

## CREDIT OPINION

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Update

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## Oxford (Town of) MA

Update - Moody's Affirms Oxford MA's Aa3 GO; Negative Outlook Removed

### Summary Rating Rationale

Moody's Investors Service has affirmed the Aa3 rating on the Town of Oxford MA's general obligation bonds. The town has \$13.2 million in general obligation debt outstanding.

The Aa3 rating reflects a satisfactory financial position with reduced reserve levels after a multi-year trend of operating deficits. The rating further incorporates a stable and diverse tax base, manageable debt burden and moderate pension liability.

### Credit Strengths

- » Recent improvements to fiscal management
- » Diverse tax base

### Credit Challenges

- » Limited revenue raising flexibility under Proposition 2 ½
- » History of relying on fund balance appropriations

### Rating Outlook

The negative outlook has been removed because we expect the town's credit profile to remain in-line with the current rating category based on a stabilizing financial position, and bolstered by a stable tax base and manageable debt burden.

### Factors that Could Lead to an Upgrade

- » A trend of operating surpluses that result in a material increase in reserves
- » Significant declines in the debt burden or pension liability
- » Large increase in the tax base and income levels

### Factors that Could Lead to a Downgrade

- » Significant increase in the debt burden or pension liability
- » Continued decline in available General Fund balance

## Key Indicators

Exhibit 1

Oxford (Town of) MA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 1,404,178	\$ 1,404,178	\$ 1,322,436	\$ 1,322,436	\$ 1,288,986
Full Value Per Capita	\$ 102,480	\$ 102,398	\$ 96,282	\$ 96,024	\$ 93,290
Median Family Income (% of US Median)	129.3%	133.4%	134.1%	134.5%	131.2%
Finances					
Operating Revenue (\$000)	\$ 32,779	\$ 39,670	\$ 33,772	\$ 35,229	\$ 38,134
Fund Balance as a % of Revenues	13.3%	9.9%	10.2%	8.7%	7.2%
Cash Balance as a % of Revenues	30.0%	17.4%	18.5%	17.4%	11.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 17,607	\$ 8,320	\$ 11,825	\$ 10,930	\$ 13,182
Net Direct Debt / Operating Revenues (x)	0.5x	0.2x	0.4x	0.3x	0.3x
Net Direct Debt / Full Value (%)	1.3%	0.6%	0.9%	0.8%	1.0%
Moody's- adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	0.9x	1.1x	1.2x
Moody's- adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.9%	2.4%	3.0%	3.5%

As of June 30 fiscal year-end

Full value = equalized value

Source: Moody's Investors Service and town's audited financial statements

## Detailed Rating Considerations

### Economy and Tax Base: Diverse Tax Base Stabilizing After Recession Pressure

The moderately sized \$1.3 billion tax base will remain stable over the medium term as both the residential and commercial sectors begin to improve coming out of the recession. The town is located 12 miles south of Worcester (Aa3 stable) and is split by Interstate 395, providing a favorable location for commercial development. The tax base is primarily residential but commercial sector represents a growing 22% of total valuation. In 2016 and 2017, the assessed value increased 0.7% and 0.4%, respectively, improving the five year compound annual decline to 0.4%. The latest equalized value certification reflects a 3.2% increase, the first increase since the recession. New development has been steady, resulting in stable new growth revenue in 2017 of \$288,000. The top employer, IPG Photonics, employs over 1,200 people with plans to add another 120 positions over the near term. Wealth levels are just above average with per capita income and median family income equal to 101% and 131% of the US median, respectively. The unemployment rate of 3.6% (January 2017) remains below the commonwealth (4%) and US (5.1%).

### Financial Operations and Reserves: Financial Position Expected To Stabilize At Reduced Levels

Over the past five years, the financial position has weakened due to the use of free cash and stabilization funds that have decreased reserve levels to below 10% of General Fund revenues. Recently, the financial position has stabilized and we expect the reserve levels to remain satisfactory, albeit low, for the rating category. The town's ability to not only maintain but gradually improve reserves will be a key rating factor in future reviews.

The fiscal 2015 audited financials reflect an operating deficit of \$634,000, the fifth consecutive deficit. The deficit reduced the available General Fund balance (committed, assigned and unassigned) to \$2.7 million or 7.2% of revenues. The primary revenues are property taxes (52% of 2015 revenues) and state aid (39%). Education is the largest cost representing 47% of 2015 expenditures.

In fiscal 2016, the town focused on cost saving measures and operations in the education budget and was able to redirect \$500,000 from school operations towards capital needs and also benefited from a capital exclusion of \$810,000. These factors led to an unaudited General Fund operating surplus of \$353,000. The surplus increased the available reserves to \$3.1 million or 7.9% of revenues.

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The fiscal 2017 budget increased 2.7% from the prior year due to health insurance and retirement costs. The budget is balanced with a 3.5% increase in the tax levy and 1% increase in state aid. The town also plans to appropriate reserves of \$286,000 for capital expenditures and \$260,000 to help pay debt service for the outstanding high school bonds. Year-to-date revenues and expenditures are trending on budget and the town expects to end the year with a similar operating surplus to 2016.

Additionally, the town passed a meals tax, which could generate over \$120,000 annually. Further, the town will vote on an \$800,000 general override this May, which could provide operating flexibility going forward.

#### LIQUIDITY

Audited fiscal 2015 cash and investments represented \$4.4 million or 11.6% of revenues, compared to 17% in 2012. The unaudited 2016 cash position reflects an improvement to \$5.2 million or 13.1% of revenues.

#### Debt and Pensions: Manageable Liabilities Expected To Remain Stable

The direct debt burden of 1% of equalized value is expected to remain manageable over the near term given limited future borrowing plans and the town's commitment to funding the majority of its capital needs with funds on hand. The town maintains a six-year (2018-2023) capital plan that totals \$12.9 million in requested projects.

#### DEBT STRUCTURE

The entire debt portfolio is fixed rate with 77% of principal retired in ten years. Fiscal 2016 debt service equaled \$1.3 million or 3.4% of expenditures.

#### DEBT-RELATED DERIVATIVES

Oxford is not subject to any derivatives or interest rate swap agreements.

#### PENSIONS AND OPEB

The town participates in the Worcester Regional Retirement System, a multi-employer, defined benefit retirement plan. The town's annual contribution for the plan was \$1.5 million in fiscal 2015, or 4% of General Fund expenditures. The 2015 three year average Moody's Adjusted Net Pension Liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$44.5 million or a moderate 1.17 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.

The town contributes towards its OPEB liability on a pay-as-you-go basis, including \$1.5 million in 2015, which is equal to 38% of the annual OPEB cost. The town also has a policy to make annual deposits into an OPEB trust which has led an aggressive funding of the liability compared to most local governments. As of the valuation report dated July 1, 2014, the unfunded liability of \$38.9 million was 8.2% funded.

Fiscal 2015 total fixed costs, including debt service, required pension contributions and retiree healthcare payments, were \$4.3 million or a low 11.1% of expenditures.

#### Management and Governance

In the last two years, under a new town manager, Oxford has improved its financial management and began to stabilize operations through a conservative budget approach and tight expenditure controls. This practice includes financial policies and multi-year capital planning.

Massachusetts towns have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts towns major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

#### Legal Security

Outstanding bonds are secured by the town's general obligation tax pledge.

## Use of Proceeds

Not applicable.

## Obligor Profile

Oxford has a population of 13,817 and is located 12 miles south of Worcester along interstate 395.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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