MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Concord, MA's $8M GO Bonds; outlook stable

Global Credit Research - 28 May 2014

Town has $59.4M rated debt including current offering

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

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2014 Bonds	Aaa

Sale Amount	$7,985,000
Expected Sale Date	05/28/14
Rating Description	General Obligation

Moody's Outlook STA

Opinion

NEW YORK, May 28, 2014 --Moody's Investors Service has assigned a Aaa rating to the Town of Concord's (MA) $8 million General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's affirms the Aaa rating assigned to $51.4 million of outstanding general obligation bonds. The outlook is stable. The bonds are secured by the town's limited general obligation tax pledge, as debt service has not been voted exempt from the levy limitations of Proposition 2 ½. Proceeds will redeem $6.45 million of bond anticipation notes payable on June 16, 2014 and the balance will fund various town capital projects.

SUMMARY RATING RATIONALE

The Aaa rating reflects a solid financial position supported by strong reserve levels, an affluent tax base with future growth potential, manageable debt burden and well-managed long-term liabilities.

The stable outlook reflects the town's sound fiscal management including long-range forecasting and effective policies. The outlook also incorporates the town's history of voter approved debt exclusions and general overrides to Proposition 2 ½..

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

- Uncertain impact of federal spending cuts on regional defense and scientific research funding

- Rising assessments from regional school district

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 $3.5 million (4.2% of 2014 appropriations) in recent years. Operations in fiscal 2013 resulted in a surplus of $498,000 after replenishment of an $850,000 free cash appropriation to reduce the tax levy. The surplus is attributed to positive revenue variance primarily from motor vehicle excise taxes. The town also benefited from turn-backs from all major line items except snow and ice. The 2013 audit reflects an increase in the available General Fund balance to $22.4 million (25.6% of revenues) and an unassigned fund balance of $10.7 million (12.2% of revenues). The General Fund reserves additionally include $5 million in restricted fund balance designated for school debt service and $7 million in committed fund balance designated as various stabilization funds for other debt, additional school capital, emergency response, insurance and other uses. The town plans to use some of the committed funds over the near term to offset larger increases in school assessments from the Concord-Carlisle Regional School District (Aaa stable) due to increased debt service for the new high school project which the town has excluded from Proposition 2 1/2. Concord's primary revenue source is property taxes (81% of 2013 revenues) and the town continues to benefit from a strong 99.5% collection rate.

The town continues to abide by sound fiscal management policies which are detailed in the annual finance committee report. The policies include 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.

The fiscal 2014 budget increased by 4.8% and was balanced with a 4.2% tax levy increase and an $800,000 free cash appropriation. Year-to-date revenues are trending favorably again driven by excise tax receipts. The town will also benefit from one-time revenues of $100,000 from FEMA and $300,000 from the commonwealth for retroactive prison-related state-aid. The fiscal 2015 budget will increase 4.25% driven by additional ambulatory service. The budget will be balanced with a 4.2% tax levy increase and $850,000 in free cash appropriated for operations and $750,000 deposit into the town's high school stabilization fund. The town does expect to dip into the unused levy capacity over the near term given the conservative projected increase in town and school expenditures primarily from employee benefit costs and OPEB trust contributions. However, the historically conservative approach to budgeting and voter support will help to maintain the town's financial flexibility.

STABLE RESIDENTIAL TAX BASE FAVORABLY LOCATED WITH AFFLUENT SOCIOECONOMIC INDICATORS

Concord's primarily residential (91% of 2014 assessed value) $5.4 billion tax base is expected to remain stable with limited growth over the near term given moderate new development. The 2014 assessed value increased by 1.5%, reflecting limited but positive growth in three out of the last four years. The increase adjusted the five year compounded decline to 1.1%. Favorably located along the Route 128/I-95 corridor, the town is a mature suburb west of Boston (Aaa stable). 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. In addition, the town's unemployment rate of 3.9% (March 2014) remains well below the state (6.6%) and US (6.8%).

FAVORABLE DEBT PROFILE

Concord is expected to maintain an affordable debt position due to its modest 1% direct debt burden, an aggressive repayment schedule for non-excluded debt, and the town's commitment to pay-as-you-go capital financing, with roughly $4.7 million budgeted in fiscal 2015, including enterprises. Future borrowing plans include approximately $15.8 million in planned authorizations in 2015 which includes funding a water enterprise project. Debt service payments accounted for a manageable 9% of total fiscal 2013 expenditures, and the town repays principal at a satisfactory rate with 83.1% retired within 10 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 has no exposure to variable or auction rate debt or swap agreements.

WELL-MANAGED LONG-TERM LIABILITIES

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 $3.4 million in fiscal 2013, or 3.9% of General Fund expenditures. The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $86 million, or a moderate 0.98 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 plan to be in proportion to its contributions to the plan.

The town continues to contribute to its OPEB liability on a pay-as-you-go basis, contributing 64% of the ARC in 2013, representing $1.2 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 balance of $1.9 million as of the valuation date, providing a funded ratio of 6.3% of the unfunded liability. The fiscal 2015 contribution to the trust will be $900,000 as part of the town's plan to reach full funding by 2020.

OUTLOOK

Concord's stable outlook reflects the 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 due to a trend of operating deficits

-Significant decline in tax base and demographic profile

KEY STATISTICS

2014 Full Valuation: $5.4 billion

2014 Full Value Per Capita: $304,209

Median Family Income as % of US Median: 248.2%

Fiscal 2013 operating fund balance as a % of revenues: 25.6%

5-Year Dollar Change in Fund Balance as % of Revenues (2009-2013): 16.35%

Fiscal 2013 Cash Balance as % of Revenues: 35.8%

5-Year Dollar Change in Cash Balance as % of Revenues (2009-2013): 15.05%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures (2009-2013): 1.02x

Net Direct Debt as % of Full Value: 1%

Net Direct Debt / Operating Revenues: 0.6x

3-Year Average of Moody's ANPL as % of Full Value: 1.32%

3-Year Average of Moody's ANPL / Operating Revenues: 0.81x

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.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Nicholas Lehman
Lead Analyst
Public Finance Group
Moody's Investors Service

Thomas Compton
Backup Analyst
Public Finance Group
Moody's Investors Service

Robert Weber
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE