

# RatingsDirect®

---

## Summary:

# Westwood, Massachusetts; General Obligation; Note

### **Primary Credit Analyst:**

Christina Marin, Boston 617-530-8312; christina.marin@standardandpoors.com

### **Secondary Contact:**

Timothy J Daley, Boston (1) 617-530-8121; timothy.daley@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Westwood, Massachusetts; General Obligation; Note

### Credit Profile

US\$10.45 mil GO mun purp loan bnds ser 2015 due 09/01/2035		
<i>Long Term Rating</i>	AAA/Stable	New
US\$1.0 mil GO BANs dtd 09/02/2015 due 09/02/2016		
<i>Short Term Rating</i>	SP-1+	New

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Westwood, Mass.' 2015 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the town's outstanding debt. The outlook is stable.

We rate Westwood above the sovereign because we believe the town can maintain credit characteristics independent of the nation, based on its predominantly locally derived revenue and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2014, 72% of the town's revenue was derived from local property taxes, demonstrating a lack of dependence on central government revenues.

Standard & Poor's also assigned its 'SP-1+' short-term rating to Westwood's bond anticipation notes (BANs). The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Westwood maintains a very strong capacity to pay principal and interest when the notes come due. The town maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full-faith-and-credit pledge secures the bonds and BANs. Officials plan to use series 2015 bond proceeds to finance fire station design and construction, as well as cemetery land development and street light LED conversion. The proceeds of the BANs will be used for police station design.

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

- 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;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 13.1% of operating expenditures;
- Very strong liquidity, with total government available cash of 25.1% of total governmental fund expenditures and 4.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 5.6% of expenditures and net direct debt that is 35.5% of total governmental fund revenue and low overall net debt at less than 3% of market

value and rapid amortization with 73.3% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

### **Very strong economy**

We consider Westwood's economy very strong. The town, with an estimated population of 14,931, is located in Norfolk County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 201% of the national level and per capita market value of \$245,136. Overall, the town's market value grew by 5.1% over the past year to \$3.7 billion in 2015. The county unemployment rate was 5.0% in 2014.

Westwood is an affluent residential community about 13 miles southwest of Boston. The town, which encompasses 11 square miles, is near the high-technology corridors along interstates 95 and 495. Top local employers include Eversource power company (1,115 employees) and State Street Bank Financial Services (700). In our opinion, access to employment centers has made the town attractive to wealthy professionals and translated into very strong economic factors.

The town is beginning to see the results of a large-scale transit-oriented development at University Park Station/Route 128, with several stores opening in March 2015. The 137-acre project includes an anchor grocery store, a mix of restaurant and retail storefronts, and up to 650 residential units, as well as a hotel and office space--all abutting the Amtrak and Acela Station, a stop for trains south to New York City and Washington D.C. Town officials conservatively estimate that the University Station project will result in a \$2 million net annual revenue increase for the town. They expect additional revenues to come from the increase in assessed value of the surrounding property. 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 serve the town for many years to come.

### **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, which adds to the likelihood they will continue in the future and transcend changes in the operating environment or personnel.

Management presents monthly budget and treasury reports to the board of selectmen. It 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 and an investment policy. In addition, management maintains a reserve policy that sets a minimum of available reserves to 8% of revenue, net of debt service.

### **Strong budget flexibility**

Westwood's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 13.1% of operating expenditures, or \$10.2 million.

Budgetary flexibility has improved over the past several fiscal years. Reserves are up from fiscal 2013 levels of \$8.3 million, or 11.2% of expenditures. 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 2014 results. As previously noted, the town's policy is to maintain available reserves of more than 8% of revenue, net of debt service. We recognize the town has minimal additional flexibility in unused levy capacity, which was \$612,119 in 2014.

### **Strong budgetary performance**

Westwood's budgetary performance is strong in our opinion. The town had operating surpluses of 6.8% in the general fund and 4.3% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results may not sustain such high surpluses going forward.

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 years 2015 and 2016. Favorable performance is a result of conservative, forward-looking budgeting. In 2014, the largest increases came from motor vehicle excise taxes (up 56%) and licensees and permits (up 21%). The fiscal 2016 budget is a 5.8% increase over the prior year and sustains appropriations to capital projects and long-term liabilities such as other postemployment benefits (OPEBs).

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 72% of revenue, and we consider collections strong and stable. State aid accounts for 16% of revenue, and we note commonwealth funding has been stable.

### **Very strong liquidity**

In our opinion, Westwood's liquidity is very strong, with total government available cash of 25.1% of total governmental fund expenditures and 4.5x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

The town is a frequent issuer of GO debt. The majority of Westwood's cash and investments are in bank accounts. Westwood has no 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 5.6% of total governmental fund expenditures, and net direct debt is 35.5% of total governmental fund revenue. Overall net debt is low at 0.9% of market value and approximately 73.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this bond issuance, Westwood has roughly \$44.8 million of total direct debt outstanding, roughly \$2.2 million of which is self-supporting enterprise debt and \$9.8 million will be reimbursed by the state for school building projects. The town plans on issuing \$12 million to \$15 million in the near term to fund the construction of a new police station.

In our view, we believe Westwood's pension and 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, it 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 \$56 million as of July 1, 2013, based on a 5.25% discount rate and \$39.3 million based on a 7.25% discount rate. The annual OPEB cost was \$4.7 million in fiscal 2014, 47% of which the town contributed. As of June 30, 2015, the town had \$1.7 of assets in a qualified OPEB trust fund, which officials expect will increase to nearly \$3 million in 2016. Westwood is also allocating savings from reduced health insurance costs (associated with the switch into the state Group Insurance Commission) to the OPEB trust fund.

### 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 despite existing and pending capital projects. 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 due to the town's proactive initiatives. 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
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

### Ratings Detail (As Of August 6, 2015)

Westwood GO		
Long Term Rating	AAA/Stable	Affirmed

**Ratings Detail (As Of August 6, 2015) (cont.)**

Westwood GO sch bnds ser 2009

*Long Term Rating*

AAA/Stable

Affirmed

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).