

# RatingsDirect®

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## Summary:

# Westwood, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$2.97 mil GO mun purp loan bnds ser 2014 due 05/15/2024

*Long Term Rating* AAA/Stable New

Westwood GO

*Long Term Rating* AAA/Stable Upgraded

Westwood GO sch bnds ser 2009

*Long Term Rating* AAA/Stable Upgraded

## Rationale

Standard & Poor's Ratings Services raised its rating on Westwood, Mass.' general obligation (GO) bonds one notch to 'AAA' from 'AA+'. The outlook is stable.

The upgrade reflects our opinion of the town's stronger budgetary performance, which has enhanced budgetary flexibility, as reflected in Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

Standard & Poor's also assigned its 'AAA' rating and stable outlook to Westwood's series 2014 GO municipal purpose loan bonds.

The town's full-faith-and-credit pledge secures the GO debt. Officials plan to use series 2014 bond proceeds to finance roadway and sewer improvements and equipment purchases.

The rating reflects our opinion of the following factors for Westwood, specifically its:

- Very strong economy with access to the diverse Boston metropolitan statistical area (MSA);
- Very strong management environment due to its ability to maintain balanced operations consistently -- The town maintains "strong" financial management policies under our Financial Management Assessment (FMA) methodology;
- Strong budgetary flexibility with fiscal 2013 available reserves of 11.2% of general fund expenditures and no plans to draw them down materially;
- Recently strong budgetary performance and stable revenue profile that is largely independent of commonwealth and federal revenue;
- Very strong liquidity, providing very strong cash to cover debt service and operating expenditures; and
- Very strong debt and contingent liabilities position, bolstered by low debt-to-market-value ratios and aggressive amortization -- We believe the town's long-term liabilities are manageable.

### Very strong economy

We consider Westwood's economy very strong. Westwood is an affluent residential community about 13 miles southwest of Boston. The town, which has about 14,200 residents, encompasses 11 square miles. The stable local economy centers on services. Westwood is near the high-tech corridors along interstates 95 and 495, and it

participates in the broad and diverse Boston MSA. In our opinion, this has made the town attractive to wealthy professionals and translated to very strong economic factors.

Projected per capita effective buying income is 224% of the national level. In our view, local unemployment is favorable; the U.S. Bureau of Labor Statistics' preliminary December 2013 estimates have unemployment at 4.5%. More broadly, Norfolk County unemployment averaged 6% in 2013, below the nation's rate. Based on our forecasts, we expect that employment growth will likely continue modestly through 2015 and that unemployment will likely remain steady.

As with many local and national communities, Westwood experienced a decrease in assessed value (AV) due to the recession; recent AV trends, however, suggest valuations are stable. AV is \$3.4 billion in fiscal 2014, essentially flat compared with fiscal 2013 AV. Market value is \$234,000 per capita. The property tax base is very diverse with the 10 leading taxpayers accounting for 10% of AV.

In our view, recovery in the broader New England residential real estate market has shown improvement; our data suggest median home prices regionwide have strengthened. We believe there are signs of local property value stabilizing and economic development gaining traction. We note ongoing development within the Route 128/University Park train station is also building momentum. In 2011, the former owner of the development parcel liquidated its assets and sold the property to a consortium of developers; the new owners paid all delinquent taxes, and they are current on tax payments. The new owners remain on track to begin phase 1 in 2014 of what we understand is a small-scale, mixed-use development known as the University Avenue project. We believe this project and other smaller development projects should underpin future tax levy growth, catering to a stable budgetary environment.

### **Very strong management conditions**

In our opinion, Westwood's management conditions are very strong. Standard & Poor's considers Westwood's financial management practices "strong" under its FMA methodology, indicating practices are strong, well embedded, and likely sustainable. We believe that Westwood maintains best practices deemed critical to supporting credit quality and that these are well embedded in the government's daily operations and practices. Formal policies support many of these activities; this adds to the likelihood they will continue in the future and transcend changes in the operating environment or personnel.

Management presents year-to-date budget reports to the board of selectmen monthly; this ensures officials make timely budget adjustments. Westwood also prepares a five-year operating budget in conjunction with a long-range planning committee and maintains a five-year capital improvement plan that identifies funding sources for all projects. The town has basic debt management guidelines. In addition, management maintains a reserve policy that limits available reserves to 8% of revenue, net of debt service.

### **Strong budget flexibility**

In our opinion, budget flexibility is strong. Budgetary flexibility has improved over the past several fiscal years. We calculate available reserves at \$8.3 million, or 11.2% of expenditures, at fiscal year-end 2013. Reserves are up from \$6.7 million, or 9.4% of expenditures, in fiscal 2012. We understand that town officials do not plan to spend down reserves over the next few fiscal years and that they expect available reserves to remain in-line with fiscal 2013 results. As previously noted, the town's policy is to maintain available reserves of more than 8% of revenue, net of debt

service.

Despite continued budget pressure due to higher fixed costs, we expect Westwood to continue to manage reserves to these levels over the next few fiscal years. We understand management does not currently plan to draw down reserves; in addition, officials expect budgetary performance to remain stable despite some challenges.

### **Strong budgetary performance**

In our view, overall budgetary performance is strong. Despite a challenging revenue environment over the past several fiscal years, Westwood's finances have remained strong. We believe, what we regard as, conservative budgeting and an improving economy have contributed to overall financial performance. The town has generated a general fund surplus in each of the past three fiscal years, and it is projecting to do so again in fiscal 2014. In fiscal 2013, Westwood realized a general fund surplus of \$1.3 million, or 1.8% of operating expenditures. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, operations were, in our opinion, a strong 1.9% of expenditures in fiscal 2013.

We believe favorable budgetary performance stems from a recovery in local fees and taxes and proactive budget management. We also believe Westwood maintains a stable and predictable revenue profile that is largely independent of commonwealth and federal revenue. Property taxes generate 77% of revenue, and we consider collections strong and stable. State aid accounts for 17% of revenue, and we note commonwealth funding has been stable recently. For fiscal 2014, Westwood expects budgetary performance to remain stable.

Currently, we expect Westwood's operating performance to remain in-line with years past; we, however, acknowledge there will be budgeting challenges due to increasing costs that will test management. Based on our macroeconomic forecasts, (please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published April 7, 2014, on RatingsDirect), however, credit conditions in New England remain stable, which should translate to ancillary revenue and taxable levy growth coming in as expected. In our view, however, management will need to remain proactive to ensure spending remains in-line with revenue.

### **Very strong liquidity**

Supporting Westwood's finances is, what we consider, very strong liquidity with total government available cash of 19.1% of total governmental fund expenditures and 311% of debt service. Further enhancing our view of Westwood's liquidity is, what we consider, its strong access to external liquidity. Westwood is a regular market participant, issuing GO bonds frequently over the past several years.

### **Very strong debt and contingent liabilities**

In our opinion, Westwood's debt and contingent liabilities position is very strong. Following this bond issuance, Westwood has roughly \$36.6 million of total direct debt outstanding, roughly \$1 million of which is self-supporting enterprise debt. Total governmental funds debt service is 6.1% of total governmental funds expenditures, and net direct debt is 42.3% of total governmental funds revenue. Overall net debt is, in our view, a low 1% of market value, bolstering our view of the town's debt. Furthermore, we consider principal amortization rapid with officials planning to retire 86% over 10 years.

In our view, we believe Westwood's pension and other postemployment benefits (OPEB) liabilities are currently

manageable. Pension and OPEB costs account for 5.8% of total governmental funds expenditures. The town participates in the Norfolk County retirement system, and it contributes 100% of the required amount. In fiscal 2014, Westwood paid \$2.8 million, or about 3.5% of expenditures. As of Jan. 1, 2012, the system, as a whole, was 60% funded; Westwood's portion of the total unfunded actuarial accrued liability was \$34.7 million. While pension costs are manageable due to the county retirement system's below-average funded ratio, we believe this will likely remain a growing pressure over the next few years.

Westwood's OPEB liability was \$55 million as of July 1, 2013, based on a 5.25% discount rate and \$39.3 million based on a 7.25% discount rate, as well as the hypothetical full prefunding of a \$3 million annual required contribution. As of June 30, 2013, the town had \$612,433 of assets in a qualified OPEB trust fund. The annual OPEB cost was \$5.2 million in fiscal 2013, 36% of which the town contributed. We understand that Westwood plans to contribute \$503,000 in fiscal 2014 and that it intends to increase the contribution to \$550,000 for fiscal 2015.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Massachusetts towns strong.

## **Outlook**

The stable outlook reflects Standard & Poor's expectation that Westwood's strong underlying economy, ongoing economic developments, strong management, and predictable operating profile will likely translate into strong budgetary performance and operating flexibility over the outlook period. In addition, we expect Westwood to maintain, what we consider, its very strong debt and liability profile because there are no sizable long-term capital needs. We believe debt service costs and pension and OPEB costs will likely remain manageable and not pose an immediate budgetary challenge over the two-year outlook period. For these reasons, we do not expect to change the rating over the next two years.

## **Related Criteria And Research**

### **Related Criteria**

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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