MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Shrewsbury MA's $6.6M GO Bonds

Global Credit Research - 09 Jan 2014

Affirmation of Aa2 affects $68.6M of outstanding GO debt

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

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2014 Bonds		Aa2
Sale Amount	$6,635,000	
Expected Sale Date	01/15/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, January 09, 2014 --Moody's Investors Service has assigned a Aa2 rating to the Town of Shrewsbury's (MA) $6.6 million General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's has affirmed the Aa2 rating on $68.6 million of outstanding debt. The bonds are general obligations of the town, secured by a limited property tax pledge as debt service is subject to the levy limitations of Proposition 2 ½. Proceeds of the bonds will finance an upgrade to the town's electric light plant and various school improvements.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the town's satisfactory financial position, which is expected to remain stable with improved reserves and despite annual appropriations. In addition, the rating incorporates the town's sizeable and affluent tax base, and modest debt profile with average principal amortization.

STRENGTHS

- Sizeable, affluent tax base

- Adequate reserve levels

CHALLENGES

- Significant long-term liabilities for pension and OPEB

- Annual appropriations of free cash to supplement budget

DETAILED CREDIT DISCUSSION

FINANCIAL POSITION EXPECTED TO REMAIN STABLE DESPITE ANNUAL RESERVE APPROPRIATIONS

Moody's expects the town to maintain a satisfactory financial position despite budgeting annual reserve draws, given positive variances in actual results. Over the last several years, the town has annually appropriated reserves as a means to supplement the annual operating budget. Despite the appropriations, the town has produced three consecutive operating surpluses and improved its reserves. In fiscal 2012, the town appropriated $3.4 million of free cash to cover various operating expenditures, and an additional $500,000 was appropriated to reduce the tax levy. The audited financials reflect an operating surplus of $390,000 after the full replenishment of the appropriations through favorable budget to actual variance on excise tax and license, permits and fees revenues, as well as conservative budgeting of expenditures and departmental turn backs. The surplus increased the total General Fund balance to $16.7 million (17% of revenues) and unassigned fund balance remained relatively level at $7.5 million (7.6% of revenues). The fiscal 2013 budget increased by 5.8% and was balanced with a $3.1million appropriation of free cash for operating costs, and the town appropriated another $500,000 to reduce the tax levy. Management estimates year-end results to show a slight surplus, also attributed to conservative budgeting.

The town's primary revenue source is property taxes (53.4% of 2012 revenues) and the primary expenditures are education (47.9% of 2012 expenditures) and employee benefits (20.3%). The fiscal 2014 budget represents a 4% increase over the prior year (budget-to-budget). Education increased 4.4% and pension costs increased 28% due to changes in the recent valuation assumptions and an aggressive funding date of 2022. The budget is balanced with a 4% levy increase (the allowable amount under the tax cap) and a $3.7 million free cash appropriation. Consistent with previous years, an additional $500,000 of free cash was appropriated to reduce the tax levy. Six months into the fiscal year, operations are reportedly stable. Management's ability to maintain a stable financial position and reserves while addressing rising costs of education and employee benefits will be an important factor in future rating reviews.

MODEST NEW GROWTH EXPECTED FOR SIZEABLE RESIDENTIAL TAX BASE

Shrewsbury is primarily a residential community, favorably located in Worcester County on state Route 9 and near the Interstate 495 corridor. Shrewsbury experienced a period of high growth in the 1990's, with population growth exceeding 31% from 1990 to 2000. Continuing on that solid growth, Shrewsbury saw another 12.5% increase in population from 2000 to 2010, contrary to regional population decline trends in the Northeast. Equalized valuation roughly doubled to over $5 billion since 2001, though expansion has slowed to 0.1% annually, on average, since 2008. Regional and national real estate market declines contributed to an overall 7.6% decline in assessed valuation from 2007 to 2011, which primarily affected the residential sector of the tax base. Favorably, the town's values have begun to stabilize, with 2012 and 2013 assessed values showing a 1.7% and 0.2% increase, respectively. New development includes 80 single-family homes currently under construction and four commercial projects in planning stages. Wealth levels continue to trend above national medians with per capita income and median family income representing 139.8% and 203.4% of the nation, respectively. Also, the unemployment rate of 5.4% (November 2013) remains below the state (7.1%) and US (7%).

MAJORITY OF DEBT SUPPORTED BY VOTERS

We anticipate that Shrewsbury's average 1.4% overall debt burden will remain manageable given satisfactory amortization of principal (78.3% within 10 years), self-supporting water and sewer system debt and significant state school building aid, as well as a favorable history of voter support for capital projects. Positively, approximately 78% of the town's outstanding debt is excluded from Proposition 2 ½. Related debt service is supported by property tax revenue that is limited by neither rate nor amount and does not encroach on Shrewsbury's limited property tax levy for operations, significantly reducing strain on the annual budget. After adjusting for commonwealth reimbursement, the debt burden drops to a manageable 1% of equalized valuation. Future borrowing plans include $13.6 million for a library project that voters approved on November 5th and debt service will be excluded from Proposition 2 ½. Debt service in fiscal 2012 represented 7.9% of expenditures and the debt portfolio consists entirely of fixed rate debt and is not subject to any derivative agreements.

The town maintains its own retirement plan for all employees, with the exception of teachers and certain school administrators. The plan is administered by the Shrewsbury Retirement Board (SRB), and as of January 1, 2012, it was 68.4% funded. The town is required by the state to fully fund its Annual Required Contribution (ARC), which was $3.2 million in 2012, representing 3.3% of expenditures. Currently, the plan assumes an 8% rate of return, with the SRB reporting that the plan will be fully funded by 2022, an aggressive but positive timeframe. The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $55.5 million, or a below-average 0.58 times operating 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.

In addition, the OPEB liability is funded on a pay-as-you-go basis and the town contributed 28% of its annual OPEB cost in fiscal 2012, representing $2.1 million. The total unfunded liability is $67.9 million, as of June 30, 2012, the most recent valuation report. Positively, the town has established an OPEB trust with a current balance of $1.9 million. Beginning in 2023, when the pension plan is fully funded, management intends to contribute additional funds to reduce the OPEB liability. The 2012 total fixed costs including pension, OPEB and debt service represented $13.1 million, or 13.4% of expenditures.

WHAT COULD MAKE THE RATING GO UP:

- Continued operating surpluses resulting in significant growth in reserves

- Steady progress toward reducing unfunded liabilities for pension and OPEB

- Significant tax base expansion and improvement of demographic profile

WHAT COULD MAKE THE RATING GO DOWN:

- Decline in available reserves

- Significant increase in debt burden without exclusions from Proposition 2 ½

- Erosion of tax base through valuation declines

KEY STATISTICS

2010 Population: 35,608 (+12.5% since 2000)

2013 Equalized Value: $5.1 billion

2013 Equalized Value per capita: $142,413

2010 Per Capita Income: $38,223 (112.5% of MA, 139.8% of US)

2010 Median Family Income: $104,035 (128.1% of MA, 203.4% of US)

Unemployment (August 2013): 5.9% (MA 6.9%, US 7.3%)

Average Annual Equalized Value Growth (2008-2013): 0.1%

FY 2012 Total General Fund Balance: $16.7 million (17% of General Fund revenues)

FY2012 Unassigned General Fund Balance: $7.4 million (7.6% of General Fund revenues)

Net direct debt burden (as a % of Equalized Value): 1.4%

Amortization of principal (10 years): 78.3%

Post-sale general obligation debt outstanding: $75.3 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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