

# MOODY'S

## INVESTORS SERVICE

### **New Issue: Moody's assigns Aaa rating to the Town of Concord's (MA) \$3.36 million General Obligation Municipal Purpose Loan of 2013 Bonds; outlook is stable**

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Global Credit Research - 14 May 2013

#### **Affirmation of Aaa rating affects \$62.8 million in outstanding bonds**

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

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Municipal Purpose Loan of 2013 Bonds	Aaa
<b>Sale Amount</b>	\$3,360,000
<b>Expected Sale Date</b>	05/16/13
<b>Rating Description</b>	General Obligation

#### **Moody's Outlook** STA

#### **Opinion**

NEW YORK, May 14, 2013 --Moody's Investors Service has assigned a Aaa rating to the Town of Concord's (MA) \$3.36 million General Obligation Municipal Purpose Loan of 2013 Bonds. Concurrently, Moody's has affirmed the Aaa rating on \$62.8 million of outstanding bonds; the outlook is stable. The bonds are secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from the levy limitations of Proposition 2 ½. Bond proceeds will fund various capital improvement projects of the town.

#### **SUMMARY RATING RATIONALE**

The Aaa long-term rating reflects a solid financial position supported by long-range planning and effective policies, seasoned and effective management team, solid voter support for Proposition 2 ½ overrides and exclusions, moderate future growth potential relative to regional and national trends, an affluent tax base, and an affordable, aggressively-managed debt position. Moody's stable outlook reflects the town's stable financial position, long-range approach to budgeting and planning, and healthy regional economy.

#### **STRENGTHS:**

- Wealthy, favorably located tax base
- Solid voter support for operating overrides and debt exclusions of Property 2 ½ levy limits
- Strong financial position with some flexibility including unused property tax levy capacity
- Effective approach to management including conservative budgeting and multiple-year planning

#### **CHALLENGES:**

- Flat projections for state aid
- Uncertain impact of federal spending cuts on regional defense and scientific research funding

#### **DETAILED CREDIT DISCUSSION**

## SOUND FINANCIAL POSITION GUIDED BY COMPREHENSIVE POLICIES

The town's overall financial position is expected to remain stable given the town's effective management team, comfortable reserve levels and strong history of voter support. Concord enjoys additional financial flexibility to absorb future budgetary pressures due to a moderate excess property tax levy capacity that has increased to approximately \$2.9 million (3.5% of 2013 appropriations) in recent years. The town is also supported by a strong history of voter approvals for overrides of Proposition 2 ½ for operations and capital projects. Operations in fiscal 2012 resulted in a surplus of \$2.7 million after replenishment of \$850,000 free cash appropriation to reduce the tax levy. The surplus is attributed to positive revenue variance of \$1.7 million, about one-half of which is deemed one-time revenues. The town also benefited from \$920,000 in unexpended appropriations. The 2012 audit reflects an increase in the total General Fund balance to \$27 million (31.2% of revenues) and an unassigned fund balance of \$10.3 million (11.9% of revenues). The General Fund reserves include \$5.5 million in restricted fund balance designated for school debt service and \$6.8 million in committed fund balance designated as various stabilization funds for other debt, additional school capital, emergency response, insurance and other uses.

The town continues to abide by sound fiscal management policies which are detailed in the annual finance committee report with a financial policy that includes the maintenance of free cash of at least 5% of the total budget, a capital budget, and debt policy which helps to develop the town's multi-year budget projections. In addition, since fiscal 2000, voters in the town have approved a total of over \$8.5 million in tax levy increases to support operations, providing the town flexibility in planning and avoiding significant service reductions. Additionally, voters have approved over \$135 million in Proposition 2 ½ debt exclusions in support of municipal and school capital projects, greatly relieving pressure on the town's operating budget. Voters also approved the Community Preservation Act (CPA) in 2004. The CPA allows the town to collect a 1.5% surcharge on the property tax levy and grants access to state matching funds. Together these funds have yielded over \$8.9 million, to date, to finance affordable housing, open space and historical preservation initiatives. To support operations the town relies heavily on property taxes, which accounted for 79.3% of operating revenues in fiscal 2012. Collection rates remain very strong at over 99% on a current-year basis.

The fiscal 2013 budget increased by 2.7% and was balanced with \$850,000 free cash appropriation to reduce the tax levy. The year to date revenues are expected to exceed budget estimates by \$600,000 and unexpended appropriations should be at least \$500,000 resulting in an operating surplus. The fiscal 2014 budget has been adopted with a 5% increase which includes increased debt service related to the new high school project. The town does expect to dip into the unused levy capacity over the near term given the upcoming town and school capital projects as well as continued increase in employee benefit costs. However, the historically conservative approach to budgeting and voter support will help to moderate future operations.

## STABLE RESIDENTIAL TAX BASE FAVORABLY LOCATED WITH AFFLUENT SOCIOECONOMIC INDICATORS

Concord's primarily residential (91% of 2013 assessed value) \$5.4 billion tax base is expected to remain stable with limited growth over the near term given moderate new development. The 2013 assessed value declined by 0.7%, following two years of increases in 2011 and 2012 of 0.4% and 0.9%, respectively. The slight decline adjusted the five year average annual growth to -0.8%. Favorably located along the Route 128/I-95 corridor, the town is a mature suburb west of Boston (GO rated Aaa/stable outlook). The town does have a small commercial sector including health care, research and development and office space. The recent new growth is largely attributed to expansion in the residential sector from the Concord Mews apartment complex development which includes 350 units of rental housing. The town's equalized value declined by 3.4% in 2013 which reduced the five year average growth to 0%. The town's wealth levels remain strong with a median family income of \$156,352, representing 192.6% and 248.2% of the Commonwealth and nation, respectively. The full value per capita of \$304,209 also remains strong reflecting the high-end housing stock. Also, the town's unemployment rate of 4% (March 2013) remains well below the state (6.8%) and US (7.6%).

## FAVORABLE DEBT PROFILE WITH SIGNIFICANT VOTER SUPPORT

Concord is expected to maintain an affordable debt position due to its modest 1.4% overall debt burden, an aggressive repayment schedule for non-excluded debt, and the town's commitment to pay-as-you-go capital financing, with roughly \$4.6 million budgeted in fiscal 2013, including enterprises. Since 1992 Concord's voters have approved thirteen debt exclusions from Proposition 2 ½ for roughly \$135 million in school and town capital projects, relieving the impact of the associated debt service on general fund operations. The most recent vote passed in November, 2011 when Concord and the Town of Carlisle (GO rated Aa1) held referendum votes excluding debt service for the replacement of Concord Carlisle Regional High School. The project has an initial project cost of up to \$92 million, of which \$48 million is projected to be Concord's share.

Debt service payments accounted for a manageable 9.4% of total fiscal 2012 expenditures, and the town repays its obligations at a satisfactory rate with 78.9% of principal retired within 10 years. Concord's amortization schedule has been extended significantly in recent years due to the issuance of approximately \$13 million in long-term debt through the Massachusetts Water Pollution Abatement Trust (MW PAT rated Aaa/stable outlook) for a wastewater treatment plant project. However, the town remains in compliance with its adopted policy to amortize all tax-supported non-excluded borrowing within ten years and all debt voted exempt from Proposition 2 1/2 within 20 years. The town also maintains a policy that restricts total pay-as-you-go capital spending and tax-supported non-excluded debt service to 8% of budget. Concord expects to issue approximately \$33.7 million in bonded debt in support of its \$61 million capital improvement plan through fiscal 2018; debt service on approximately \$13.5 million is anticipated to be self-supporting through user fees. Concord has no exposure to variable or auction rate debt or swap agreements.

The town participates in the Concord Contributory Retirement System, a multi-employer, defined benefit retirement plan. The town's annual required contribution (ARC) for the plans was \$2.9 million in fiscal 2012, or 3.6% of General Fund expenditures. The district's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$41.1 million, or a moderate 0.5 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 regional plan in proportion to its contributions to the plan. Also, the town continues to contribute to its OPEB liability on a pay-as-you-go basis, contributing 64% of the ARC in 2012, representing \$1.3 million. The OPEB UAAL as of January 1, 2012, represented \$28 million and in addition to the pay-go contribution, the town has established and annually contributed to an OPEB trust with a current balance of \$4 million, providing a funded ratio of 6.3% of the unfunded liability.

#### OUTLOOK

Concord's stable outlook reflects the town's strong economic and financial performance, and the expectation that the town will continue to manage effectively, maintaining structural balance and flexibility.

#### WHAT COULD MOVE THE RATING DOWN:

- Lack of voter support for operating and capital needs
- Erosion of reserves
- Significant decline in tax base and demographic profile

#### KEY STATISTICS

2010 population: 17,450 (+2.7% since 2000)

2013 Equalized Valuation: \$5.4 billion

Average Annual Growth, Equalized Value(2007-2013): 0.0%

2013 Equalized Value per Capita: \$304,209

Median Family Income: \$156,352 (192.6% of commonwealth, 248.2% of US)

Unemployment rate (March 2013): 4%

FY12 General Fund balance: \$27 million (31.2% of General Fund revenues)

FY12 Unassigned General Fund balance: \$10.3 million (11.9% of General Fund revenues)

Overall debt burden as % of Equalized Value: 1.4%

Amortization of principal (10 years): 78.9%

Post Issuance Rated long-term G.O. debt outstanding: \$66.2 million

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.moody.com](http://www.moody.com) for a copy of this methodology.

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