MOODY'S
INVESTORS SERVICE

New Issue: Moody's Assigns Aaa to Belmont MA's $29 M GO Bonds; outlook stable

Global Credit Research - 01 Apr 2014

Affirms Aaa affecting $40.9M of outstanding debt

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

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2014 Bonds		Aaa
Sale Amount	$28,962,000	
Expected Sale Date	04/11/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, April 01, 2014 --Moody's Investors Service has assigned a Aaa rating to the town of Belmont's (MA) $28.96 million General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's has affirmed the Aaa rating on $40.9 million of outstanding General Obligation debt. The bonds are secured by the town's limited general obligation tax pledge, as debt service has not been voted exempt from the levy limitations of Proposition 2 ½. Proceeds from this issue will be used primarily to finance upgrades to the Belmont Municipal Light Plant ($26.1 million), as well as other various town, school, and water projects ($2.86 million).

SUMMARY RATING RATIONALE

The Aaa rating reflects the town's healthy financial operations which are bolstered by strong reserve levels. The rating also incorporates the moderately-sized tax base with strong wealth indicators and a manageable debt position.

The outlook remains stable, indicating Moody's expectation that the town will continue to exhibit credit characteristics that commensurate with our highest rating category.

STRENGTHS

-- Stable financial operations with healthy reserve levels

-- Sizeable tax base with strong socioeconomic indices

-- Satisfactory plans to address pension and OPEB liabilities

CHALLENGES

-- History of appropriating reserves for operations

-- Planned future borrowings expected to increase leverage

DETAILED CREDIT DISCUSSION

FINANCIAL POSITION EXPECTED TO REMAIN STABLE, SUPPORTED BY ADEQUATE RESERVES AND

CONSERVATIVE BUDGET MANAGEMENT

Belmont's financial position is expected to remain stable, given the town's recent history of structurally-balanced operations, and healthy reserve levels which are supported by a formal fiscal policy. Fiscal 2013 operations resulted in a modest surplus of $33,000, representing the fourth consecutive year of General Fund balance growth. The balanced operations were a result of management's commitment to conservative budgeting and prudent expenditure management. As a result of the favorable operations, the town's available reserves increased to $17.4 million, or a healthy 18% of revenues, which remains consistent with the median for other similarly-rated Massachusetts municipalities. Fiscal 2013 available reserves include the town's Capital Endowment Fund ($3.3 million) and the uncommitted portion of General Fund balance ($14.1 million). Net income from the Capital Endowment Fund may be used for technology-related capital purchases, and with a two-thirds vote at town meeting, the principal of the fund may be used for capital improvements, providing an additional layer of financial flexibility. The town maintains a formal reserve policy to maintain a minimum combined balance (General Fund and Capital Endowment Fund) equal to 10% of operations.

The fiscal 2014 budget included a 2.5% increase in spending and was balanced with a 2.5% increase to the property tax levy and a $2 million appropriation of fund balance for operations. To date, management reports that operations are performing well, and that the full appropriation of fund balance will be replenished.

The fiscal 2015 budgeting process is currently under way, and will be balanced in part with a 2.5% increase to the levy, as well as $550,000 in new growth property tax revenue. The budget will also include a free cash appropriation of $1.9 million, which is less than prior years. In addition, a modest increase in state aid is expected providing additional budgetary flexibility.

MODEST NEW GROWTH EXPECTED FOR AFFLUENT RESIDENTIAL TAXBASE

Belmont's tax base is expected to remain stable given its high end housing stock, close proximity to a major metropolitan area, and modest new development efforts. Located approximately 8 miles west of the City of Boston (rated Aaa stable), Belmont benefits from its location in New England's largest economic metro center. The town is served by the Massachusetts Bay Transportation Authority (MBTA, rated Aa1 stable) bus lines and commuter rail, and is nearby major transportation routes including Route 2. The largely residential tax base (94.4% of 2014 assessed value) saw moderate growth over the last several years, increasing by 7.2% from 2011 to 2014. There are several modest commercial projects underway, although the majority of new growth is expected to be derived from residential redevelopment.

Median home values are more than twice that of the Commonwealth, and more than three times that of the nation. Wealth levels are also strong, with 2010 per capita income and median family income representing 190% and 224% of the nation, respectively. Unemployment (4.3% as of December 2013) also remains well below the state and national rates of 6.7% and 6.5%, respectively.

MODERATE DEBT PROFILE WITH FUTURE PLANNED BORROWING

Belmont's debt profile is expected to remain manageable, given its average net direct debt, and moderate future borrowing plans. Incorporating the current issuance, net direct debt is on par with the commonwealth and national medians at 1% of full value. The overall debt burden increases slightly to 1.1% when incorporating overlapping debt from the MBTA, the Massachusetts Bay Transportation Authority (MBTA, rated Aa1 stable), and the Minuteman Regional Vocational-Technical School District. Principal retirement is below average, with 57.1% amortized within 10 years. The town has no variable rate debt or swaps, and is not party to any derivative agreements.

In February of 2012, the town voted to authorize borrowing of $53.7 million to finance upgrades to the town's Municipal Light Plant. After the current issuance, approximately $27.6 million remain authorized but unissued, and are expected to be borrowed in the next fiscal year. The second issuance is expected to receive substantial reimbursement from the area's local electricity provider. All electric debt is expected to be fully supported by electric utility fees, and is not projected to negatively impact the overall financial position.

The town is also in the early planning phases of a potential high school project. While a timeline and sizing has not yet been established, borrowing for this is expected to be partially supported by Commonwealth School Building Aid.

MANAGEABLE LIABILITIES FOR PENSION 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 Annually Required Contribution (ARC), which was $6.5 million in 2013, representing a moderate 6.7% of General Fund expenditures. Currently, the plan assumes a 7.75% rate of return, with projections indicating that the plan will be fully funded by 2027, well before the Commonwealth deadline of 2040. The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $90 million, or an average 0.93 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 has established a trust fund for its Other Post Employment Benefits (OPEB) liability, which is currently funded at $1.6 million, although the majority of the liability is funded on a pay-as-you-go basis. In fiscal 2013, the town funded 25% of the $18.2 million OPEB ARC, representing $4.6 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is a significant $195 million, as of July 1, 2012.

OUTLOOK

The outlook remains stable, reflecting Moody's expectation that Belmont's financial position will remain healthy in the near term given its history of positive operations and adequate reserve levels which are supported by a formal policy. The outlook also incorporates the town's stable tax base with strong home values, affluent population, and close proximity to a major economic center.

WHAT COULD CHANGE THE RATING DOWN

-- Failure to maintain structurally balanced financial operations

-- Significant reduction of General Fund Balance and free cash

-- Deterioration of the town's tax base

-- Failure to address long term fixed costs, including pension and OPEB obligations

KEY STATISTICS

2014 Equalized Valuation: $5.6 billion

2014 Equalized Value Per Capita: $226,958

Median Family Income as % of US Median: 224%

Fiscal 2013 General Fund balance as a % of Revenues: 18.3%

5-Year Dollar Change in Fund Balance as % of Revenues (2009-2013): 9.1%

Fiscal 2013 Cash Balance as % of Revenues: 22.3%

5-Year Dollar Change in Cash Balance as % of Revenues, adjusted (2009-2013): 10.18%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures (2009-2013): 1.00x

Net Direct Debt as % of Full Value: 1%

Net Direct Debt / Operating Revenues: 0.58x

3-Year Average of Moody's ANPL as % of Full Value: 1.5%

3-Year Average of Moody's ANPL / Operating Revenues: 0.93x

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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