

RatingsDirect®

Summary:

Tewksbury, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$21.14 mil GO mun purp loan bnds ser 2015 due 02/15/2036

<i>Long Term Rating</i>	AA+/Stable	New
Tewksbury Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Tewksbury Twn GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Tewksbury Twn GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on the Town of Tewksbury, Mass. general obligation (GO) bonds to 'AA+' from 'AA' based on sustained positive operating performance and formal adoption and integration of key financial management policies. At the same time, Standard & Poor's assigned its 'AA+' long-term rating to the town's series 2015 GO bonds. The outlook for both ratings is stable.

A pledge of the town's full faith and credit, subject to Proposition 2 1/2 limitations, secures the bonds. We understand proceeds will be used to undertake major renovations on the town's water treatment plant and refund 2006 bonds for a net present value savings of \$650,000.

The rating reflects our assessment of the following factors for the town:

- 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 balanced operating results in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 9.5% of operating expenditures;
- Very strong liquidity, with total government available cash of 30.6% of total governmental fund expenditures and 8.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 3.7% of expenditures and net direct debt that is 84.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization with 71.1% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Very strong economy

We consider Tewksbury's economy very strong. The town, with an estimated population of 30,199, is located in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 134% of the national level and per capita market value of \$128,469. Overall, the town's market value grew by 2.6% over the past year to \$3.9 billion in 2015. The county unemployment rate was 4.6% in 2014.

Tewksbury is a primarily residential community located at the intersection of interstates 495 and 93, about 20 miles north of Boston. The town's access to highways and commuter rail stations affords residents employment opportunities throughout the Boston MSA. Leading employers within the town itself include Raytheon Manufacturing (2,000 employees), followed by DeMoulas Warehouse (1,200 employees) and Tewksbury State Hospital (1,100 employees). We expect the town's tax base to continue to grow due to several developments that are undergoing permitting or are in construction, including a 192-unit rental project on Main Street, a 96-unit multi-family project at Joan's Farm, and multiple expansions/enhancements to existing commercial and office space.

Very strong management conditions

We have revised our view of Tewksbury's management conditions to a "very strong" under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. The revision is based on a new debt management policy that we believe is widely recognized, well-defined, and integrated into budget practices.

Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and a long-term financial plan. Tewksbury has a detailed five-year capital improvement plan that is updated annually and identifies funding sources for specified projects. The town also has an investment policy that targets maximums for asset allocations and limits investments to state pooled funds and other bank deposits. Finance committee members receive quarterly reports on budget performance, revenue receipts, and holdings and earnings for funds held in investments.

The town formalized key policies related to debt management and its reserve policy in 2013, and we see evidence that these policies are recognized and followed. The adopted debt management policy targets debt service of 2%-10% of the annual operating budget while attempting to maintain a long-term debt schedule of at least 50% of debt outstanding amortized within 10 years. Although the town is not at its target level for stabilization reserves, which is 3%-5% of the operating budget, we understand that management is looking to build this account. In 2015, stabilization reserves were \$1.7 million, or 1.7% of the operating budget.

Strong budgetary performance

Tewksbury's budgetary performance is strong in our opinion. The town had balanced operating results of 0.0% in the general fund and 0.5% across all governmental funds in fiscal 2015. General fund operating results of the town have been stable over the last three years, with a result of 1.9% in 2014 and a result of 0.7% in 2013.

In our calculation of general fund operating results, we add \$4 million to general fund expenditures, accounting for an annual transfer to the sewer enterprise account as we consider this a recurring expense. We also net out a one-time allocation to the health insurance trust fund. General fund revenues came in approximately \$2.2 million more than budgeted, due to higher-than-anticipated motor vehicle and other excise receipts, as well as an increase in building

permits and hotel/motel tax collections. General fund expenditures, including encumbrances, came in \$600,000 less than budgeted. After adjustments, total governmental fund expenditures were \$109 million in 2015.

The 2016 budget is balanced without the use of reserves. We expect this trend of positive performance, both in the general fund and total governmental fund, to continue into fiscal 2017 based on very strong management conditions and new development projects on the horizon expected to generate additional new growth revenues.

Strong budgetary flexibility

Tewksbury's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 9.5% of operating expenditures, or \$9.6 million. As mentioned previously, the town maintains a formal policy target for its stabilization balance of 3%-5% of operating budget. Stabilization funds, which account for a portion of available reserves, represent 1.7% of the operating budget at present. Additional policies are in place to set aside at least \$600,000 in free cash for potential snow and ice deficit and \$350,000 into the town's OPEB trust. The town levies near the state property tax cap, and does not have any significant capacity to levy additional taxes under the cap. We do not expect any future drawdown in reserves as the fiscal 2016 budget was adopted without the use of reserves, and we expect consistent operating performance in 2017.

Very strong liquidity

In our opinion, Tewksbury's liquidity is very strong, with total government available cash of 29.5% of total governmental fund expenditures and 8.4x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is supported by regular debt issuances. Tewksbury has no variable-rate or direct purchase debt. It has consistently maintained very strong liquidity and we expect our assessment of liquidity to remain unchanged during our outlook period.

Adequate debt and contingent liabilities

In our view, Tewksbury's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.7% of total governmental fund expenditures, and net direct debt is 84.6% of total governmental fund revenue. Overall net debt is low at 2.4% of market value and 71.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Total direct debt is \$143 million, approximately \$46 million of which we consider self-supporting via water and sewer rate payments and \$4.3 million will be reimbursed from the state for a school building project. Management is anticipating borrowing an additional \$12 million in the next few years for capital projects such as the Sutton Brook Landfill closure, a new fire station, and for additional funds for the water system improvements.

In our opinion, a credit weakness is Tewksbury's large pension and OPEB liability, without a plan in place that we think will sufficiently address the obligation. Tewksbury's combined pension and OPEB contributions totaled 11.4% of total governmental fund expenditures in 2015. Of that amount, 5.8% represented contributions to pension obligations and 5.6% represented OPEB payments. The town made its full annual required pension contribution in 2015.

Tewksbury participates in the Middlesex County Retirement System and contributed its full annual required contribution of \$7.3 million in 2015. As of its 2013 valuation, the system was about 44% funded. The town also

provides OPEBs in the form of health insurance and contributed \$6.1 million in fiscal 2015 on a pay-as-you-go basis. As of its June 30, 2014 valuation, the OPEB plan had an unfunded liability of \$162 million. The town established an OPEB trust in 2009, which had a balance of \$751,613 as of June 30, 2015.

Strong institutional framework

We consider the institutional framework score for Massachusetts municipalities strong.

Outlook

The stable outlook reflects our view that Tewksbury's very strong management conditions, very strong economy, and strong reserves that we believe should translate into consistent and positive operating performance into the near future.

Upward scenario

We are unlikely to raise the rating in our two-year outlook horizon due to Tewksbury's high pension and OPEB liabilities. Furthermore, although we consider the town's economy very strong, wealth and income indicators are slightly below higher-rated peers.

Downward scenario

Should financial performance deteriorate and reserves decrease, we could revise the outlook or lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

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

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