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Summary:

Westwood, Massachusetts; General Obligation

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Credit Profile

US\$7.115 mil GO mun purp loan of 2022 bnds due 04/01/2052

| | | |
|-------------------------|------------|-----|
| <i>Long Term Rating</i> | AAA/Stable | New |
|-------------------------|------------|-----|

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 \$7.115 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 \$3.264 million for various town-wide capital needs, as well as permanently financing \$4.450 million of its outstanding short-term notes, of which \$3.851 million will be retired with bond proceeds and almost \$599,000 will be retired using Massachusetts School Building Authority grant funds.

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 town's primary revenues source is property taxes, making up 74% of total revenues and consistently collecting at least 99% of tax revenues per year, which adds stability to the financial profile, in our opinion. Given the combination of the town's history of prudent budgetary practices, consistently strong financial profile, and manageable debt profile, 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.

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

- Wealthy, residential economy with access to a broad and diverse metropolitan statistical area (MSA);
- Diligent financial management practices with formalized policies, with a strong institutional framework score.
- Long-standing trend of producing positive operating surpluses leading to steadily growing fund balance and maintaining very strong liquidity; and
- Disciplined debt management with low debt burden and currently manageable pension and other postemployment liabilities, but with what we believe rely on slightly weak assumptions.

Environmental, social, and governance

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

Wealthy residential community with newer mixed-use developments adding to its very strong tax base

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's University Station, is a newer mixed-use development that continues to enhance the town's tax base, with many stores and restaurants operating within this center now fully operational. Located adjacent to commuter rail, including the Amtrack and Acela station, University Station's anchor businesses include Wegmans and Target, in addition to 35 shops and restaurants, Citizen's Banks, and Brigham and Women's Hospital. Hotels and office/medial use is being discussed as additional development opportunities for the 50,000 square feet of remaining space. Furthermore, the town completed the Islington Center Redevelopment project, which included a CVS, new fire station, and new municipal building. It also includes a mixed-use facility with condominium units, which are completed and now for sale, and restaurants that are expected to be fully constructed and opened later this year. Furthermore, the town is working on town-wide road improvements to improve walkability.

Disciplined financial management practices guided by comprehensive and formally adopted financial management policies

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 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. Furthermore, the town is taking measures to mitigate cyber security risk.

Conservative budgeting practices have led to consistent trend of strong financial performance and maintenance of very strong reserves

The town has generated general fund surpluses 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. Likewise, the town's positive fiscal 2021 results were largely due to typical conservative budgeting, as well as expenditure savings relative to budget for conferences and trainings, as such expenditures were mostly minimized. The town's revenues came in about expected with no disruption in its property tax receipts. The town received \$1.4 million in CARES Act funding in fiscal 2021, \$960,000 of which was allocated to the school department to cover expenditures, such as the purchase of Chromebooks, required for remote schooling. In addition, the school department received \$675,000 from the state for pandemic-related expenditures.

The town's fiscal 2022 budget was approved at a balanced \$108 million, which is a 3% increase over fiscal 2021. The budget includes its annual a \$1.490 million appropriation to the other postemployment benefits (OPEB) trust, as well as an allocation of \$125,000 to the stabilization fund funded from free cash. The state recently announced aid would remain level at a minimum, and management reports its budget-to-actuals are tracking well. The town has been allocated \$4.8 million in total American Rescue Plan Act funds; the town has not yet finalized programs/projects for the funds.

The town's preliminary fiscal 2023 budget totals \$112 million, which is a 3.6% increase over fiscal 2022.

Consistent with the town's trend of surpluses, it has also reliably improved its budgetary flexibility year-over-year since 2011. Between fiscal years 2017 and 2021, 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. The town's policy is to maintain available reserves at more than 8% of revenue, net of debt service.

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

Following this bond issuance, Westwood has roughly \$44.85 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 short term notes over the near term. We do not expect this debt to change our view of the town's debt burden.

Pension and other postemployment benefits

We view Westwood's pension and OPEB obligations as large; however, we do not view them as an immediate credit

risk.

- 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, 2021, the town participates in the following plans:

- Norfolk County Retirement System (NCRS): 70.2% funded, with a \$36.9 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: 30.6% funded, with a net liability of \$34.9 million.

Westwood's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.9% of total governmental fund expenditures in 2021. Of that amount, 4.9% represented required contributions to pension obligations, and 3.0% represented OPEB payments. The town made its full annual required pension contribution in 2021 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.

| Westwood, Massachusetts Key Credit Metrics | | | | |
|--|-------------|------------------------|-----------|------|
| | Most recent | Historical information | | |
| | | 2021 | 2020 | 2019 |
| Very strong economy | | | | |
| Projected per capita EBI % of U.S. | 192 | | | |
| Market value per capita (\$) | 322,756 | | | |
| Population | | 15,737 | 15,237 | |
| County unemployment rate(%) | | 8.3 | | |
| Market value (\$000) | 5,079,213 | 4,964,045 | 4,832,668 | |
| Ten largest taxpayers % of taxable value | 11.1 | | | |
| Strong budgetary performance | | | | |
| Operating fund result % of expenditures | | 2.2 | 1.5 | 2.0 |
| Total governmental fund result % of expenditures | | 2.6 | 1.1 | 0.4 |

| Westwood, Massachusetts Key Credit Metrics (cont.) | | | | |
|---|-------------|------------------------|--------|--------|
| | Most recent | Historical information | | |
| | | 2021 | 2020 | 2019 |
| Very strong budgetary flexibility | | | | |
| Available reserves % of operating expenditures | | 18.1 | 17.5 | 17.3 |
| Total available reserves (\$000) | | 19,909 | 18,560 | 17,379 |
| Very strong liquidity | | | | |
| Total government cash % of governmental fund expenditures | | 37 | 34 | 33 |
| Total government cash % of governmental fund debt service | | 691 | 655 | 597 |
| Very strong management | | | | |
| Financial Management Assessment | | Strong | | |
| Very strong debt & long-term liabilities | | | | |
| Debt service % of governmental fund expenditures | | 5.3 | 5.1 | 5.5 |
| Net direct debt % of governmental fund revenue | | 36 | | |
| Overall net debt % of market value | | 0.9 | | |
| Direct debt 10-year amortization (%) | | 65 | | |
| Required pension contribution % of governmental fund expenditures | | 4.9 | | |
| OPEB actual contribution % of governmental fund expenditures | | 3.0 | | |
| Strong institutional framework | | | | |

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

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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