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Ratings

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Summary:

Wilmington, Massachusetts; General Obligation; Note

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Credit Profile		
US$5.45 mil GO BANs ser 2016 dtd 06/30/2016 due 06/30/2017		
Short Term Rating	SP-1+	New
Wilmington GO bnds		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the town of Wilmington, Mass.' series 2016 general obligation (GO) bond anticipation notes (BANs), scheduled to mature on June 30, 2017, and affirmed its 'AA+' rating on the town's existing GO debt. The outlook is stable.

The short-term rating reflects our assessment of the application of our criteria for evaluating and rating BANs. In our view, Wilmington maintains a very strong capacity to pay principal and interest when the notes come due. The town has a low market risk profile since it maintains what we regard as strong legal authority to issue long-term debt to take out the notes and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

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 note proceeds to finance the construction of a recreational complex and the purchase of a new fire truck.

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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.9% of total governmental fund expenditures and 8.2x governmental debt service, as well as access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures, net direct debt at 36.9% of total governmental fund revenue, and 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 it; and
- Strong institutional framework score.

Very strong economy

We consider Wilmington's economy very strong. Wilmington is a mixed residential, commercial, and industrial suburban community with an estimated population of 23,540 in Middlesex County, approximately 16 miles north of Boston. It encompasses 17.1 square miles on Interstate 93 in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 133% of the national level and per capita market value of $163,114. Overall, market value grew by 3.6% over the past year to $3.8 billion in 2016. The county unemployment rate was 4.0% in 2015.

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 2,000 employees, that has recently declared it is issuing for an expansion on its property. Management anticipates that employment opportunities will expand as a result of the relocation of Osram Sylvania's headquarters to Wilmington and the addition of a FedEx distribution facility, among other developments.

Property values remain strong and growth remains substantial, with increases in AV resulting from new growth exceeding $1 million in each of the past three fiscal years. This trend is likely to continue with several projects recently completed in a mixed-use development area off of Interstate 93, including a new Target store. Furthermore, management has detailed the planned development of three residential projects encompassing 70 lots.

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 monitor all of them on a regular basis.

The town has a history of conservatively budgeting both expenditures and revenues, using assumptions from prior budgetary performance, historical trends from the past five years, program expectations, and capital planning to determine appropriations. Budgetary performance is discussed monthly with department heads and formalized documents are provided detailing year-to-date performance. The town follows a town manager form of government, and the town manager allocates any necessary midyear adjustments. The town is formalizing a long-term financial plan and uses informal projections going out five years to estimate long-term performance. A comprehensive, rolling five-year capital policy is maintained, with funding sources identified. Formal banking and investment management policies are maintained, with fund balances, holdings, and performance reported quarterly. The debt management policy is considered standard as a formal policy and follows state debt limits. The policy further identifies conditions under which debt can be issued, properties of debt to be issued, and a target amortization schedule, among other principles. The town has a policy to maintain an unreserved fund balance minimum of 10% of the prior year's budget and outlines the scenarios under which reserves may be appropriated.

Strong budgetary performance

Wilmington's budgetary performance is strong, in our opinion. The town had operating surpluses at 3.1% of expenditures in the general fund and 3.8% across all governmental funds in fiscal 2015. General fund operating results of the town have been stable over the last three years, with results of 2.8% in 2014 and 2.2% in 2013.

The town's budgetary performance has been strong historically, demonstrated by six consecutive operating surpluses in the last six years. Management attributes positive operating performance in those years to strong 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. Management did not appropriate reserves to balance the 2015 budget--a practice it does not perform--and ended the year with a $3 million operating surplus, which it attributes to conservative budgeting as revenues outperformed the budget across the board and expenditures came in under budget, reflecting health insurance savings of about $1.5 million.

For analytical consistency, operating results were adjusted to account for high school construction costs partly financed through ongoing state reimbursements. In fiscal 2012, the town established the high school construction fund to account for revenue and expenses related to the construction of a new high school. The project is financed through bond proceeds and state reimbursements. Revenues and expenditures in this fund are removed to reflect regular operating results.

With fiscal 2016 nearly at an end, management reports a continuation of positive operations and an expectation to add to its fund balance by about $4 million. Management attributes its positive results in 2016 to strong tax base growth, conservative budgeting, and a mild winter.

Although balanced results were budgeted, the 2016 budget requests $3 million to be allocated from the town's free cash fund, part of available general fund reserves, toward OPEB, pension, and capital outlay stabilization funds to alleviate growing pressures from these activities.

Currently, we expect Wilmington's operating performance to remain strong. Based on our macroeconomic forecasts (See "U.S. Public Finance 2016 Credit Conditions Outlook: Expect Growth But Hold The Cheer," published Jan 11, 2016, on RatingsDirect), credit conditions in New England are stable. On the whole, the town maintains a predictable operating profile as property taxes constituted 71.9% of general fund revenues in 2015 and state aid 19.2%. Tax collections are strong and stable, with Wilmington typically receiving 99% on a current basis.

Like 2015 and 2016, the budget for 2017 is balanced and builds the OPEB trust fund by an additional $1 million, bringing that balance to $2.6 million. Given the town's strong tax base growth, conservative budgeting contributing to a pattern of six consecutive surpluses with a seventh projected for fiscal 2016, in addition to annual tax rate increases, we expect general fund and total governmental fund performance to remain strong and stable from now on.

Very strong budgetary flexibility

Wilmington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 23% of operating expenditures, or $21.2 million.

Available reserves have consistently remained very strong over the past three fiscal years, growing from 16% of expenditures in 2013 to 22.8% in 2015 with no plans currently to spend them down. The town has adhered to its reserve policy of maintaining an unassigned fund balance above 10% of expenditures. Additionally, it has raised taxes at, or close to, the Proposition 2-1/2 limit annually in recent years and plans to do so again in 2017. As previously mentioned, management expects to increase the available fund balance in fiscal 2016, but the town is facing operating pressures from its increasing pension and OPEB liabilities and has indicated a willingness to use excess free cash for alleviating these burdens and supporting pension, OPEB, and capital stabilization funds, if necessary. 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 29.9% of total governmental fund expenditures and 8.2x governmental debt service in 2015. 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 high school construction fund and other nonmajor governmental funds. The town has demonstrated strong access to liquidity through the recent issuance of GO-backed securities. In addition, it is not exposed to or aware of 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 because all are in CDs or collateralized cash deposits, guaranteed by the Federal Deposit Insurance Corp. or covered by additional insurance. 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 of its strong budgetary performance.

Adequate debt and contingent liability profile

In our view, Wilmington's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.6% of total governmental fund expenditures, and net direct debt is 36.9% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, which is, in our view, a positive credit factor.

After this issuance, the town will have $45.7 million of total debt outstanding, all of which is secured by its GO pledge. Of this, $2.1 million is accounted for as self-supporting debt funded by water and sewer operations. All current debt outstanding is expected to be retired by 2037, but management plans to issue an additional $5.6 million before fiscal 2018 year-end. However, we do not anticipate that the additional issuance will materially affect the town's debt and liability profile.

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 it. Wilmington's combined required pension and actual OPEB contributions totaled 8.6% of total governmental fund expenditures in 2015. Of that amount, 4.9% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 44.0%.

The town contributes to the Middlesex Retirement System, a multiemployer defined-benefit plan administered by the Middlesex Retirement Board. The plan, only 47.65% funded (up from 44% in 2014), based on Governmental Accounting Standards Board Statement No. 68, is required to be fully funded by 2035. Although Wilmington has contributed 100% of its contractually determined contribution in recent years, it maintains an unfunded liability of $69.8 million to the plan. The town also participates in the Massachusetts Teachers' Retirement System for which the commonwealth makes all contributions on behalf of the town. We view the plan as below adequately funded at

61.64%, based on GASB 68.

The town also provides OPEBs, consisting of health and life insurance plans, to current and former employees. In fiscal 2015, it contributed $3.6 million of its $9 million OPEB annual required contribution, which it funds on a pay-as-you-go basis. The town's unfunded accrued OPEB liability was $118.8 million as of June 30, 2015, down from $136.6 million in 2012. This liability is not legally required to be fully funded within a specified period.

Pension and OPEB costs increased at an annualized rate of 3.6% between 2014 and 2010. A continuation of this trend may lead to long-term credit pressures, in our view. Management has taken steps to rectify these pressures by bolstering its retirement stabilization account, in addition to creating an OPEB trust and paying more than the annual minimum requirement assessment to Middlesex County Retirement. The 2016 budget allocates $1 million to the OPEB trust and $500,000 to retirement stabilization, bringing the total amount in these accounts to $1.6 million and $750,000, respectively, with another $1 million budgeted for the OPEB trust fund in 2017, increasing that total amount to $2.6 million. Management has specified that it will dedicate the town's meals tax proceeds to the OPEB trust fund, which generated approximately $350,000 in 2015. To decrease future OPEB costs, management successfully reorganized its OPEB health insurance offerings. 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 of Wilmington's conservative budgeting practices, contributing to strong budgetary performance that supports very strong flexibility and liquidity. This view is supported by Wilmington's sound management practices and its favorable economic profile. As such, 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 were to mitigate its pension and OPEB liability without substantially hindering its budgetary performance or flexibility while simultaneously, income levels and property wealth improved relative to 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 weaken 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 peers at a lower rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 19, 2016
- 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
- 2015 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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.