New Issue: Moody's assigns Aaa to Belmont MA's $7.3M GO bonds, MIG 1 to $26.4M GO BANs; outlook stable

Global Credit Research - 13 Apr 2015

Affirms Aaa on $72.9M outstanding GO debt

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

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2015 Bonds		Aaa
Sale Amount	$7,287,000	
Expected Sale Date	04/22/15	
Rating Description	General Obligation	
General Obligation Taxable Bond Anticipation Notes		MIG 1
Sale Amount	$26,400,000	
Expected Sale Date	04/22/15	
Rating Description	Note: Bond Anticipation	

Moody's Outlook STA

NEW YORK, April 13, 2015 --Moody's Investors Service has assigned a Aaa rating to the Town of Belmont's (MA) $7.3 million General Obligation Municipal Purpose Loan of 2015 bonds and a MIG 1 rating to $26.4 million General Obligation Taxable Bond Anticipation Notes (dated May 7, 2015 and payable May 6, 2016). Concurrently, Moody's has affirmed the Aaa rating assigned to $72.9 million in outstanding long-term general obligation debt. The outlook is stable.

SUMMARY RATING RATIONALE

Moody's highest long-term 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 close proximity to New England's largest employment center. Further, the rating factors the town's manageable liabilities for pension and OPEB and a moderate debt burden which is expected to increase with planned future borrowings.

The MIG 1 rating factors the strong underlying credit profile of the town, status as a frequent debt issuer, and satisfactory liquidity.

OUTLOOK

The stable outlook incorporates our expectation that Belmont will maintain superior credit quality given its well managed financial position and favorably located tax base with strong resident wealth levels.

WHAT COULD MAKE THE RATING GO UP

- N/A

WHAT COULD MAKE THE RATING GO DOWN

- Significant reduction of General Fund Balance and free cash

- Substantial growth in debt burden

- Deterioration of the town's tax base

- Failure to address long term fixed costs for pension and OPEB

STRENGTHS

- Stable financial operations

- Strong financial policies and planning

- Sizeable and affluent tax base in close proximity to a major city

- Manageable long-term liabilities for debt, pensions, and OPEB

CHALLENGES

- Rapidly growing school enrollment is increasing school capital needs

- Planned future borrowings will increase leverage

RECENT DEVELOPMENTS

Recent developments are discussed in the Detailed Rating Rationale below

DETAILED RATING RATIONALE

LONG-TERM RATING, STRONG TAKEOUT MANAGEMENT & AVAILABLE RESERVES KEY TO SHORT TERM RATING

The assignment of the MIG 1 rating factors in the town's strong long-term credit quality as well as its consistent market access, takeout management and liquidity. The town is a frequent market participant and currently maintains a Aaa rating. Takeout management is considered moderate with well-developed plans in place for the event of any refinancing risk. Fiscal 2014 available liquidity (including the capital endowment fund) was strong at $27 million, and anticipated liquidity at the time of takeout is expected to be healthy as well.

ECONOMY AND TAX BASE: MODERATELY SIZED WITH AFFLUENT RESIDENTIAL POPULATION

Belmont's tax base is expected to 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 metro 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 (94.4% of 2015 assessed value) has seen sizeable growth recently, increasing by 16% over the last 5 years, including 8.2% growth in fiscal 2015. There are several modest commercial projects underway, including beautification efforts in Belmont center and a grocery store project, 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 195% of the nation, respectively. Unemployment (3.4% as of January 2015) also remains well below the state and national rates of 5.6% and 6.1%, respectively.

FINANCIAL OPERATIONS AND RESERVES: STABLE FINANCIAL POSITION WITH ADEQUATE RESERVES

Belmont's financial position is expected to remain stable, given the history of structurally-balanced operations, and healthy reserve levels which are supported by a formal fiscal policy. Fiscal 2014 operations resulted in a sizeable surplus of $1.5 million, representing the fifth 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 total General Fund balance increased to $19.5

million, or a healthy 19.4% of revenues. Unassigned General Fund balance grew to $12.4 million or 12.4% of revenues, which remains consistent with the median for other similarly-rated Massachusetts municipalities. In addition to the General Fund, the town maintains $3.7 million in a Capital Endowment Fund. 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 (Unassigned General Fund and Capital Endowment Fund) equal to 10% of operations.

The fiscal 2015 budget included a 3.8% increase in spending and was balanced with a 3.3% increase to the property tax levy and a $1.3 million appropriation of fund balance for capital needs. Budget drivers were education costs, as well as pension and health benefits. To date, management reports that operations are performing well, with the exception of snow and ice which has exceeded the budget by approximately $800,000. At year end, the town expects that to finish with balanced operations, including replenishment of the majority of the initial fund balance appropriation.

The fiscal 2016 budgeting process is currently under way, and will be balanced in part with a modest increase to the levy. The budget will also include a free cash appropriation of $1.75 million, which is less than prior years. In addition, a modest increase in state aid is expected providing additional budgetary flexibility.

Liquidity

Belmont's net cash position at the close of fiscal 2014 was healthy at $23.3 million, representing 23.2% of revenues.

DEBT AND PENSIONS: MANAGEABLE LIABILITIES FOR DEBT, PENSION AND OPEB

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 1.2% of full value. The overall debt burden increases slightly to 3.4% when incorporating overlapping debt from the MBTA, the Massachusetts Water Resources Authority (Aa1 stable), and the Minuteman Regional Vocational-Technical School District.

In February of 2012, the town voted to authorize borrowing of $53.7 million to finance upgrades to the town's Municipal Light Plant. The current note issuance is the final borrowing for the project and is expected to receive substantially 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 position.

The town is also in the early planning phases of a potential high school project. While a timeline has not yet been established, 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

All of Belmont's debt is fixed rate, and amortizes at a below average pace with 59.6% of principal being retired within 10 years.

Debt-Related Derivatives

Belmont 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 Annually Required Contribution (ARC), which was $6.9 million in 2014, representing a moderate 7% of General Fund expenditures. Currently, projections indicate that the plan will be fully funded by 2027, well before the Commonwealth deadline of 2040. The town's 2014 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $136 million, or an average 1.36 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 2014, the town funded 28% of the $20.3 million OPEB ARC, representing $5.3 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is a significant $195 million, as of July 1, 2012.

MANAGEMENT AND GOVERNANCE

Massachusetts cities have an institutional framework score of 'Aa' or strong. The primary revenue source for most Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 ½ levy limit. Expenditures are largely predictable and cities have the ability to reduce expenditures.

Town management employs conservative budgeting and financial management as evidenced in prudent budget management, formal fiscal policies, and long-term planning for capital expenditures.

KEY STATISTICS

- 2015 Equalized Valuation: $6 billion

- 2015 Equalized Value Per Capita: $232,950

- Median Family Income as % of US Median: 195%

- Fiscal 2014 General Fund balance as a % of Revenues: 19.61%

- 5-Year Dollar Change in Fund Balance as % of Revenues (2010-2014): 8.23%

- Fiscal 2014 Cash Balance as % of Revenues: 23.45%

- 5-Year Dollar Change in Cash Balance as % of Revenues, adjusted (2010-2014): 11.63%

- Institutional Framework: "Aa"

- 5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 1.01x

- Net Direct Debt as % of Full Value: 0.72%

- Net Direct Debt / Operating Revenues: 0.4x

- 3-Year Average of Moody's ANPL as % of Full Value: 2.09%

- 3-Year Average of Moody's ANPL / Operating Revenues: 1.2x

OBLIGOR PROFILE

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

LEGAL SECURITY

All of the town's outstanding debt is secured by a general obligation limited tax pledge, as debt has not been voted exempt from the levy limitations of Proposition 2 ½.

USE OF PROCEEDS

Of the bonds, approximately $4.7 million are being issued to finance various town capital needs. The remaining $2.6 million will be used to refund the town's 2006 and 2007 bonds, for an estimated net present value savings of $190,000, or 7.25% of refunded principal.

The notes are being issued to finance upgrades to the town's municipal light department.

PRINCIPAL METHODOLOGY

The principal methodology used in the long term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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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