1 rating factors the town's strong underlying credit strength, sufficient liquidity, adequate takeout management, and history of frequent market access.

### Credit Strengths

- » Stable financial operations and fiscal management
- » Affluent tax base with close proximity to Boston (Aaa stable)
- » History of voter supported general overrides

### Credit Challenges

- » Rapid growth of school enrollment drives education operational and capital costs
- » Future debt plans over medium term could increase debt burden

### Rating Outlook

The stable outlook incorporates our expectation that the financial position will remain stable over the near term and the tax base will continue to experience healthy annual growth.

### Factors that Could Lead to a Downgrade

- » Multi-year trend of operating deficits resulting in reserve declines
- » Substantial growth in the debt burden
- » Failure to address long-term liabilities

## Key Indicators

Exhibit 1

<b>Belmont (Town of) MA</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 5,579,451	\$ 5,579,451	\$ 5,612,453	\$ 5,612,453	\$ 5,760,632
Full Value Per Capita	\$ 225,624	\$ 225,624	\$ 226,958	\$ 220,131	\$ 225,943
Median Family Income (% of US Median)	N/A	194.7%	194.7%	194.7%	194.7%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 90,434	\$ 92,350	\$ 95,689	\$ 99,520	\$ 98,595
Fund Balance as a % of Revenues	17.4%	19.1%	18.5%	19.6%	20.3%
Cash Balance as a % of Revenues	20.1%	22.7%	22.6%	23.4%	24.4%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 52,789	\$ 48,399	\$ 44,402	\$ 43,487	\$ 41,995
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.5x	0.4x	0.4x
Net Direct Debt / Full Value (%)	0.9%	0.9%	0.8%	0.8%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.9x	1.1x	1.2x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.5%	1.9%	2.1%	2.4%

As of June 30 fiscal year-end

Full Value = Equalized Value

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Favorably Located With Strong Wealth Levels

Belmont's tax base will remain stable given its high end housing stock, close proximity to a major metropolitan area, and ongoing development efforts. Located approximately 8 miles west of the City of Boston (Aaa stable), Belmont benefits from its location to New England's largest economic center. The town is served by the Massachusetts Bay Transportation Authority (MBTA, Aa2 stable) bus lines and commuter rail, and is nearby major transportation routes including Route 2. The largely residential tax base (95% of 2016 assessed value) has seen sizeable growth recently, increasing by 11.3% in 2016, the largest increase in over 12 years. The five-year compound annual growth has improved to 3.7%. New growth revenue is expected to remain moderate at over \$600,000 annually over the near term primarily due to residential redevelopment.

Median home values are more than twice that of the Commonwealth, and more than three times the nation. Wealth levels are also strong, with median family income representing 195% of the nation. Unemployment (3% as of December 2015) also remains well below the state and national rates of 4.6% and 4.8%, respectively.

### Financial Operations, Reserves and Liquidity: Stability with Healthy Reserves Expected To Continue

The town's financial position will remain stable over the near term with healthy reserves due to strong fiscal management and taxpayer support of a general override to the Proposition 2 ½ tax levy limit. Fiscal 2015 audited financials reflect an operating surplus of \$263,000 attributable to positive variance in revenues mostly from licenses and permits as well as expenditure savings in all major departments. The surplus increased the available General Fund balance to \$20 million or 20.3% of revenues. Additionally, the town maintains a Capital Endowment Fund within its Nonmajor Funds with a balance of \$3.6 million at year-end. The additional capital reserve increased the available fund balance to approximately 24% of revenues, providing additional operating flexibility and ability to address capital costs. Primary revenues are property taxes (77% of 2015 revenues) with a historically strong collection rate of 99% within the fiscal year. The largest expenditures are education (48% of 2015 expenditures) and public safety (12%).

The fiscal 2016 budget increased 5.3% from the prior year driven by education. The budget was balanced with a 6.2% increase in the tax levy and \$1.8 million appropriation of free cash. The levy increase includes a \$4.5 million general override that was approved by

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voters in April 2015. The override is allocated to provide \$2.6 million towards education funding, \$500,000 for road improvements, and \$1.6 million into the general stabilization fund for future operations. Year-to-date operations are trending on budget, including another year of strong building permit revenue. Year-end results are expected to end balanced or with a moderate surplus.

The proposed fiscal 2017 budget increased 4.6% again driven by education costs. The budget is balanced with a 5.2% tax levy increase and a \$1.6 million free cash appropriation. Going forward, the recent trend of strong school enrollment will likely continue to challenge the town's operating and capital budget. We expect the strong fiscal management and history of taxpayer support of general overrides and debt exclusions will help mitigate these pressures in future budgets.

#### LIQUIDITY

Cash and investments at the end of fiscal 2015 represented \$24.1 million or a healthy 24.4% of revenues. The liquidity position provides sufficient coverage of 87% of the BANs being issued. The limited coverage is mitigated by the plans for NSTAR to payoff the notes at maturity under a Joint Development Agreement between the utility and the town's electric department. Additionally, the town is a frequent issuer and has historically received strong market access.

#### Debt and Pensions: Manageable Liabilities With Possibilities of Additional Debt Over Medium Term

Belmont's debt profile is expected to remain manageable given its average net direct debt burden, self-supporting enterprises, and moderate future borrowing plans. Incorporating the current issuance, net direct debt is average at 0.8% of equalized value. The gross direct debt burden doubles to 2% when incorporating the currently self-supporting enterprise funds of water, sewer and electric.

In February of 2012, the town voted to authorize borrowing of \$53.7 million to finance upgrades to the Municipal Light Plant. The current note issuance is the final borrowing for the project and is expected to receive full reimbursement from the area's local electricity provider, pursuant to a Joint Development Agreement. All electric debt is expected to be fully supported by electric utility fees, and is not projected to negatively impact the overall financial or debt position.

The town is also in the early planning phases of a potential high school project that could begin in approximately 4 years. The estimated cost would be roughly \$100 million, which is expected to be partially supported by Commonwealth School Building Aid. Although the town's debt burden is currently manageable, anticipated future borrowings are expected to significantly increase leverage, which will be important rating considerations in future reviews.

#### DEBT STRUCTURE

The debt profile is entirely fixed rate with 63% of principal retired in 10 years. Fiscal 2015 debt service represented 5.1% of expenditures.

#### DEBT-RELATED DERIVATIVES

The town has no derivatives.

#### PENSIONS AND OPEB

The town maintains its own retirement plan for all employees, with the exception of teachers and certain school administrators who contribute to the State Teachers Contributory Retirement System. The town is required by the state to fully fund its required contribution, which was \$6.6 million in 2015, representing a moderate 6.6% of General Fund expenditures. Currently, projections indicate that the plan will be fully funded by 2027, an aggressive schedule and well before the Commonwealth deadline of 2040. The 2015 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$136 million, or an average 1.4 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.

Belmont contributes to its OPEB liability on a pay-as-you-go basis, contributing 31% of the annual cost in 2015 or \$4.9 million. Additionally, deposits are made into an OPEB trust on an annual basis that has contributed to a 1% funded ratio against a unfunded liability of \$171 million as of the latest valuation report dated July 1, 2014.

Total fixed costs in fiscal 2015 including debt service, required pension contributions and retiree healthcare payments, represented \$16.5 million or 16.5% of expenditures.

## Management and Governance

The town continues to benefit from strong fiscal management including multi-year budget forecasting and five year capital planning.

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 and notes are secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from the tax levy limits of Proposition 2 ½.

## Use of Proceeds

Bond proceeds will fund public safety radio equipment and school fire alarm equipment. The note proceeds will fund municipal light plant construction and upgrades.

## Obligor Profile

Belmont is a moderately sized residential community located just west of Boston. The town has an estimated population of 24,729.

## Methodology

The principal methodology used in rating the general obligation debts was US Local Government General Obligation Debt published in January 2014. The principal methodology used in rating the short-term was US Bond Anticipation Notes published in April 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

## Ratings

Exhibit 2

### Belmont (Town of) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2016 Bonds	Aaa
Rating Type	Underlying LT
Sale Amount	\$1,886,000
Expected Sale Date	04/26/2016
Rating Description	General Obligation
General Obligation Taxable Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$27,600,000
Expected Sale Date	04/26/2016
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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REPORT NUMBER 1022786

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