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## Summary:

# Woburn, Massachusetts; General Obligation

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| US$7.665 mil GO muni purpose ln ser 2019 due 09/15/2039 | | |
| *Long Term Rating* | AAA/Stable | New |

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Woburn, Mass.' series 2019 general obligation (GO) municipal purpose loan. The outlook is stable.

### Credit summary

The rating reflects our opinion of Woburn's very strong economy, supported by a wealthy tax base and access to the Boston metropolitan statistical area (MSA). In addition, we believe the city's maintenance of very strong budgetary flexibility, with available reserves averaging about 27% of expenditures during the past three fiscal years due to positive financial performance and very strong management, further supports our view of the rating. Although the city maintains large pension and other postemployment benefits (OPEB) obligations compared with its budget, we believe these costs should remain manageable in the short-to-medium term.

### Security and use of bond proceeds

Woburn's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds. Despite limitations imposed by the commonwealth's levy limit law, we did not make a rating distinction between the limited- and unlimited-tax GO pledges due to the city's operating flexibility under the levy limit. We rate the limited-tax-GO debt on par with our view of Woburn's general creditworthiness, because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of its overall ability and willingness to pay debt service.

Officials intend to use the series 2019 bond proceeds to permanently finance a portion of the city's existing bond anticipation notes (BANs). Management will also issue $2.8 million in GO BANs along with the bonds, which we will not rate.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Woburn higher than the U.S., because we believe the city 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 2018, local property taxes generated 70% of revenue, which demonstrated a lack of dependence on central government revenue.

The city's general creditworthiness reflects our view of its:

- Very strong economy, with access to a broad and diverse MSA;

- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and breakeven operating results at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 27% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 24.6% of total governmental fund expenditures and 9.2x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 2.7% of expenditures and net direct debt that is 45.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 65.4% of debt scheduled to be retired in 10 years, but significant medium-term debt plans and a large pension and OPEB obligation; and
- Strong institutional framework score.

## Very strong economy

We consider Woburn's economy very strong. The city, with an estimated population of 40,340, is in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 142% of the national level and per capita market value of $196,780. Overall, the city's market value grew 7.7% over the past year to $7.9 billion in 2019. The county unemployment rate was 2.7% in 2018.

Woburn is approximately 10 miles northwest of Boston with Interstate 93 (I-93) and I-95 intersection within its boundaries. Massachusetts Bay Transportation Authority (MBTA) commuter rail and bus access as well as Amtrak services are available via the city's Anderson/Woburn Regional Transportation Center. Approximately 72% of the tax base is residential followed by commercial and industrial at a combined 24%. The city is a fairly wealthy community that has experienced growth in its residential tax base over the past few years as people continue to move from Boston and Cambridge, many with high-paying jobs, into the city and surrounding areas. In addition, the Woburn's commercial and industrial base has been bolstered by rapid growth of biopharmaceutical companies and high-technology employers that have expanded or set up operations there. The city has also experienced growth in its local economy as a result of a healthy and thriving real estate market for both residential and commercial properties.

Various developments are underway throughout the city, as management heavily markets the city and provides development opportunities for prospective developers and investors. Some of the residential projects under construction include Shannon Farm, which will consist of high-end, single-family homes and condominiums; Winning Farm's 146 condominiums, and mixed-use development at the Woburn Mall site consisting of 350 apartments and 175,000 square foot of retail. On the industrial and commercial side, The Vale, a large-scale biotech and mixed-use project with a projected total investment of $600 million, is going through the permitting phase. The project is expected to contain more than 140,000 square feet of high-tech laboratory and industrial space as well as 300 housing units, 800,000 square feet of office and retail space, an assisted living care facility, and hotel space. The city is also focusing on transit-oriented development, with new housing units, commercial development, and expansion of businesses along its Anderson/Woburn Transportation Center and Commerce Way District. The city also expects future development in the New Boston Street industrial area, with the construction of a new bridge by the state that will link several industrial parcels. Finally, the city has also experienced growth in its downtown area with new residential dwellings, retail businesses, restaurants, and other private-sector investments.

Overall, given its wealthy and growing tax base, bolstered by numerous economic development projects and its access to the Boston MSA, we expect Woburn's economy to remain very strong.

### Very strong management

We view the city'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.

The city's revenue and expenditure assumptions are conservative in nature coupled with a five-year historical trend analysis and monthly review of budget-to-actual results with the council. Management also maintains a comprehensive formal five-year long-term financial plan and a five-year capital improvement plan (CIP) that identifies funding sources. The city has a formal investment policy, with annual reporting on such investments to the council as well as a formal debt management policy that targets a 65% 10-year amortization rate on outstanding debt and a minimum 3% net present value savings for refunding bonds. Lastly, the city maintains a formal reserve policy that limits available reserves, consisting of both free cash and stabilization funds combined, at no less than 15% of expenditures, which the city has historically adhered to. Management also targets to maintain unassigned fund balance at 17%-20%, which the city continues to meet.

Woburn also has a comprehensive cyber-security plan led by its information technology department that consists of 24/7 monitoring and reporting of security status, phishing tests coupled with security education, service level agreements with outside security experts that would alert the city of any security events within five minutes, and cyber security liability insurance.

### Strong budgetary performance

Woburn's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 1.8% of expenditures, and balanced results across all governmental funds of 0.4% in fiscal 2018.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

According to officials, the fiscal 2018 general fund results were primarily due to the city's overall conservative approach to budgeting, which led to higher-than-anticipated revenues and lower-than-budgeted expenses. This included positive variances in real estate taxes, departmental income, motor vehicle excise taxes, tax liens, as well as hotel/motel and meals taxes. On the expense side, the city had cost-savings across many areas of the budget including public safety, debt service, education, general government, and employee benefits. The city's conservative budgeting practices also led to consecutive general fund surpluses in the previous four years, including a $2.2 million surplus in fiscal 2017 and $8.8 million in fiscal 2016. For fiscal 2019, the city projects to have ended the year with another surplus of approximately $5.9 million also due to favorable budget-to-actual variances on both revenues and expenditures.

The fiscal 2020 budget totals $161 million, inclusive of water and sewer operations, which represents a 5% increase over the previous year and no appropriation of fund balance towards the budget. Officials report the budget does not contain any major changes over the prior year although the city has budgeted for increases in education, public safety, and debt service costs. Overall, given the city's historically positive financial performance and projections, we do not expect to change the rating within the two-year outlook horizon.

Property taxes make up 70% of general fund revenues followed by intergovernmental at 19%. Tax collections have been strong averaging 100% over the past three years.

### Very strong budgetary flexibility

Woburn's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 27% of operating expenditures, or $42.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 27% of expenditures in 2017 and 27% in 2016. In addition, the city has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

The city has maintained very strong budgetary flexibility over the past three years, in our view, with available reserves averaging 27% of expenditures from fiscal years 2016-2018. For fiscal 2019, the city estimates to have ended the year with a $5.9 million increase in available reserves. The fiscal 2020 budget also does not contain any fund balance appropriations.

Further enhancing our view of the city's budgetary flexibility, is the city's sizable unused levy capacity of about $20.9 million in fiscal 2019, which is about 13.7% of expenditures. We view unused levy capacity as additional operating flexibility, because the city can raise the levy up to that amount without an operating override. The city has increased this unused levy capacity over the past few years to $20.9 million in fiscal 2019 from $12.6 million in fiscal 2015. The city has no plans to tap into this levy capacity in the next several years.

### Very strong liquidity

In our opinion, Woburn's liquidity is very strong, with total government available cash at 24.6% of total governmental fund expenditures and 9.2x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

Woburn is a frequent market participant that has issued debt frequently over the past twenty years, including GO bonds and short-term BANs. The city has no variable-rate or direct-purchase debt, and management confirms it has no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. For these reasons, the city's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong over the next two years.

### Strong debt and contingent liability profile

In our view, Woburn's debt and contingent liability profile is strong. Total governmental fund debt service is 2.7% of total governmental fund expenditures, and net direct debt is 45.6% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 65.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the city's debt and long-term liability profile is its significant medium-term debt plans and its large pension and OPEB obligation.

With this issuance, the city will have about $91.0 million in total direct debt outstanding, including approximately $2.8 million in short-term debt. The city plans to issue about $49.0 million over the next two years, including about $32.0

million towards a new fire department headquarters. The remainder will be issued for various capital projects, including water and sewer projects, as part of the city's CIP.

Woburn's combined required pension and actual OPEB contributions totaled 9.2% of total governmental fund expenditures in 2018. Of that amount, 4.2% represented required contributions to pension obligations, and 4.9% represented OPEB payments. The city made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 65.6%.

The city contributes to the Woburn Contributory Retirement System for retirees. The plan was 65.57% funded as of Jan. 1, 2018 with a $77.9 million net pension liability, using an assumed rate of return of 7.50%. The plan has a closed amortization and is scheduled to be fully funded by 2035, which is ahead of the state mandate of 2040. The city has also historically made 100% of its actuarially determined contributions.

The city also provide OPEB to eligible retirees. The unfunded liability totaled $235.6 million as of fiscal 2018, which we believe to be large compared with its budget. The city has set up an OPEB trust fund and has a balance of $6.4 million as of June 30, 2019, which equates to a 2.7% funded ratio. Its policy is to appropriate a minimum of $500,000 annually towards the OPEB trust fund. However, it has been able to contribute more than this over the past three years.

While we view the city's retirement liabilities as large and expect contributions to continue to increase given the low funded ratios, we believe the city maintains sufficient financial flexibility and reserve levels, coupled with a strong revenue base, to mitigate any sharp increases in these costs, at least, in the short-term. However, should actuary assumptions and investment returns not meet their targets, leading to lower funded ratios and higher costs, we believe the city's budget could be pressured.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

## Outlook

The stable outlook reflects our view of the city's very strong economy with an affluent and growing tax base and access to the Boston MSA. Further supporting the outlook is the city's very strong management conditions, which have translated to strong financial performance over the past few years and consistent increases in available reserves and unused levy capacity. While Woburn maintains sizable pension and OPEB obligations, we expect the city to continue to manage these costs and maintain stable financial operations. Therefore, we do not expect to change the rating within the two-year outlook horizon. Although not expected, should the city's reserve levels substantially weaken as a result of consistent negative financial results and increasing retirement costs, we could lower the rating.

## Related Research


- U.S. State And Local Government Credit Conditions Forecast, Oct. 24, 2018
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local

Government GO Criteria, Sept. 2, 2015

- 2018 Update Of Institutional Framework For U.S. Local Governments