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CREDIT OPINION
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Belmont (Town of) MA

Update to credit analysis

Summary

Belmont (Aaa stable), Massachusetts' strong credit profile benefits from healthy financial operations and reserves, a moderately-sized tax base in close proximity to Boston (Aaa stable), New England's largest employment center, a strong resident wealth and income profile, a rising but manageable debt burden and aggressive funding of its moderate pension liability.

Credit strengths

- Stable financial operations and fiscal management
- Affluent tax base very close to Boston and Cambridge
- History of voter approved debt exclusions and general overrides

Credit challenges

- Rapid growth of school enrollment driving rising education operational and capital costs
- Future debt plans over near term will substantially increase debt burden

Rating outlook

The stable outlook reflects our expectation that the town's financial position will remain stable over the near term and the tax base will continue to grow at a healthy pace.

Factors that could lead to a downgrade

- Failure to maintain financially balanced operations as debt service increases
- Deviation from planned funding of pension liability
- Unwillingness of voters to approve future debt exclusions and overrides

Key indicators

Exhibit 1

Belmont (Town of) MA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$5,612,453	$5,760,632	$5,760,632	$6,932,749	$6,932,749
Population	25,173	25,337	25,555	25,965	25,965
Full Value Per Capita	$222,955	$227,360	$225,421	$267,004	$267,004
Median Family Income (% of US Median)	198.5%	213.7%	207.9%	210.0%	210.0%
Finances					
Operating Revenue ($000)	$99,520	$98,595	$107,100	$112,222	$117,439
Fund Balance ($000)	$19,520	$20,007	$23,177	$24,798	$25,614
Cash Balance ($000)	$23,334	$24,055	$26,757	$27,363	$31,809
Fund Balance as a % of Revenues	19.6%	20.3%	21.6%	22.1%	21.8%
Cash Balance as a % of Revenues	23.4%	24.4%	25.0%	24.4%	27.1%
Debt/Pensions					
Net Direct Debt ($000)	$41,415	$41,995	$40,836	$89,414	$60,152
3-Year Average of Moody's ANPL ($000)	$120,373	$136,264	$137,631	$140,493	$148,895
Net Direct Debt / Full Value (%)	0.7%	0.7%	0.7%	1.3%	0.9%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.8x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.1%	2.4%	2.4%	2.0%	2.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.4x	1.3x	1.3x	1.3x

Data as of 6/30 fiscal year end
Source: Moody's Investors Service and issuer's audited financial statements

Profile

Belmont is a moderately sized residential community located just west of Boston (Aaa stable). The town has approximately 26,000 residents.

Detailed credit considerations

Economy and Tax Base: Favorably located with strong resident wealth levels

Belmont's tax base will remain stable given its high end housing stock, close proximity to Boston, and ongoing development. Located approximately 8 miles west of Boston, Belmont benefits from its proximity 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 nearby major transportation routes including Route 2. The largely residential tax base (94% of 2019 assessed value) has grown significantly recently, increasing by 2.1% in 2017, 8.1% in 2018, and 9.0% in 2019. Over the last five years the tax base has grown at a compound annual rate of 7.7%. New growth revenue, largely stemming from redevelopment, will remain moderate over the near term. The tax base is well diversified with the top ten taxpayers accounting for only 4.8% of the net tax levy.

Resident wealth and incomes are strong. Median family income is equal to 157% and 208% of the state and nation, respectively. Median home values are more than twice that of the Commonwealth, and are approaching four times the value of the median US home. Unemployment of 1.8% as of December 2018 remains well below the state and national rates of 2.7% and 3.7%, respectively.

Financial Operations and Reserves: Stability with healthy reserves expected to continue

The town's financial position will remain stable over the near term with healthy reserves resulting from strong fiscal management and continued taxpayer support of general overrides to the Proposition 2½ tax levy limit.

Fiscal 2018 audited financials reflect an operating surplus of $816,000 attributable to higher than expected excise taxes, investment income, and licenses and permits. Additionally, the town received an unexpected Medicare payment of more than $200,000. The surplus increased the available General Fund balance to $25.6 million representing 21.8% of revenues. Additionally, the town maintains a Capital Endowment Fund within its Nonmajor Funds with a balance of $3.9 million which provides additional operating flexibility and ability to address capital costs. The town's primary revenues are property taxes which accounted for 74.0% of 2018 revenues. The largest expenditure items are education accounting for 45.8% of 2018 expenditures and pension benefits accounting for 14.7%.

The fiscal 2019 budget increased 5.5% or $6.1 million driven by rising education, healthcare, and pension expenses. The increased budget included an increase in the tax levy of 4.6%, the use of $1.3 million of General Fund balance, and appropriated free cash of $1.6 million.

The proposed fiscal 2020 budget is 11.5% or $13.3 million larger than the 2019 budget driven by the town's significantly increased debt burden. To offset the increase the tax levy will increase 10.2%, management will use $2.6 million of General Fund balance along with $1.6 million of free cash. Going forward, the recent trend of strong school enrollment will 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 2018 totaled $31.8 million representing 27.1% of revenues.

Debt and Pensions: Significant additional debt over near term however exclusion is key; manageable pension liabilities

Belmont's debt profile, currently measuring 0.9% of equalized value, will increase significantly as the town completes a high school renovation project over the next several years. By the end of fiscal 2020, we expect the net direct debt burden to eclipse 3.0%, which would be significantly elevated compared to Aaa peers. However, over 75% of voters voted to exclude the debt from the limits of Proposition 2½ indicating clear acceptance by residents of the rising debt burden. Management expects the Massachusetts School Building Authority (Aa2 stable) to contribute about $80 million of the high school project covering approximately 27% of the cost.

Future projects are small in comparison and include renovating a police station, completing Massachusetts Water Resources Authority (Aa1 stable) work, and potentially building a new library more than 5 years from now.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with 70% of principal retired within ten years. Fiscal 2018 debt service totaled $4.5 million representing 3.9% of expenditures.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or other derivative agreements.

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 $8.0 million in fiscal 2018, representing a moderate 6.9% of General Fund expenditures. Current projections indicate that the plan will be fully funded by 2029, which is two years later than projected at the end of fiscal 2017 but still well before the Commonwealth deadline of 2040. The 2018 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $149 million, or an average 1.3 times General Fund revenues.

Belmont contributes to its OPEB or retiree healthcare liability on a pay-as-you-go basis, contributing $4.5 million in fiscal 2018. Additionally, the town has created an OPEB trust that has been modestly funded. Management expects to aggressively fund the OPEB trust once the unfunded pension liability has been fully funded in 2029. Total fixed costs in fiscal 2018 including debt service, required pension contributions and retiree healthcare payments, totaled $16.9 million representing 14.6% of expenditures.

Management and Governance

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

Massachusetts cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities' major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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