MOODY'S
INVESTORS SERVICE

CREDIT OPINION
22 October 2018

Rate this Research

Contacts

Nicholas Lehman +1.617.535.7694
VP-Senior Analyst
nicholas.lehman@moodys.com

Blake Cullimore +1.617.535.7692
AVP-Analyst
blake.cullimore@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Millis (Town of) MA

Update to credit analysis

Summary

The Town of Millis, Massachusetts (Aa3) reflects a conservatively managed financial position, stable tax base with above average wealth levels, and increasing but manageable debt burden and pension liability.

Credit strengths

» Strong socio-economic metrics

» Very solid financial metrics

» Substantial portion of debt is exempt from Prop. 2 1/2

» Experienced management team

Credit challenges

» Moderately high debt burden

» Elevated pension expense

» Limited operating flexibility under Prop. 2 1/2

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

» Increased fund balance and Improved financial metrics

» Substantial increase in property value

» Reduced debt burden

Factors that could lead to a downgrade

» Weakening of local economy or deterioration of tax base

» Trend of operating deficits resulting in a material decline in reserves or liquidity

» Increase in debt burden beyond current expectations

Key indicators

Millis (Town of) MA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$1,059,793	$1,059,793	$1,042,626	$1,042,626	$1,158,639
Population	7,950	8,007	8,051	8,110	8,216
Full Value Per Capita	$133,307	$132,358	$129,503	$128,561	$141,022
Median Family Income (% of US Median)	159.4%	163.3%	172.3%	155.1%	155.1%
Finances					
Operating Revenue ($000)	$27,082	$28,205	$26,214	$27,000	$31,498
Fund Balance ($000)	$2,878	$2,865	$2,908	$3,510	$4,087
Cash Balance ($000)	$3,972	$3,831	$3,784	$4,207	$5,743
Fund Balance as a % of Revenues	10.6%	10.2%	11.1%	13.0%	13.0%
Cash Balance as a % of Revenues	14.7%	13.6%	14.4%	15.6%	18.2%
Debt/Pensions					
Net Direct Debt ($000)	$10,086	$12,008	$13,631	$20,693	$22,060
3-Year Average of Moody's ANPL ($000)	$21,451	$27,453	$32,110	$31,571	$29,398
Net Direct Debt / Full Value (%)	1.0%	1.1%	1.3%	2.0%	1.9%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.5x	0.8x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.0%	2.6%	3.1%	3.0%	2.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.8x	1.0x	1.2x	1.2x	0.9x

Fiscal year end June 30
Source: Town financial statements and Moody's Investor Service

Profile

The town is primarily residential in nature with a population of 8,216 and is located 23 miles southwest of Boston, MA (Aaa stable).

Detailed credit considerations

Economy and Tax Base: Moderately-sized Growing Tax Base With Above Average Wealth

The $1.25 billion tax base is expected to continue growing. Management indicates a 324 unit 55+ subdivision is expected be built out over the next 4-5 years on the former Glen Ellen Country Club site by Toll Brothers, and that this should add $3 million in new growth. More recently, a new solar farm has been completed and a medical marijuana dispensary is under construction which is expected to generate $500,000 to $1 million in municipal revenue annually. Additionally, management indicates continued small business growth which provides ongoing strength and support to the local economy.

Equalized property values continue a solid growth trend with the five year average growth rate a strong 3.4% (including 2019) and passing its pre-recession levels. Annual new growth revenue remains strong and is expected to add $525,000. The growth is attributable to two new subdivisions: Rockville Meadows which is a fully occupied 55+ subdivision and Hickory Hills which is nearing completion of its 43 permitted units. Wealth levels are above average with median family income equal to 155% of the US median. The unemployment rate of 3.5% (August 2018) is similar to the state and slightly lower than the nation (3.9%).

Financial Operations, Reserves and Coverage: Conservative Budgeting Limited by Below Average Reserve Levels

The financial position is expected to remain stable over the near term with sufficient reserves due to strong fiscal management supported by no historical use of free cash for operations. Future budget drivers will be an increase in debt service, health insurance costs, education and retirement contributions. The fiscal 2017 audited financials reflect the year ended balanced with a $511,000 deficit, however, this includes fund balance used for capital projects and deposits to the stabilization fund. Adjusting for capital project and stabilization fund deposit the fiscal year 2017 operations would have approximately a $450,00 surplus. The available General Fund reserves continue to show solid growth with current levels at $4 million or 12.9% of revenues.

Fiscal 2018 operations were favorable with the state certifying a strong $1.4 million in free cash. The fiscal 2019 budget increased by 7.1% over the prior year driven by debt service, education and employee benefits. The budget will be balanced with a tax levy increase up to the limit.

The town's primary revenue is property taxes (63% of 2017 revenues) with a strong collection rate of over 98% for fiscal year 2018. Beyond this debt the capital plan will be funded on a pay go basis. However, outside the current capital plan the town and the water and sewer departments expect to fund a new public works building in the next few years.

LIQUIDITY

Cash and investments at the end of fiscal 2017 represented a solid $35.3 million or 18% of revenues and 1 times coverage post issuance BANs. Additionally, we view the strong BAN market in Massachusetts as a strength which provides additional support to the liquidity metrics.

Debt and Pensions: Elevated but manageable debt burden

The town's net direct debt post issuance is expected to be approximately $26.6 million representing an elevated, but still manageable 2.1% of fiscal 2019 equalized value. The town indicates it expects to issue an additional $5 million in long term debt in 2019 to complete its elementary school project. The town's five-year capital improvement plan reflects minimal borrowing needs which will be funded on a pay-go basis. However, not yet on the CIP, is the possibility of a new Department of Public Works building which it estimates at $2-3 million and would be debt financed, debt service would be shared with the water and sewer departments. The debt associated with any additional projects will be evaluated at the time of issuance.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with a front loaded debt service schedule. The school project debt is exempt from proposition 2 ½ providing the town flexibility despite the elevated debt burden. Debt service post issuance is expected to increase to 6.9% of fiscal 2017 expenses.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The town participates in the Norfolk County Retirement System a cost-sharing, multiple-employer, public employee retirement system. In fiscal 2017 the discount rate was elevated 8% at the 12/31/16 measurement date. In fiscal 2017, the town contributed its contractually required contribution equal to $1.5 million or 4.63% of General Fund expense. The plan funding date is currently 2031, well ahead of the state required 2040 date. The three-year average Moody's adjusted net pension liability under Moody's methodology for adjusting reported pension data, is $29.4 million, or 0.93 times General Fund revenues, similar to the state median of $51.2 million and 1 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. We determined the town's share of liability for the cost-sharing plan in proportion to its contributions to the plan. For the year ended June 30, 2016, the town's total pension contribution was 113% of the "tread water" level, the contribution amount at which Moody's has determined that there would be no increase in unfunded liability if reported assumptions were achieved.

The town contributes towards its OPEB liability on a pay-as-you-go basis and started funding a OPEB trust fund in 2016. As of fiscal 2017 the town has contributed 28% of the annual cost or $3 million. The unfunded liability is $32.8 million as of the latest valuation dated July 1, 2016. The town has established an OPEB trust with a current balance of $101,326 and expects to continue small annual deposits over the near term.

Total fixed costs in 2017 inclusive of post issuance debt service, required pension contributions, and retiree health care were manageable at $4.6 million, or 14% of 2017 expenditures. Post issuance very limited change is expected.

Management and Governance: Experienced Management Team

The town adheres to fiscally conservative budget practices and does not use free cash for operations. The town is currently in the process of updating a number of financial and operational policies which will strengthen the rating. This includes developing a formal three year budget forecast tool based on GFOA standards, formalizing their free cash policy, and developing a 10 year capital plan. Additionally, the town is revisiting its OPEB funding policy.

Massachusetts town's 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 town's 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.

REPORT NUMBER 1146682

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE