

**New Issue: Moody's upgrades Auburn MA's GO to Aa2**

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Global Credit Research - 11 Aug 2015

**Assigns Aa2 and MIG 1 to \$12M GO Bonds and \$5.1M GO BANs**

AUBURN (TOWN OF) MA  
Cities (including Towns, Villages and Townships)  
MA

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Bond Anticipation Notes	MIG 1
<b>Sale Amount</b>	\$5,100,000
<b>Expected Sale Date</b>	08/19/15
<b>Rating Description</b>	Note: Bond Anticipation

General Obligation Municipal Purpose Loan of 2015 Bonds	Aa2
<b>Sale Amount</b>	\$12,000,000
<b>Expected Sale Date</b>	08/19/15
<b>Rating Description</b>	General Obligation

**Moody's Outlook** NOO

NEW YORK, August 11, 2015 --Moody's Investors Service has assigned a Aa2 rating to the Town of Auburn's (MA) \$12 million General Obligation Municipal Purpose Loan of 2015 Bonds and a MIG 1 rating to the \$5.1 million General Obligation Bond Anticipation Notes (BANs, dated September 15, 2015 and payable September 15, 2016). At this time, Moody's has upgraded the rating to Aa2 from Aa3 on the town's \$37.5 million of outstanding GO bonds.

**SUMMARY RATING RATIONALE**

The upgrade to Aa2 reflects an improving financial position bolstered by strong fiscal management. The rating also incorporates a moderately-sized tax base with a commercial presence, above-average but manageable debt burden, as well as an average pension liability.

The MIG 1 rating reflects the town's sound, long-term credit profile, ample liquidity and adequate takeout management. The rating anticipates strong market access given frequent debt issuance of at least annually for the past five years.

**OUTLOOK**

The positive outlook has been removed. Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

**WHAT COULD MAKE THE RATING GO UP**

- Material increase in the tax base and socioeconomic indicators
- Significant decline in the debt and pension liability
- Large growth in reserves and stable financial operations

**WHAT COULD MAKE THE RATING GO DOWN**

- Trend of operating deficits that reduce reserves
- Material decline in the tax base
- Substantial increase in the debt or pension liability

#### STRENGTHS

- Sound fiscal management including multi-year budget projections and capital planning
- Stable financial position with increased operating flexibility

#### CHALLENGES

- Rising costs of salaries and employee benefits
- Revenue constraints of Proposition 2 ½
- Wealth levels below the median for the current rating category

#### RECENT DEVELOPMENTS

Strong fiscal management continues to result in an improving financial position. Fiscal 2015 is projected to reflect an operating surplus of \$1.2 million which will further increase the available General Fund balance to around 20% of revenues. Year-over-year surpluses have resulted in a significant financial improvement over the past four years. See the Detailed Rating Rationale for complete details.

#### DETAILED RATING RATIONALE

##### ECONOMY AND TAX BASE: MODERATE TAX BASE WITH COMMERCIAL PRESENCE

The town's diverse \$1.9 billion tax base will likely see limited growth over the near term due to stabilizing property values for both the residential and commercial sectors. Auburn is located approximately 50 miles west of Boston (Aaa stable) and borders the City of Worcester (Aa3 stable) to the southwest. The town benefits from the intersection of I-90 and I-290 which cuts through the middle of town and provides easy access for warehousing and distribution facilities. The 2015 assessed value (AV) increased by 3.1%, improving the five-year compound annual decline to 1.7% (2011-2015). The two year growth in AV is expected to continue as 2016 new growth is expected to be over \$800,000, the largest in the last five years. The healthy new growth has averaged \$624,000 over the last five years and reflects a reduction in vacancies throughout town and a number of completed projects along Washington Street. We expect the above average new growth to continue over the near term supported by ongoing development from auto plaza expansions and new construction at R.H. White Construction's headquarters. Additionally, one of the town's largest taxpayers is considering a major expansion.

Median family income has marginally improved over the last decade and represents 140% of the US median. Full value per capita of \$119,182 remains stable but below the state average. Also, the unemployment rate of 5.5% (January 2015) continues to improve and is just below the commonwealth (5.6%) and US (6.1%).

##### FINANCIAL OPERATIONS AND RESERVES: IMPROVING FINANCIAL POSITION WITH STRONG FISCAL MANAGEMENT

Auburn's financial position has improved over the last five years largely attributed to strengthened fiscal policies and management. Fiscal 2014 audited financials represent the fifth consecutive year of surplus operations that have increased the available fund balance to \$10.3 million or 17.3% of revenues from \$4.8 million or 8.8% of revenues at the end of 2011. The surpluses are driven by conservative budgeting and multi-year savings from a health insurance overhaul, while at the same time increasing the unused levy capacity to \$3.5 million at the end of fiscal 2016. The town's primary revenues source is property taxes representing 59% of 2014 revenues. The largest expenditure is education representing 40% of 2014 expenditures.

The fiscal 2015 budget increased by 2.46% and was balanced with a 1.7% tax levy increase and small \$65,000 free cash appropriation. Year-end estimates reflect a \$1.2 million operating surplus due to approximately \$700,000 in positive revenue variance and \$400,000 in departmental turnbacks. The surplus is expected to increase available fund balance to approximately \$11.3 million or at least 20% of revenues.

The fiscal 2016 budget increased 3.89% from the prior year including the debt exclusion for recent school debt issuance and driven by salaries and employee benefits. The budget is balanced with a 2% tax levy increase, new growth and local receipts and without an appropriation of free cash. The town annually prepares a five-year budget forecast which projects positive operations through 2020, except for fiscal 2017, which indicates a slight budget gap of \$292,000 or 0.5% of the budget. The town expects to cover the gap through excess new growth of \$400,000 in 2016. The forecast assumptions remain adequate, including an average annual tax levy increase of 1.7%, 0.5% growth in state aid and \$400,000 in new growth. Going forward, we expect the town to continue to maintain a stable if not improving financial position under the strong fiscal management reflected in recent history.

#### Liquidity

The town's cash and investments at the end of fiscal 2014 was \$13.4 million or 22.5% of revenues. The cash position represents a strong 260% of the BANs outstanding, providing sufficient funds if market access were to be an issue at maturity.

#### DEBT AND OTHER LIABILITIES: ABOVE AVERAGE DEBT BURDEN AND AVERAGE PENSION LIABILITY EXPECTED TO REMAIN MANAGABLE

The town's direct debt burden of 2.6% of equalized value has increased in recent years and is above average, but will remain manageable over the near term given the history of voter support for capital projects and favorable principal amortization. The overall debt burden increases to 3.1% when factoring in the overlapping debt of local municipalities. Principal is retired at 80% within ten years, close to the national average. The town's future debt plans include long-term financing of \$5.1 million in outstanding bond anticipation notes and small amounts of annual capital improvement projects. The outstanding notes partially finance the \$44.5 million new middle school project which will receive a 58.6% reimbursement from the Massachusetts School Building Authority and which voters have approved a debt exclusion from Proposition 2 ½. The five-year capital plan shows minimal debt issuance in 2017-2020 of approximately \$2.6 million after the long-term financing next year of the outstanding notes.

#### Debt Structure

All of the town's debt is fixed rate with 80% of principal retired in ten years. Fiscal 2014 debt service represented an elevated 9.1% of expenditures.

#### Debt-Related Derivatives

The town has no derivatives.

#### Pensions and OPEB

The town participates in the Worcester Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan. The town is required to contribute its full ARC payment each year which totaled \$1.8 million or 3.1% of 2014 expenditures. The 2013 Moody's adjusted net pension liability equaled \$53.8 million or a moderate 0.95 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

Also, the town currently contributes to its OPEB liability on a pay-as-you-go basis plus annual appropriations into an OPEB trust fund. The town contributed 40% of its Annual OPEB cost in fiscal 2014, representing \$2.2 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is \$67 million, as of June 30, 2014 with a funded ratio of 1.5%. The liability has improved from the 2012 valuation report which indicated a UAAL of \$80 million. The OPEB trust was established in 2013 with deposits of \$500,000 in each of the last three years and an additional deposit of \$500,000 in 2016 in accordance with the town's financial policy. The town's total fixed costs for 2014, including debt service, required pension contributions and retiree healthcare payments, represented \$9.3 million or 15.9% of expenditures.

#### MANAGEMENT AND GOVERNANCE

Massachusetts cities and towns have an institutional framework score of 'Aa' or strong. The primary revenue source for Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 ½ levy limit. Expenditures are largely predictable and cities and towns have the ability to reduce expenditures.

The town continues to operate under strong fiscal management supported by multi-year budget forecasting and

capital planning as well as detailed financial policies.

#### KEY STATISTICS

- 2015 Full Valuation: \$1.9 billion
- 2015 Full Value Per Capita: \$119,182
- Median Family Income as % of US Median: 140.04%
- Fiscal 2014 operating fund balance as a % of revenues: 17.29%
- 5-Year Dollar Change in Fund Balance as % of Revenues (2010-2014): 13.25%
- Fiscal 2014 Cash Balance as % of Revenues: 22.48%
- 5-Year Dollar Change in Cash Balance as % of Revenues (2010-2014): 16.48%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 1.02x
- Net Direct Debt as % of Full Value: 2.6%
- Net Direct Debt / Operating Revenues: 0.9x
- 3-Year Average of Moody's ANPL as % of Full Value: 2.49%
- 3-Year Average of Moody's ANPL / Operating Revenues: 0.8x

#### OBLIGOR PROFILE

The town is primarily residential with a population of 16,188 and is located approximately 50 miles west of Boston and borders the City of Worcester.

#### LEGAL SECURITY

Bonds in the amount of \$5 million related to the Middle School project are secured by the town's general obligation unlimited tax pledge as debt service has been exempt from the levy limitations of Proposition 2 ½. The remaining proceeds are secured by the town's general obligation limited tax pledge as debt service has not been exempt from Proposition 2 ½.

The notes are secured by the town's general obligation unlimited tax pledge as debt service has been exempt from the levy limitations of Proposition 2 ½.

#### USE OF PROCEEDS

Bond proceeds will be used for the town's Middle School Project and various other capital improvement projects.

Note proceeds will go towards the Middle School Project.

#### PRINCIPAL METHODOLOGY

The principal methodology used in the long-term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short-term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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