

RatingsDirect®

Summary:

Wilmington, Massachusetts; General Obligation

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Credit Profile

US\$5.764 mil GO mun purp loan bnds ser 2018 due 11/15/2032

<i>Long Term Rating</i>	AA+/Stable	New
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Wilmington GO bnds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the town of Wilmington, Mass.' series 2018 general obligation (GO) bonds, and affirmed its 'AA+' rating on the town's existing GO debt. The outlook is stable.

The town's full faith and credit GO pledge, subject to the limitations of Proposition 2-1/2, secures the bonds. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the town's flexibility under the levy limit. We understand the town will use the bond proceeds to permanently finance outstanding bond anticipation notes, originally issued to provide financing for a recreational complex and a fire pumper truck, and to provide new money for water main repairs.

The rating reflects our opinion of the following factors for Wilmington, including its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good 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 in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 32% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.3% of total governmental fund expenditures and 13.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 3.1% of expenditures and net direct debt that is 38.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Very strong economy

We consider Wilmington's economy very strong. The town, with an estimated population of 24,050, is located approximately 16 miles northeast of Boston, in Middlesex County in the Boston-Cambridge-Newton, Mass.-N.H., MSA,

which we consider to be broad and diverse. The town has a projected per capita effective buying income of 139% of the national level and per capita market value of \$178,743. Overall, the town's market value grew by 4.3% over the past year to \$4.3 billion in 2018. The county unemployment rate was 3.0% in 2016.

While primarily residential, with residential properties accounting for 77% of assessed value, the town is in the acclaimed Route 128 Technology Corridor, and its employment base is correspondingly supported by several large, advanced manufacturing facilities in the IT and life sciences sectors. In this category is the town's largest employer, Analog Devices, a semiconductor manufacturer, with approximately 1,555 current employees, that is expects to grow to 2,000 over the next year. Wilmington and Analog Devices recently came to an agreement on a tax increment financing agreement, under which the town will waive collection of approximately \$4.3 million, over eight years, on the assessed value of the company's 400,000-plus-square-foot expansion. Management notes that the town is geographically advantageously located, with Interstate 93 running through town, and as a result, FedEx is opening a third distribution center, while UPS is planning its first. A number of other commercial, industrial, and retail developments continue, while management also reports an increase in residential development, including complete teardowns and rebuilds.

Property values remain strong, and new growth remains substantial. We expect that the town will continue to see development in knowledge-based economic development, while also benefiting from access to the broader Boston MSA. We expect the economy will remain very strong throughout the outlook period.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

The town has a history of conservatively budgeting both expenditures and revenues, using assumptions from prior budgetary performance and historical trends from the past five years. Budgetary performance is discussed monthly with department heads, and formalized documents detailing year-to-date performance are provided to the board. The town follows a town manager form of government, and the town manager allocates any necessary midyear adjustments. The town has a long-term financial plan that covers the upcoming budget year and projects out five years to estimate long-term budgetary performance. A comprehensive, rolling five-year capital policy is maintained, with funding sources identified. Formal banking and investment management policies are maintained, and fund balances, holdings, and performance are reported quarterly. The formal debt policy follows state debt limits. The policy further identifies conditions under which debt may be issued and a target amortization schedule, among other principles. The town's reserve policy calls for an unreserved fund balance minimum of 15% of the prior year's budget and outlines the scenarios under which reserves may be appropriated. We further note that the town recently received a grant, in order to examine its financial management policies. The town is now working with the Collins Center, at the University of Massachusetts, Boston, to examine and refine its policies.

Very strong budgetary performance

Wilmington's budgetary performance is very strong in our opinion. The town had operating surpluses of 5.4% of expenditures in the general fund and of 2.3% across all governmental funds in fiscal 2017.

The town's budgetary performance has been strong to very strong historically, demonstrated by eight consecutive operating surpluses. Management attributes the positive operating performance in those years to robust property tax levy growth and positive variances in other revenue sources compared with budgeted figures, along with conservative appropriations that have been relatively consistent with budgeted amounts. In fiscal 2017, management particularly noted the continued budgetary savings from health care costs. Management works with employees to ensure they fully understand the health care options available to them, which has resulted in the town's health care costs coming in consistently under budget. Additionally, revenues from new growth continue to outperform budgeted amounts.

In fiscal 2018, management expects year-end results similar to fiscal 2017's. In expectation of a year-end surplus, management moved funds to a number of reserve accounts; however, most of these are accounted for as unassigned fund balance on a GAAP basis. Additionally, the town did move \$1 million to its OPEB trust fund, which is accounted for outside of governmental funds.

Currently, we expect Wilmington's operating performance to remain strong. Based on our macroeconomic forecasts, credit conditions in New England are stable, while we expect Massachusetts' economic growth to outpace the national average. For more information, see "U.S. State And Local Governments Are Experiencing An Upswing, But New Risks Could Threaten The Momentum," published April 26, 2018, on RatingsDirect.

The town maintains a predictable operating profile as property taxes constituted 70% of general fund revenues in 2017 while intergovernmental aid was 21%. Tax collections are strong and stable, with Wilmington typically receiving 99% on a current basis. Given the town's strong tax base growth, conservative budgeting, and consistent results, we expect general fund and total governmental fund performance to remain strong to very strong.

Very strong budgetary flexibility

Wilmington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 32% of operating expenditures, or \$32.5 million.

Available reserves have consistently remained very strong over the past five fiscal years, growing to 31.6% in 2017 from 16.0% of expenditures in 2013. The town has adhered to its reserve policy of maintaining an unassigned fund balance above 10% of expenditures and does not have any plans to drawdown reserves.

While the town continues to add to the available fund balance, it continues to face operating pressures from its pension and OPEB liabilities. It has indicated a willingness to use excess free cash for alleviating these burdens and supporting pension, OPEB, and capital stabilization funds. Management anticipates using reserves as necessary to hedge volatility in pension and OPEB costs, as long as the free cash balance remains above 10% of general fund expenditures. In conjunction with positive results, we do not anticipate that the use of free cash will affect the available general fund balance, at least in the medium term, to a degree that would warrant a lower budgetary flexibility score. If the town's OPEB and pension liabilities are not addressed, material draws from available reserves may be possible in the medium to long term.

Very strong liquidity

In our opinion, Wilmington's liquidity is very strong, with total government available cash at 41.3% of total governmental fund expenditures and 13.2x governmental debt service in 2017. In our view, the town has strong access

to external liquidity if necessary.

We adjusted the town's available cash balance to factor out restricted cash in the capital projects fund and other nonmajor governmental funds. The town has demonstrated strong access to liquidity through the recent issuance of GO-backed debt. In addition, it is not exposed to any contingent liabilities that could affect its liquidity position in the near term. The town does not currently have investments we consider permissive or aggressive. We believe that the town will maintain a very strong liquidity position with no significant deterioration in available cash balances likely, consistent with our view that its budgetary performance will remain at least strong.

Adequate debt and contingent liability profile

In our view, Wilmington's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 38.4% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, which is in our view a positive credit factor.

The town recently undertook a facilities study outside of its normal capital improvement plan (CIP), in order to fully understand the long-term building replacement needs and costs. The town expects to begin issuing debt in approximately 2022 to undertake projects identified in this study. Outside of this, the town expects to issue approximately \$5 million in new-money debt in accordance with its CIP over the next two years, but we do not expect these issuances to have a material impact on the town's debt profile. Additionally, the town expects about half of the new debt in this time frame to be supported by user charges.

In our opinion, a credit weakness is Wilmington's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Wilmington's combined required pension and actual OPEB contributions totaled 8.8% of total governmental fund expenditures in 2017. Of that amount, 4.9% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The town made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 45.5%.

The town contributes to the Middlesex Retirement System, a multiple-employer defined-benefit plan administered by the Middlesex Retirement Board. The plan is 45.49% funded, based on Governmental Accounting Standards Board Statement No. 68, and the system aims to be fully funded by 2035. We consider the current funding ratio to be very low. Although Wilmington has contributed at least 100% of its contractually determined contribution in recent years, it has an unfunded liability of \$82.1 million to the plan. Additionally, we note that the system uses a 7.75% discount rate, reduced from 7.875%, which we believe is higher than average. If the system is unable to meet its actuarial assumptions, costs could accelerate and pressure the operating budget. However, we also note that the town contributed \$500,000 more than its required contribution in fiscal 2017 and also added \$500,000 to its pension stabilization fund. Additionally, \$1 million in fiscal 2018 was added to the trust, and management expects to add \$500,000 in fiscal 2019. Management estimates the balance of the fund at fiscal year-end to be approximately \$1.8 million. This reserve fund is designed to smooth any unanticipated jumps in the required contribution. The town also participates in the Massachusetts Teachers' Retirement System for which the commonwealth makes all contributions on behalf of the town.

The town provides OPEBs, in the form of health and life insurance benefits, to retirees and their beneficiaries. As of June 30, 2017, it had an unfunded OPEB liability of approximately \$107 million. Additionally, it has an irrevocable

OPEB trust, which management reports currently contains approximately \$4.3 million, up from \$2.9 million as of June 30, 2017. We further note that Wilmington is taking steps to reduce its OPEB liability and limit further growth, through changes to its retiree health care program.

Management has taken steps to address and limit retirement pressures by bolstering its retirement stabilization account, creating an OPEB trust and paying more than the annual minimum requirement assessment to Middlesex County Retirement. Management has specified that it will, at a minimum, dedicate the town's meals tax proceeds, which generate approximately \$370,000 annually, to the OPEB trust fund. Although management has recognized these pressures and taken several steps to address them, the manner in which these measures sufficiently address long-term pressures is uncertain. Given the magnitude of the liabilities, we believe a sufficient plan would specifically delineate the degree to which future contributions and funds held in trust reduce the current pension and OPEB liabilities over time.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view that Wilmington's management will continue its conservative budgeting practices, leading to at least strong budgetary performance and sustained very strong flexibility and liquidity. This view is supported by Wilmington's sound management practices and its favorable economic profile. We do not expect to change the rating within the outlook's two-year horizon.

Upside scenario

We could raise the rating should, all else equal, the town mitigate its pension and OPEB liability without substantially hindering its budgetary performance or flexibility, while the town's income levels and property wealth improve relative to those of higher-rated municipalities in the commonwealth.

Downside scenario

Continued growth in pension and OPEB expenses accompanied by an inability to improve respective unfunded liability positions could negatively affect financial performance, putting downward pressure on the rating. This pressure could be exacerbated by the use of reserves to hedge volatility in annual pension and OPEB costs. Additionally, we could lower the rating should other budgetary pressures arise that force the town to draw down reserves to levels in line with those of peers at a lower rating.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 26, 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

- 2017 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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