

## CREDIT OPINION

2 June 2017

New Issue

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## Wellesley (Town of) MA

New Issue - Moody's Assigns Aaa to Wellesley, MA's GO Bonds; Outlook Stable

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Wellesley, MA's \$6.3 million General Obligation Municipal Purpose Loan of 2017 Bonds. Moody's maintains the Aaa rating on the town's outstanding general obligation debt. The outlook is stable.

The Aaa rating reflects the sizeable and wealthy suburban tax base, well-managed financial position with stable reserves, manageable debt burden, and prudent funding of long-term liabilities.

### Credit Strengths

- » Wealthy and diverse tax base with favorable location and institutional presence
- » Conservative fiscal management aided by formalized policies
- » History of strong voter support for debt exclusions and general overrides to Proposition 2 ½
- » Aggressive funding of OPEB liability

### Credit Challenges

- » Large capital needs, which will require voter approved debt exclusions
- » Rising education costs

### Rating Outlook

The stable outlook reflects the town's conservative budgeting and adherence to formalized financial policies that will support balanced operations over the near term. The outlook also incorporates the additional financial flexibility provided by the strong tax base with voter approved debt exclusions to Proposition 2 ½.

### Factors that Could Lead to a Downgrade

- » Trend of operating deficits resulting in a material decline in available reserves
- » Trend of increasing financial pressure due to unsuccessful votes for tax levy overrides or debt exclusions
- » Significant deterioration of tax base or demographic profile

» Material growth in debt burden without Proposition 2 ½ exclusions

## Key Indicators

Exhibit 1

<b>Wellesley (Town of) MA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 10,032,866	\$ 9,773,807	\$ 9,773,807	\$ 10,212,969	\$ 10,212,969
Full Value Per Capita	\$ 355,927	\$ 342,892	\$ 338,686	\$ 354,223	\$ 366,161
Median Family Income (% of US Median)	287.0%	288.2%	284.8%	290.7%	290.7%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 135,901	\$ 140,705	\$ 145,017	\$ 147,799	\$ 163,474
Fund Balance as a % of Revenues	16.0%	15.5%	15.4%	15.2%	15.2%
Cash Balance as a % of Revenues	21.3%	22.5%	19.9%	21.2%	19.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 105,275	\$ 98,485	\$ 98,316	\$ 147,019	\$ 138,861
Net Direct Debt / Operating Revenues (x)	0.8x	0.7x	0.7x	1.0x	0.8x
Net Direct Debt / Full Value (%)	1.0%	1.0%	1.0%	1.4%	1.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.8x	1.0x	1.0x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.2%	1.5%	1.5%	1.3%

As of June 30 fiscal year-end

Equalized value = full value

Source: Moody's Investors Service; town's audited financial statements

## Detailed Rating Considerations

### Economy and Tax Base: Sizeable and Affluent Tax Base Benefits from Proximity to Boston and Institutional Presence

Wellesley is located 15 miles west of Boston (Aaa stable) and is home to both Wellesley College (Aa1 stable) and Babson College (A2 stable). The presence of the colleges, along with Harvard Pilgrim Health Care (Ba1 negative) and Sun Life Assurance Company of Canada (Aa3 stable), provide stability to the diverse suburban economy. The sizeable \$11.7 billion tax base will continue modest growth over the medium term given its very strong housing stock and primarily residential composition. Annual new growth revenue has averaged \$1.9 million per year over the past five years, primarily due to residential tear downs and renovations. Fiscal 2017 assessed value increased 3.5% from the prior year, bringing the five year average annual growth to 4.1%. Additionally, the two year equalized (full) value increased a strong 15% from 2015.

Wealth levels are very strong with a median family income at 220% and 291% of the state and nation, respectively, and an equalized value per capita of \$421,257 (474% of the US median). Unemployment remains very low at 2.7% (March 2017).

### Financial Operations and Reserves: Well-Managed Financial Position with Stable Reserves

Wellesley's financial management is very strong and the town has generated balanced or surplus operations for the past six years. Fiscal 2016 audited financials reflect a \$2.4 million surplus due to strong excise tax receipts and building permits, as well as health insurance savings and turnbacks in most departments. The surplus increased available General Fund balance to \$24.9 million or 15.2% of revenues. Available reserves have been maintained at approximately 15-16% of revenues over the last five years and are expected to remain stable over the near term.

Management reports that fiscal 2017 revenues and expenditures are trending positively and unassigned fund balance, which was \$18.1 million or 11% of revenues in 2016, is conservatively projected to increase by \$100,000. The adopted 2018 budget increased 4.7% and was balanced with a 3.6% tax levy increase and \$4 million of free cash.

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Future budget projections for fiscal 2019 and 2020 assume expenditure increases of 2.5% and 3.5% for the town and school department, respectively. The budget gaps are \$2.5 million for each year, representing approximately 1.5% of total revenues. The town has historically closed these budget gaps as the fiscal year budgets are refined. We expect the town will need to continue to rely on taxpayer support for debt exclusions to maintain the very stable financial position over the long term.

Wellesley derives the majority of its revenues from property taxes (77.6% in fiscal 2016) and collections remain very strong with over 99% collected within the current fiscal year. State aid, including aid for education, comprised 12.8% of 2016 revenues. The largest expenditures are education (41.4%) and employee benefits (12.4%).

#### LIQUIDITY

General Fund cash has remained stable for the past six years and was a healthy \$31.8 million, or 19.3% of revenues, in fiscal 2016.

#### Debt and Pensions: Debt Burden Will Increase But Remain Manageable Given Expected Voter Support For Exclusions; Strong Commitment To Pension and OPEB

The direct debt burden is currently an average 1.1% of equalized value, but will increase given a large capital plan. Positively, 83% of the town's debt is excluded from Proposition 2 ½ levy limits. The debt burden includes over \$70 million issued for school projects.

The 2018-2022 capital budget program totals \$191 million. The program averages \$6.8 million spent annually with available cash and \$132 million funded with debt, most of which is projected to be excluded. The largest project is renovations to two or three elementary schools; the projected cost is \$104 to \$150 million, depending on the number of schools renovated. The project, which would materially increase the debt burden, is still preliminary but would likely go to voters for debt exclusion.

#### DEBT STRUCTURE

All debt is fixed rate and 60% of outstanding principal retires in ten years. Debt service costs of \$16.74 million in fiscal 2016 comprised 10.3% of General Fund expenditures.

#### DEBT-RELATED DERIVATIVES

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

#### PENSIONS AND OPEB

The town participates in the Wellesley Contributory Retirement System, a single employer, defined benefit retirement plan. The town's actuarially determined contribution for the plan was \$7.2 million in fiscal 2016, or 4.5% of General Fund expenditures. The fiscal 2015 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$136.2 million, or a moderate 0.8 times General Fund revenues. The funded date is currently 2030.

Since 2007, the town has aggressively contributed to its OPEB liability by making at least the full ARC payment and additional contributions to an established OPEB trust. In fiscal 2016, the town contributed \$8.6 million, or 104% of the annual OPEB cost, plus additional contributions to the OPEB trust of \$3 million. Based on the June 30, 2016 valuation report, the funded ratio has reached 36.8% (up from 29.5% as of the 2014 valuation) and a UAAL of \$75.9 million. The OPEB liability is expected to be funded by 2037. The current funding level is well above most local governments.

Total fixed costs for fiscal 2016, including debt service, required pension contributions and retiree healthcare payments, represented \$32.6 million, or 20.1% of expenditures.

#### Management and Governance

The management team has shown a long term trend of consistent and conservative fiscal management with multi-year capital and operating budgeting. In addition, the town has developed a long-term plan to address pension and OPEB liabilities.

Massachusetts cities and towns have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The 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.

## Legal Security

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

## Use of Proceeds

Bond proceeds will finance six town and school capital projects.

## Obligor Profile

Wellesley is located 15 miles west of Boston (Aaa stable) with a population of 28,800. It is primarily residential in composition and is home to Wellesley College (Aa1 stable) and Babson College (A2 stable).

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Wellesley (Town of) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2017 Bonds	Aaa
Rating Type	Underlying LT
Sale Amount	\$6,252,000
Expected Sale Date	06/05/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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