

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Swampscott MA's \$9M GO Ser. A and \$6M GO Ser. B Bonds

Global Credit Research - 17 Nov 2014

Town has \$36.3M of outstanding GO debt

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

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2014 Bonds, Series A	Aa2
Sale Amount	\$9,000,000
Expected Sale Date	11/20/14
Rating Description	General Obligation

General Obligation Refunding Bonds of 2014, Series B Unlimited Tax Aa2

Sale Amount	\$5,985,000
Expected Sale Date	11/20/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, November 17, 2014 --Moody's Investors Service has assigned a Aa2 rating to the Town of Swampscott's (MA) \$9.0 million General Obligation Municipal Purpose Loan of 2014 Bonds, Series A and \$6.0 million General Obligation Refunding Bonds of 2014, Series B. Concurrently, Moody's has affirmed the Aa2 rating on \$36.3 million of the town's outstanding general obligation bonds.

The majority of the Series A bonds (\$7.4 million) are secured by an unlimited tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 ½. Those proceeds will refund the Series 2007 bonds currently outstanding for an estimated net present value savings of \$437,000, equal to 5.9% of refunded principal. The final maturity will be extended eight years to 2035. The remaining \$1.6 million of Series A proceeds, which are subject to the levy limitations of Proposition 2 ½, will permanently finance notes maturing December 22, 2014.

The Series B bond proceeds are secured by an unlimited tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 ½. Bond proceeds will refund the Series 2006 bonds currently outstanding for an estimated net present value savings of \$354,000, equal to 5.4% of refunded principal. The final maturity will be extended eight years to 2035.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the town's stable financial position, moderately sized tax base with above-average wealth levels, and manageable debt burden.

STRENGTHS

- Stable financial position guided by a formal fund balance policy
- Above average socioeconomic wealth levels

- Strong voter support for school projects

CHALLENGES

- Increasing fixed costs for employee benefits
- Debt burden will increase due to planned elementary school renovations

DETAILED CREDIT DISCUSSION

CAREFULLY MANAGED FINANCIAL POSITION

Swampscott's financial position will remain stable given management's commitment to maintaining sound reserve levels through conservative budgeting. The town has produced balanced or surplus operations for the past six fiscal years which has led to healthier reserve levels. Fiscal 2013 ended with a slight \$53,000 increase in fund balance, which increased total General Fund balance to \$6.0 million (10.7% of revenues), up from \$2.1 million (a slim 4% of revenues) in fiscal 2009. Favorably, the majority of the total fund balance is unassigned (\$4 million or 9.2% of revenues) and the town continues to remain in compliance with its formal policy to maintain this balance at a minimum of 5%. Management's ability to manage increased costs for employee benefits while maintaining its financial position through structurally balanced operations is an important factor in the town's credit strength.

The trend of surplus operations is expected to continue in fiscal 2014. Management reports that fiscal year ended with a surplus of approximately \$1 million. The fiscal 2015 budget increased 4% over the prior years and was balanced with a 2.14% tax levy increase. Similar to prior years, management will continue to build its reserve position, including setting aside excess funds in a Capital Stabilization Fund and an OPEB Trust fund. Swampscott derives the majority of its revenues from property taxes (75.5% of 2013 revenues) and state aid (16%), with a significant portion of these revenues directed toward education (43% of 2013 expenditures), employee benefits (24.7%) and public safety (12%).

MODERATELY SIZED RESIDENTIAL TAX BASE WITH ABOVE AVERAGE WEALTH LEVELS

The \$2.4 billion residential tax base is expected to grow modestly over the medium term due to an increase in residential development. Located approximately 15 miles north of Boston (Aaa stable), the tax base is showing signs of stabilization. The 2013 equalized value declined by 3% and reflects an improvement from the 2011 decline of 11.9%, which brings the five year compound annual rate of change to -2.4%. Although the town is largely built-out, town officials report an increase in permits and several new residential developments are currently under construction. Wealth levels continue to exceed the average of the commonwealth and nation, with a median family income of \$112,157 (138% and 178%, respectively). Equalized value per capita is a strong \$171,973. The unemployment rate of 4.4% (August 2014) remains below the state (6%) and nation (6.3%).

MANAGEABLE DEBT BURDEN

Swampscott's direct debt burden (1.4% of equalized value) will remain manageable over the near term due to limited future borrowing plans and a history of debt exclusions from Proposition 2 ½. Of the \$35.7 million general obligation bonds outstanding, approximately \$24.8 million has been excluded from the tax levy limits of Proposition 2 ½. The town intends to borrow approximately \$1 million to finance capital projects in fiscal 2015. Over the longer term, however, the town will need to borrow to finance repairs to the three elementary schools. The exact cost is not known at this time, and management is currently discussing options with the Massachusetts School Building Authority. Principal amortization is slightly below average with 68.7% retired within ten years, but reflects the long useful life of the school building projects which comprise 65% of the outstanding debt. Annual debt service costs represented 7.8% of 2013 expenditures, and the debt profile is comprised entirely of fixed rate debt and the town is not party to any derivative agreements.

The town contributes to the Swampscott Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan, and is required to fully fund its annual required contribution (ARC). The ARC was \$4 million in fiscal 2013, or 7% of General Fund expenditures. The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$63.8 million, or 1.14 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 the liability in proportion to its contributions to the plan.

The OPEB liability is funded on a pay-as-you-go basis, and the town contributed \$1.4 million, representing 35.5%

of its \$3.9 million ARC for 2013. The total unfunded liability is \$56 million as of July 1, 2012, the most recent valuation report. Total fixed costs for fiscal 2013, including pension, OPEB and debt service, represented \$9.8 million, or 17.3% of annual expenditures.

WHAT COULD MAKE THE RATING GO UP

- Substantial growth of reserves and liquidity
- Significant tax base growth and improvement in the demographic profile

WHAT COULD MAKE THE RATING GO DOWN

- Declines in reserve levels or liquidity position
- Significant increases in debt levels
- Deterioration of the tax base and demographic profile

KEY STATISTICS

2014 Full Value: \$2.4 billion

2014 Full Value Per Capita: \$171,973

Median Family Income as % of US: 178.1%

Fiscal 2013 General Fund balance as a % of Revenues: 10.7%

5-Year Dollar Change in General Fund Balance as % of Revenues: 6.7%

Fiscal 2013 Cash Balance as % of Revenues: 13.2%

5-Year Dollar Change in Cash Balance as % of Revenues: 7.8%

Institutional Framework: Aa

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of Full Value: 1.4%

Net Direct Debt / Operating Revenues: 0.6x

3-Year Average of Moody's ANPL as % of Full Value: 2.6%

3-Year Average of Moody's ANPL / Operating Revenues: 1.1x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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