

# RatingsDirect®

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## Summary:

# Westminster, Massachusetts; General Obligation

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### Credit Profile

US\$2.83 mil GO sr ctr bnds (Unlimited Tax) ser 2015 dtd 04/01/2015 due 04/01/2030

<i>Long Term Rating</i>	AA+/Stable	New
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#### Westminster GO

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to Westminster, Mass.' series 2015 general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds. We understand that officials intend to use bond proceeds to retire and permanently finance roughly \$2.6 million of bond anticipation notes and that the town's electorate voted to exempt this authorization from Proposition 2 1/2 limitations.

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

- Very strong economy, which benefits from its participation in the broad and diverse Worcester metropolitan statistical area (MSA);
- Strong budgetary performance, which takes into account a stable revenue stream;
- Very strong budgetary flexibility with fiscal 2014 audited reserves of 34.4% of general fund expenditures;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Strong management conditions with "good" financial management practices under our Financial Management Assessment (FMA) methodology;
- Very strong debt and contingent liability position; and
- Strong Institutional Framework.

### Very strong economy

We consider Westminster's economy very strong with its participation in the broad and diverse Worcester MSA. The primarily residential Westminster is about 24 miles north of Worcester and about 65 miles northwest of Boston. Leading area employers include Wachusett Mountain Ski Area (seasonal), Simplex Time Recorder, TRW Inc., and Aubuchone Hardware. Worcester County unemployment equaled 7.9% in 2013. In our view, projected per capita effective buying income is 115% of the national level.

As with many local and national communities, Westminster assessed value (AV) has decreased due to the recession. Between fiscal years 2008 and 2014, AV decreased by roughly 20%. Management, however, expects wealth and income to remain stable. For fiscal 2015, AV has improved by 1.5% to \$833 million, or a market value of \$111,095 per capita. The property tax base is very diverse with the 10 leading taxpayers accounting for 8.3% of AV. In addition, we

believe credit conditions in New England will likely remain stable with modest economic growth through 2015. Recent data indicate the region's median home prices will remain positive into 2015, which bodes well for a continued recovery in local AV. (Please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published Dec. 10, 2014, on RatingsDirect.)

### **Strong budgetary performance**

In our opinion, overall budgetary performance is strong. Westminister ended fiscal 2014 with operating surpluses in the general fund and total governmental funds of 7.6% and 6%, respectively, after adjusting for recurring transfers and one-time capital expenditures. Management attributes this to better-than-expected revenue and lower-than-budgeted expenditures. Officials report fiscal 2015 revenue and expenditures are currently on target with the budget; only snow-removal costs have been higher than expected due to a winter with particularly heavy snow-and-ice totals. Even with this expenditure variance, however, management expects to finish fiscal 2015 with at least break-even results. Property taxes, which we consider a stable revenue source, generate about 80% of general fund revenue and motor vehicle taxes generate 6%.

### **Very strong budgetary flexibility**

We view budgetary flexibility as very strong. Available reserves in fiscal 2014 totaled \$6.4 million, or 34.4% of expenditures, in-line with Westminister's formal reserve policy of maintaining a minimum \$250,000 in free cash and \$1 million in the general stabilization fund. For fiscal 2015, management appropriated \$250,000 in free cash to balance the budget; it, however, does not expect to realize this by fiscal year-end.

### **Very strong liquidity**

Supporting Westminister's finances is liquidity we consider very strong with available cash of 46.7% of total governmental fund expenditures and 15x debt service coverage. We believe Westminister has strong access to external liquidity because it has issued bonds during the past 15 years.

### **Strong management conditions**

We view Westminister's management conditions as strong with "good" financial management practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include management's:

- Conservative assumptions with a five-year historical trend analysis when developing the budget, and
- Semiannual reports provided to the town board.

Management maintains a formal five-year capital improvement plan with identified projects and funding sources that it updates annually. Officials maintain a formal investment policy with annual reports on holdings and performance to the board, and a formal debt management policy follows commonwealth guidelines. Management also conducts a five-year revenue forecast. The formal reserve policy includes the maintenance of minimum balances at \$250,000 in free cash and \$1 million in the stabilization fund for general purposes.

### **Very strong debt and contingent liability profile**

In our opinion, Westminister's debt and contingent liability profile is very strong with debt service of 3.1% of total governmental fund expenditures and net direct debt of 26.2% of total governmental fund revenue. In our view, overall net debt is a very low 1.2% of market value. With the inclusion of this issue, officials plan to retire 57.6% of principal

over the next 10 years. Westminster does not currently have any exposure to contingent liquidity debt or variable-rate debt. Officials currently plan to issue about \$2.5 million of additional debt within the next two years to three years for a new sewer project.

Westminster contributes to the Worcester Regional Retirement System. The funded ratio was 44% as of Jan. 1, 2012. Westminster has made 100% of the annual required contribution over the past three fiscal years. For fiscal 2014, the contribution totaled \$493,272, or about 2.5% of expenditures. The town also provides a retiree health care plan; the unfunded actuarial accrued other postemployment benefits (OPEB) liability was \$6.8 million as of July 1, 2011. Management funds this OPEB liability through pay-as-you-go financing; it contributed \$121,325 toward OPEB in fiscal 2014, or 0.6% of expenditures. The combined pension and OPEB contribution amounted to 3.1% of governmental expenditures in fiscal 2014.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Massachusetts cities strong.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion of Westminster's very strong budgetary flexibility and liquidity, supported by strong budgetary performance. We believe Westminster's participation in the broad and diverse Worcester MSA will likely provide continued property tax base stability. If wealth and income were to continue to stabilize and improve as expected, and if budgetary performance were to remain strong, holding all else equal, we could raise the rating. On the other hand, although unlikely to occur, if economic indicators were to decrease significantly, and if budgetary performance were to deteriorate, resulting in lower reserves, we could lower the rating.

## **Related Criteria And Research**

### **Related Criteria**

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

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- Institutional Framework Overview: Massachusetts Local Governments

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