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Summary:

Westwood, Massachusetts; General Obligation

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Credit Profile

US\$8.365 mil GO mun purp loan bnds ser 2021 due 02/01/2041

<i>Long Term Rating</i>	AAA/Stable	New
Westwood GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Westwood GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Westwood, Mass.' approximately \$8.4 million general obligation (GO) municipal-purpose bonds. We also affirmed our 'AAA' long-term rating on the city's GO debt outstanding. The outlook is stable.

The city's full-faith-and-credit pledge secures the notes; a portion of this debt is subject to Proposition 2-1/2 limitations. Despite these limitations, we rate the limited-tax GO debt at the same level as our view of the city's creditworthiness due to a lack of limitations on resource fungibility available for debt service.

Bond proceeds will finance new money debt totaling \$3.1 million for various town-wide capital needs, as well as refunding about \$5.3 million of the town's 2009 and 2011 debt.

Credit overview

Westwood's 'AAA' represents the town's very strong wealth and income metrics, as well as its very strong financial management practices that have enabled the town to produce consistent surpluses over the last decade, continuing a growth in its fund balance. While the town is primarily residential, its growing commercial base, largely focused in the University Station development, has proven to be a supplementary economic strength for the town, which we believe will continue to be an added benefit to the local economy. The pandemic did not have a material impact on the town's finances or budgeting, as its primary revenue source (property taxes, 74%) remained strong at over 99% collected in fiscal 2020. Furthermore, the town's state aid revenues (20%) remained stable and is expected to remain at least level in fiscal 2021. Given the combination of the town's prudent budgetary practices, reliable revenue sources, and very strong flexibility, we believe its credit profile will remain stable over the outlook period.

Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Westwood higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2020, local property taxes generated 68% of revenue, which demonstrated a lack of dependence on

central government revenue.

The rating further reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2020, which closed with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.3% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.1% of expenditures and net direct debt that is 32.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed the town's social, environmental, and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower our rating or revise the outlook if Westwood's performance deteriorated leading to declines in reserves.

Credit Opinion

Very strong economy

We consider Westwood's economy very strong. The town, with an estimated population of 15,765, is located in Norfolk County in the Boston-Cambridge-Newton, Ma.-N.H. MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 214% of the national level and per capita market value of \$314,878. Overall, the town's market value grew by 2.7% over the past year to \$5.0 billion in 2021.

Westwood is an affluent residential community about 13 miles southwest of Boston. The town, which encompasses 11 square miles, is near the high-tech corridors along interstates 95 and 495. Town residents primarily work in professional industries, which continues to bolster Westwood's economic metrics. The town reports that because of this, many residents remained employed during the pandemic, which, in our view, continues to add stability to the credit.

The county unemployment rate was 2.5% in 2019; however, it increased significantly due to the stay-at-home orders related to the pandemic, peaking in June 2020 to 17.2%; as of December 2020, unemployment for the county was at 6.4%.

The town's University Station, a mixed-use development, has increased the town's tax levy by a cumulative \$6.4 million since it opened in 2015. Located adjacent to commuter rail, including the Amtrak and Acela station, University Station's anchor businesses include Wegmans and Target, in addition to 35 shops and restaurants. Citizen's Bank's 100,000 square foot regional headquarters was completed in 2020, and currently, Brigham and Women's Hospital is in phase II of its 80,000 square foot facility expected to open sometime in 2021. Hotels and office/medial use is being discussed as additional development opportunities for the 50,000 square feet of remaining space. We expect this project to contribute to what we already view as a very strong economy, providing a stable commercial base and an expanded residential base that will continue to positively serve the town.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In our opinion, Westwood maintains best practices in support of high credit quality, which are well embedded in the government's daily operations and practices. The town maintains a conservative approach to budget management, which has facilitated ample financial flexibility. Management presents monthly budget and treasury reports to the select board, in addition to conducting regular self-audits to ensure adherence to internal policies. Management maintains a five-year capital improvement plan that identifies funding sources for all projects, as well as a five-year financial plan that it updates on an annual basis. The town has a debt management policy limiting the its nonexempt debt service to 8% of general fund revenues, while its total debt service is limited to 10%-12% of net general fund operating revenues and an investment policy. In addition, management maintains a reserve policy that sets a minimum of available reserves at 8% of revenue, net of debt service.

Strong budgetary performance

Westwood's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 1.5% of expenditures, and balanced results across all governmental funds of 0.1% in fiscal 2020. General fund operating results of the town have been stable over the last three years, with a result of 2.0% in 2019 and a result of 1.6% in 2018.

The town has generated a general fund surplus since 2011. Its revenue mix strengthens the town's budgetary profile, as it is primarily reliant on property taxes (74%) and state aid (19%). Management attributes its trend of favorable performance to conservative, forward-thinking budgeting. Its positive fiscal 2020 results were partially due to typical conservative budgeting, as well as savings relative to budget for expenditures such as conferences and trainings, because such events were cancelled. The town's pandemic-related expenditures totaled about \$500,000, which were covered by the CARES Act or FEMA reimbursement. The town did not experience any cut to state aid and had no disruption in its property tax receipts.

The town's fiscal 2021 budget was approved at a balanced \$98 million, which is a 3.8% increase over fiscal 2020. The budget assumes a 3% growth for capital outlay, as well as an appropriation of \$1.4 million to the other

postemployment benefits (OPEB) trust. The state recently announced aid would remain level at a minimum, and management reports its budget-to-actuals are tracking well. The town received \$1.4 million in CARES Act funding in fiscal 2021, \$675,000 of which was allocated to the school department to cover expenditures, such as the purchase of Chromebooks, required for remote schooling. The American Rescue Plan Act apportioned \$8.1 million to Massachusetts state and local governments, of which we expect the town may receive some portion. Given this, in combination with the town's proven conservative budgeting, we expect the town to end fiscal 2021 with at least break-even results.

The town's proposed fiscal 2022 budget is still preliminary and totals \$101 million, which is a 3.2% increase over fiscal 2021. This preliminary budget does not include federal stimulus monies potentially allocated to the town through the American Rescue Plan Act

Very strong budgetary flexibility

Westwood's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 17% of operating expenditures, or \$18.6 million.

The town has consistently improved its budgetary flexibility year-over-year since 2011. Between fiscal years 2017 and 2020, the town increased its reserves by a cumulative 25%. We understand that town officials do not currently plan to spend down reserves over the next few fiscal years. As previously noted, the town's policy is to maintain available reserves at more than 8% of revenue, net of debt service. In addition, Westwood's additional flexibility in unused levy capacity in its proposed 2022 budget totals \$222,000.

Very strong liquidity

In our opinion, Westwood's liquidity is very strong, with total government available cash at 33.3% of total governmental fund expenditures and 6.5x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

Westwood is a frequent issuer of GO debt. The majority of Westwood's cash and investments are in bank accounts. Westwood does not currently have any variable-rate or direct-purchase debt. We expect the town's liquidity profile to remain very strong.

Very strong debt and contingent liability profile

In our view, Westwood's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 32.1% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, which is in our view a positive credit factor.

Following this bond issuance, Westwood has roughly \$37.7 million of total direct debt outstanding, roughly \$239,000 of which is self-supporting enterprise debt. The town expects to issue about \$4 million of new money debt over the near term, including about \$3.5 million in a bond anticipation note for an ongoing road reconstruction project, as well as about \$650,000 for the purchase of a street sweeper and a multipurpose fire vehicle. We do not expect this debt to change our view of the town's debt burden.

Pension and other postemployment benefits

- In our opinion, a credit weakness is Westwood's large pension and OPEB obligations.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies that we believe increase the risk of unexpected contribution escalations.
- Although OPEB liabilities are funded on a pay-as-you-go basis, costs remain low despite the large liability, and we expect the town will continue adding to its OPEB trust fund.

As of June 30, 2020, the town participates in the following plans:

- Norfolk County Retirement System (NCRS): 64.6% funded, with a \$42.4 million proportionate share of the net pension liability.
- A defined-benefit plan providing health care and life insurance benefits to eligible retirees and their dependents: 22% funded, with a net liability of \$37.1 million.

Westwood's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.5% of total governmental fund expenditures in 2020. Of that amount, 4.6% represented required contributions to pension obligations, and 2.9% represented OPEB payments. The town made its full annual required pension contribution in 2020, and we expect it will continue to do so. The NCRS's adopted amortization schedule is consistent with the state requirement to meet full funding no later than 2040. However, the discount rate of 7.75%, which we believe is elevated compared with our 6.00% guideline, could lead to contribution volatility should actual performance not meet these assumptions, which we view as somewhat risky. The level-percent amortization cost method is also likely to lead to growth in future costs. For more information, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020. The town met our static and minimum funding metric in the most recent year, indicating that the system is addressing current costs and making some headway in addressing its unfunded liabilities.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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