

ISSUER COMMENT

25 March 2016

RATING

General Obligation (or GO Related)¹

Aa2 No Outlook

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Town of Swampscott, MA

Annual Comment on Swampscott

Issuer Profile

The Town of Swampscott is located in Essex County in the North Shore region of Massachusetts, approximately 12 miles northeast of downtown Boston. Essex County has a population of 769,091 and a population density of 1,561 people per square mile. The county's per capita personal income is \$56,252 (1st quartile) and the October 2015 unemployment rate was 4.7% (2nd quartile).² Health services is a key driver of the local economy. MassGeneral Hospital for Children is the largest employer in the county. The American Renal Association, Anna Jaques Hospital, CGI (IT and business process services), and Columbia Gas of Massachusetts also rank as top employers in the area.

Credit Overview

Swampscott has a very strong credit position, and its Aa2 rating slightly exceeds the median rating of Aa3 for cities nationwide. The key credit factors include a sizable tax base and an affluent socioeconomic profile. The rating also incorporates a moderate pension burden, an affordable debt liability, and a solid financial position.

Economy and Tax Base: The town has a very healthy economy and tax base, which are a modest credit strength relative to its Aa2 rating. Swampscott's full value per capita (\$169,951) is materially above the US median, and the median family income equals a robust 180.6% of the US level. Additionally, the total full value (\$2.4 billion) is slightly stronger than other Moody's-rated cities nationwide. That said, this number fell modestly between 2011 and 2014.

Debt and Pensions: The town has moderate debt and pension burdens; however, they are a weakness when compared with its Aa2 rating. The net direct debt to full value (1.5%) is slightly higher than the US median. In addition, Swampscott's Moody's-adjusted net pension liability to operating revenues (1.2x) unfavorably is slightly above the US median and increased modestly from 2012 to 2014.

Finances: The financial position of the town is sound, yet it is relatively weak when compared with the town's Aa2 rating. The cash balance as a percent of revenues (14.7%) is materially below the US median; however, it rose modestly between 2011 and 2014. Furthermore, the fund balance as a percent of operating revenues (11.6%) is materially lower than other Moody's-rated cities nationwide.

Management and Governance: Balanced financial operations are a component of good financial management. Swampscott approximately broke even over the past several years, whereas the tax base decreased modestly.

Massachusetts cities have an institutional framework score ³ of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Cities have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Cities have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

Sector Trends - Massachusetts Cities

Massachusetts cities will generally benefit from an expanding state economy. The vibrant expansion throughout the greater Boston region will continue to bolster most of the state, resulting in favorable employment trends relative to the nation as a whole. We expect the operating environment of cities to be favorable due to the growing residential and commercial real estate markets which will boost property tax revenues. However, Massachusetts cities will remain somewhat challenged by relatively low housing affordability and very high costs of doing business.

Exhibit 1

Key Indicators^{4 5}

Swampscott, MA

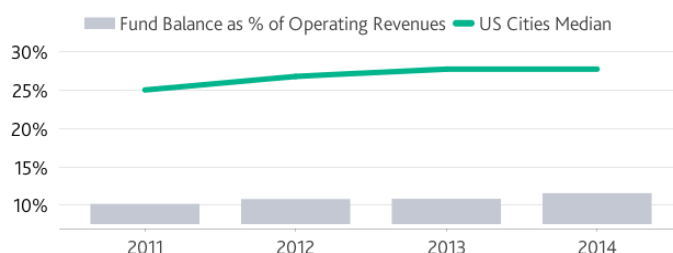
	2011	2012	2013	2014	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$2,445M	\$2,445M	\$2,371M	\$2,371M	\$1,727M	Stable
Full Value Per Capita	\$177,312	\$177,312	\$169,951	\$169,951	\$89,077	Stable
Median Family Income (% of US Median)	N / A	180.6%	180.6%	180.6%	115.2%	Stable
Finances						
Fund Balance as % of Operating Revenues	10.2%	10.8%	10.8%	11.6%	27.7%	Stable
Cash Balance as % of Operating Revenues	12.6%	12.2%	13.4%	14.7%	30.1%	Stable
Debt / Pensions						
Net Direct Debt / Full Value	1.5%	1.5%	1.6%	1.5%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.71x	0.65x	0.70x	0.59x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N / A	2.2%	2.6%	3.1%	1.5%	Weakening
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N / A	0.99x	1.10x	1.24x	1.20x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues increased slightly between 2011 and 2014

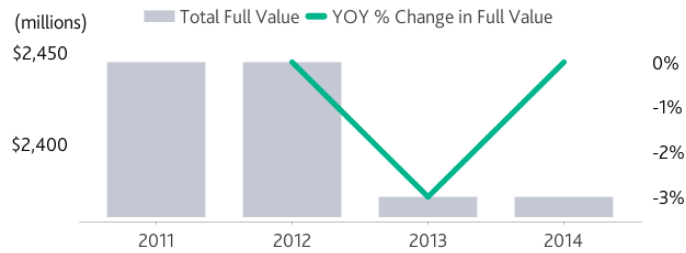
Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

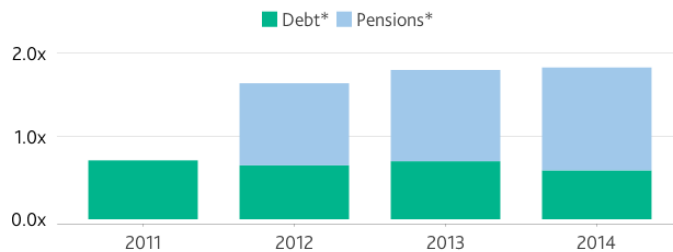
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 3

Full value of the property tax base decreased modestly from 2011 to 2014**Total Full Value**

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues grew slightly from 2012 to 2014**Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues**

*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.7 % for October 2015.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Updated 2013 US Local Government Medians Demonstrate Stability of Sector \(August 2015\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2013. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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