

Massachusetts Municipal Auditors and Accountants Association

June 14, 2017

The Rating Review

**Presented by Clark Rowell
Vice President
UniBank Fiscal Advisory Services, Inc.**



Who are the rating agencies?



S&P Global
Ratings

FitchRatings



What are the Moody's and S&P ratings?



Aaa
Aa1
Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3

S&P Global
Ratings

AAA
AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-

What are the ratings in Massachusetts?



15	Aaa
21	Aa1
69	Aa2
68	Aa3
43	A1
9	A2
2	A3
0	Baa1
0	Baa2
1	Baa3

S&P Global
Ratings

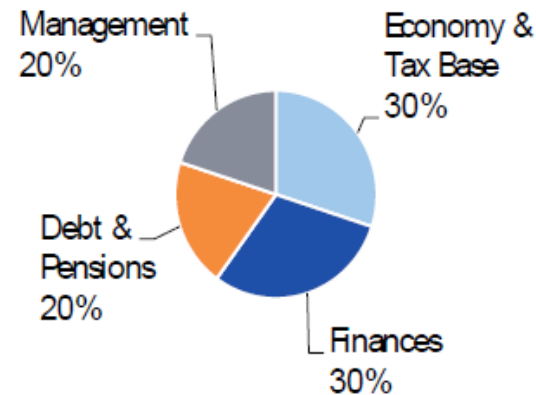
63	AAA
76	AA+
66	AA
29	AA-
13	A+
4	A
6	A-
0	BBB+
0	BBB
0	BBB-

Moody's Local Govt. General Obligation Debt Rating Methodology

Rating analysis includes

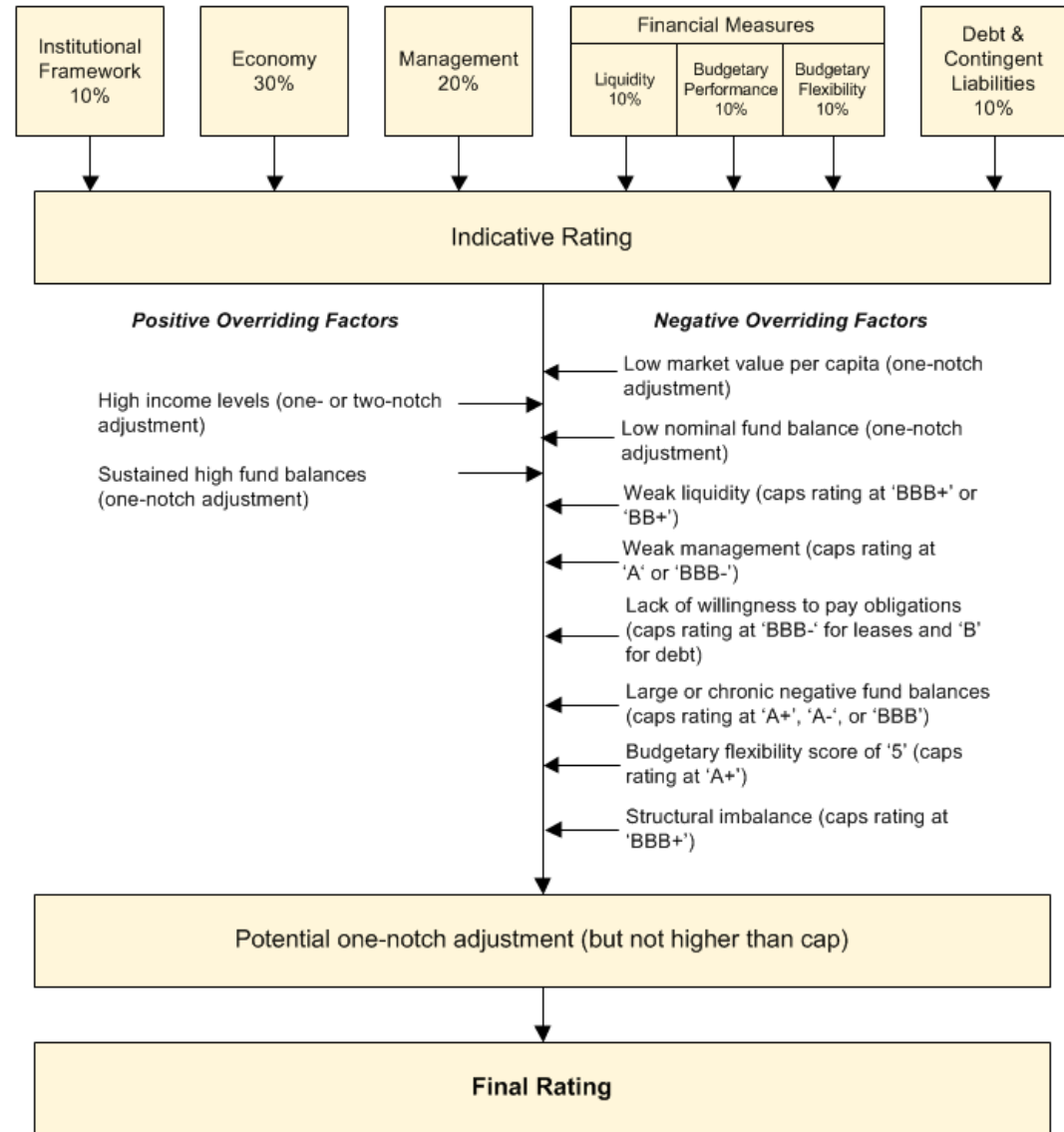
- » Rating is decided based on individual credit review
- » Rating factors fall into four major categories
- » Both qualitative and quantitative analysis is involved
- » Legal structure of security also plays a role in rating

Four Primary Credit Factors



S&P Global Ratings

Chart 1
Analytical Framework For Local GO Ratings



© Standard & Poor's 2013.

The agreement --

MOODY'S INVESTORS SERVICE

Moody's Investor Services
7 WTC at 250
New York, NY 10041-0003

Thank you for contacting Moody's. In connection with our rating services, we require the following terms and conditions:

A. USAGE

When used in this Application:

1. **Moody's.** "Moody's", "we", "our" and "us" refer to the Moody's entity specified above and all directors, officers and employees of that entity and its group companies.
2. **"Moody's Group"** refers to Moody's and its agents.
3. **Credit Rating.** "Credit rating" or "rating" refers to an opinion regarding the creditworthiness of a financial obligation, debt security, preferred share or other financial instrument (each, an "instrument"), assigned using an established and defined ranking system of rating categories. Ratings do not address any other risk, including: liquidity risk, market value risk, or price volatility. A credit rating must be construed solely as a statement of opinion and not a statement of fact. A credit rating offer, invitation, inducement or recommendation to purchase, sell or hold any securities or other financial instruments in relation to the Issue, the issuer ("you") or the transaction (the "Transaction") to which the rating relates or otherwise in connection with any associated transaction, entity, or matter. This Application to "rating" or "credit rating" also encompasses any related RAC (defined below) and this Application will apply to any such RAC.
4. **Application.** "Application" refers to these written terms and conditions, the Authorization to Rate (including all Fee Schedule(s)), appendices and exhibits attached, each as may be supplemented or modified from time to time.

B. APPLICANT WARRANTIES AND COVENANTS

1. **Agreement to Provide Information.** You agree to provide (or cause to be provided) information relevant for the purposes of assigning and, on an ongoing basis, for the purposes of maintaining the rating(s) requested under this Application.
2. **Warranties with Respect to Information Provided to Moody's.** We rely on the information you or on your behalf, including information obtained by Moody's from third parties where such information has been provided to such third parties by you or on your behalf. We will not be required to independently verify, audit or validate any such information. You warrant that you have exercised reasonable due diligence in respect of such information and all such information is in fact accurate, complete and not misleading. You warrant that you have all legal rights and consents necessary to disclose such information to Moody's. Finally, you also warrant that the information is not subject to any restrictions that would prevent Moody's use of such information in its rating processes. You agree that you are solely responsible and liable for the quality of such information.
3. **Use of Information.** We may aggregate and/or transform any information provided so

S&P Global Ratings

Morna Lebron
Manager Fee Administration
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New York, NY 10041-0003
tel 212 438-6808
morna.lebron@spglobal.com
Issue No.: 1447295
Obligor ID : 20889

July 14, 2016

Town of Ashland
101 Main Street
1st Floor
Ashland, MA 01721
Attention: Mr. Paul Keating, Treasurer/Collector

Re: *US\$3,105,000 Ashland, Massachusetts, General Obligation Municipal Purpose Loan Bonds, Series 2016, dated: August 18, 2016, due: December 15, 2027*

Dear Mr. Keating:

Thank you for your request for a public S&P Global Ratings credit rating for the above-referenced obligations. We agree to provide credit ratings for the obligations in accordance with this letter and the rating letter, and you agree to perform your obligations set out in sections 1, 2 and 3 of this letter. Unless otherwise indicated, the term "issuer" in this letter means both the issuer and the obligor if the obligor is not the issuer.

We will make every effort to provide you with the high level of analytical performance and knowledgeable service for which we have become known worldwide. You will be contacted directly by your assigned analytic team.

1. Fees and Termination.

In consideration of our analytic review and issuance of the credit rating, you agree to pay us the following fees:

Rating Fee. You agree to pay us a credit rating fee of \$10,750 plus all applicable value-added, sale, use and similar taxes. S&P Global Ratings reserves the right to adjust the credit rating fee if the proposed par amount changes. Payment of the credit rating fee is not conditioned on S&P Global Ratings issuance of any particular credit rating.

Derivatives Products Analysis Fee. S&P Global Ratings charges a separate fee for our review of

In summary, the issues --

Government / legal structure

Economy / socio-economic factors

Finances / financial performance

Debt and contingent liabilities

Management

The participants --

The Treasurer

The Town Manager / Town

Administrator / City Manager

The Town Accountant / City Auditor

Your Financial Advisor

Your Assessor

Your Planner or Development Officer

My agendas ...

TOWN OF STOCKBRIDGE, MASSACHUSETTS

\$2,600,000 General Obligation Municipal Purpose Loan of 2017 Bonds
Dated June 15, 2017

AGENDA OF ISSUES TO BE DISCUSSED WITH STAFF May 3, 2017

Introductions

- Danielle Fillio, Interim Town Administrator
- Stephen Shatz, Board of Selectmen
- Karen Williams, Town Treasurer
- Elaine Markham, Town Accountant
- Clark Rowell, UniBank
- Kristy Genga, UniBank

Opening comments by the Town

- General description of the Town
- Strong socio-economic characteristics
- Solid financial position
- Use of fund balance
- Future capital projects
- Progress in funding the OPEB liability

Fiscal 2012 through Fiscal 2016

- General drawdown of fund balance

Fiscal 2016

- Governmental funds balance sheet
- Statement of revenues, expenditures and change in fund balance
- Use of reserves
- Interfund transfers
- Any over expended budgets or revenue deficits
- Any reductions in expenditures / in staff / in services
- Significant one-time revenues or expenditures
- Amount of pay-as-you-go capital

Fiscal 2017

- Year to date – revenue and expenditures budget vs. actual
- Any significant budget issues
- Any difficulty in balancing the budget?
- Use of reserves to balance the budget
- Use of reserves, etc. for operating purposes, for capital,

- Any reductions in expenditures / in staff / in services
- Any expected new revenues
- Amount of pay-as-you-go capital
- Current prime budget stresses – health insurance, employee retirement, etc.
- Expected end of year position – amounts of unassigned (Cash) and stabilization fund

Fiscal 2018

- Status of budget
- Any difficulty in balancing the budget?
- Use of reserves to balance the budget
- Any reductions in expenditures / in staff / in services
- Any expected new revenues
- Amount of pay-as-you-go capital
- Your major budget stresses / challenges

Tax collections in Fiscal 2016 and to date in 2017

- Collection trends or concerns
- Level of delinquencies / foreclosures
- Significant ATB cases

Pension Liability OPEB

- Pension funding schedule
- Any separate pension reserve
- OPEB funding plan
- Recent funding of OPEB Trust Fund
- Actions taken to reduce OPEB liability – thoughts of future

Other finance issues

- Future debt exclusion votes
- Future override attempts
- History of override, debt exclusion votes
- Status of union contracts generally

Financial policies

- Reserve Policy – target undesignated fund balance and annual use of reserves
- Debt Management Policy
- Capital Planning / use of pay-as-you-go capital
- Preparation of revenue and expenditures projections
- Periodic review of revenues and expenditures during the year
- Investment Policy
- Post Issuance Compliance Policy

- Other policies

Future capital projects / financings

- Future major capital plans
- Highway garage
- Bridge and road work
- Water system improvements
- The target level of pay-as-you-go capital

Valuations: generally

- Expected 2018 valuation
- New growth / new development in the Town

Building / real estate activity generally

- Level of new construction
- Value of typical new housing
- Value of high-end housing
- Market value of typical house
- Recent trends in the real estate market / sale of homes / foreclosures
- Any major new developments contemplated

Other general issues

- Largest employers
- Any expanding / contracting?
- Socioeconomic characteristics
- Commuting patterns of Town residents

This financing

- Purposes – new money
- Schedule

Schedule

- Rating committee / rating to be released on May 10
- Scheduled date to receive bids – Monday, June 5

General reaction / comments from Standard & Poor's

Their list of issues ...

NEW ISSUE REVIEW QUESTIONS

Town of Williamstown, MA

\$3,292,961

General Obligation Municipal Purpose Loan of
2015 Bonds

MOODY'S
INVESTORS SERVICE

LEAD ANALYST

Nick Lehman

(617) 371-2940

Nicholas.lehman@moodys.com

DEBT & LONG-TERM LIABILITIES:

1. Please provide an update on the purpose of the bond issue
 - a. Refunding
 - b. New money
2. Future borrowing plans for short-term and long-term debt? Debt exclusions?
3. Please provide an overview of the town's capital improvement plan.
 - a. Is it multi-year?
 - b. Please provide a copy, if available
 - c. Primary funding sources
 - d. Approx. capital funding in 2015 budget
4. Any material update to the county retirement plan in the last year?
5. Will the town continue to pay OPEB liability on a pay-as-you-go basis?
 - a. Update on establishment of trust and annual deposits

ECONOMY/TAX BASE:

6. Any material tax appeals outstanding?
7. What are the primary contributors to the assessed values in 2014 and 2015? Expectations for near term?
8. New growth for 2015? Budget for 2016?
9. Any major residential or commercial development projects recently announced or under construction?
10. Any changes or updates regarding the town's top taxpayers and employers?
 - a. Any recent news of layoffs, hiring, relocations, expansions, etc.?
11. Any plans to materially change the amount of unused levy capacity over the near term?

FINANCES:

12. Does the town have any formal or informal fund balance or financial policies? Please provide a copy if available.

S&P Global

HUDSON, MA

Steven Waldeck, 617-530-8128; steven.waldeck@spglobal.com

Anthony Polanco, 617-530-8234; anthony.polanco@spglobal.com

This Issue: \$11,521,250 General Obligation Municipal Purpose Loan of 2016 Bonds

ECONOMY

1. Is there any economic development planned that will significantly add to the assessed value of the village in the near future?
2. Are local employers expecting large increases or decreases in employment?

FINANCES

3. Please discuss the results of fiscal year 2014. What factors led to the negative operating performance?
4. Total governmental fund revenue was \$88,382,661. Does this number contain any non-recurring items?
5. Total governmental fund expenditures were \$92,955,040. Does this number contain any non-recurring items and/or the use of bond proceeds?
6. Please discuss the results of fiscal year 2015. What factors led to the small negative operating performance?
7. Total governmental fund revenue was \$81,313,316. Does this number contain any non-recurring items?
8. Total governmental fund expenditures were \$84,669,630. Does this number contain any non-recurring items and/or the use of bond proceeds?
9. The fund balance was \$5.2 million at the end of 2015. Does the town have any plans to increase this? Decrease it? Or maintain it level?
10. Please discuss expectations for close of fiscal year 2016. Will there be an increase or decline in fund balance? If so, how much?

The opening statement

- Your rating expectation
- Accentuate the positive
- Preempt the discussion of the negative

So... yes, make an opening statement if

- A rating change or addition of an outlook is possible
- There is something negative that warrants an explanation

The economy

- Anything noteworthy happening
- Firms moving in / moving out
- Firms with significant changes in personnel
- Activity in the residential market

Leading to

- Changes in assessed valuation
- Market stabilization
- New growth in recap

Financials – last year, this year, next year

End of year position / projected change in fund balance

Over-expended budgets / revenue deficits

One-time revenues / one time expenditures

Changes in service / changes in workforce

Pay-as-you-go capital

Interfund transfers

Use of reserves

Your enterprises

Noticeable trends

Budget drivers / budget stresses

Difficulties in balancing the budget

Your audit

- **Understand it well enough to be able to comfortably move between audit numbers and your numbers**
- **The balance sheet / the statement of revenues, expenditures and changes in fund balance**
- **The fund balance table**
- **The interfund transfers table**

Also the recap and the Schedule A

	General Fund	Community Preservation Act Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 12,230,713	\$ -	\$ 7,372,317	\$ 19,603,030
Investments	18,456,395	4,903,709	2,346,294	25,706,398
Receivables:				
Property taxes	1,510,726	24,903	-	1,535,629
Excises	215,144	-	-	215,144
Departmental and other	79,570	-	207,102	286,672
TOTAL ASSETS	\$ 32,492,548	\$ 4,928,612	\$ 9,925,713	\$ 47,346,873
LIABILITIES				
Warrants payable	\$ 1,568,573	\$ 22,340	\$ 211,419	\$ 1,802,332
Accrued liabilities	685,694	-	-	685,694
Notes payable	-	-	2,490,000	2,490,000
Tax refunds payable	1,057,000	-	-	1,057,000
Other liabilities	1,042,993	-	-	1,042,993
TOTAL LIABILITIES	4,354,260	22,340	2,701,419	7,078,019
DEFERRED INFLOWS OF RESOURCES	1,492,007	24,904	207,102	1,724,013
FUND BALANCES				
Nonspendable	-	-	639,068	639,068
Restricted	11,457,910	-	7,114,822	18,572,732
Committed	3,283,729	4,881,368	-	8,165,097
Assigned	1,449,566	-	-	1,449,566
Unassigned	10,455,076	-	(736,698)	9,718,378
TOTAL FUND BALANCES	26,646,281	4,881,368	7,017,192	38,544,841
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 32,492,548	\$ 4,928,612	\$ 9,925,713	\$ 47,346,873

Following is a breakdown of the Town's fund balances at June 30, 2015:

	General Fund	CPA Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 639,068	\$ 639,068
Total Nonspendable	-	-	639,068	639,068
Restricted				
Reserve for debt service	11,457,910	-	-	11,457,910
Capital project funds	-	-	1,650,008	1,650,008
Special revenue funds	-	-	3,918,116	3,918,116
Expendable permanent funds	-	-	1,546,698	1,546,698
Total Restricted	11,457,910	-	7,114,822	18,572,732
Committed				
Reserve for continuing appropriations				
General government	740,816	-	-	740,816
Public safety	51,344	-	-	51,344
Education	465,762	-	-	465,762
Public works	1,373,984	-	-	1,373,984
Culture and recreation	133,474	-	-	133,474
Community preservation act funds	-	4,881,368	-	4,881,368
Health stabilization	518,349	-	-	518,349
Total Committed	3,283,729	4,881,368	-	8,165,097
Assigned				
Reserved for encumbrances				
General government	434,119	-	-	434,119
Public safety	9,967	-	-	9,967
Education	926,093	-	-	926,093
Public works	59,664	-	-	59,664
Culture and recreation	5,403	-	-	5,403
Health and human services	8,820	-	-	8,820
Reserved for petty cash	5,500	-	-	5,500
Total Assigned	1,449,566	-	-	1,449,566
Unassigned				
General fund	5,715,507	-	-	5,715,507
General stabilization	4,739,569	-	-	4,739,569
Special revenue funds	-	-	(133,703)	(133,703)
Capital project funds	-	-	(602,995)	(602,995)
Total Unassigned	10,455,076	-	(736,698)	9,718,378
Total Fund Balances	\$ 26,646,281	\$ 4,881,368	\$ 7,017,192	\$ 38,544,841

Culture and Recreation	1,964,424	1,832,038	1,749,345	1,730,859	1,764,253
Debt Service	6,657,161	6,991,091	7,340,258	11,433,979	10,853,156
Intergovernmental	455,316	430,940	393,072	362,215	409,134
Employee Benefits and Miscellaneous	<u>12,682,515</u>	<u>12,465,933</u>	<u>12,302,063</u>	<u>7,346,107</u>	<u>8,459,029</u>
Total Expenditures	<u>93,993,148</u>	<u>98,577,888</u>	<u>95,510,356</u>	<u>90,671,241</u>	<u>91,879,317</u>
Excess of Revenues Over (under) Expenditures	<u>1,155,575</u>	<u>1,100,396</u>	<u>154,340</u>	<u>2,316,280</u>	<u>(1,386,579)</u>
Other Financing Sources (Uses):					
Operating Transfers in	76,206	168,914	901,941	1,803,270	109,696
Operating Transfers out	(2,324,212)	(735,204)	(1,343,086)	(2,144,581)	(420,328)
Proceeds from borrowing	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	(2,248,006)	(566,290)	(441,145)	(341,311)	(310,632)
Excess of Revenues and Other Sources Over (under) Expenditures and Other Uses	(1,092,431)	534,106	(286,805)	1,974,969	(1,697,211)
Fund Balance, Beginning	<u>27,738,712</u>	<u>27,204,606</u>	<u>27,491,411</u>	<u>25,516,442</u>	<u>27,213,653</u>
Fund Balance, Ending	<u>\$26,646,281</u>	<u>\$27,738,712</u>	<u>\$27,204,606</u>	<u>\$27,491,411</u>	<u>\$25,516,442</u>

(1) Excerpted from the audits of Melanson, Heath and Company, Certified Public Accountants.

TOWN OF OXFORD, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(12) Transfers

Transfers to (from) governmental funds and their purposes during the year ended June 30, 2014 were as follows:

	General	Other governmental	Water	Community Service	Sewer
Ambulance – operating expense	\$ 868,000	(868,000)	—	—	—
BOH – operating expense	95,000	(95,000)	—	—	—
WRTA – operating expense	27,000	(27,000)	—	—	—
Conservation – operating expense	10,000	(10,000)	—	—	—
Animal Control – operating expense	7,600	(7,600)	—	—	—
Cemetery – operating expense	6,000	(6,000)	—	—	—
Revolving – operating expense	4,000	(4,000)	—	—	—
HAP Charity – operating expense	4,000	(4,000)	—	—	—
IT Donation – operating expense	10,524	(10,524)	—	—	—
Sewer Unpaid – operating expense	451	(451)	—	—	—
Community Development – operating expense	31,500	(31,500)	—	—	—
Patrons of the Library – operating expense	2,500	(2,500)	—	—	—
J.Lamed – operating expense	700	(700)	—	—	—
M. Buffum – operating expense	700	(700)	—	—	—
G. Morin – operating expense	600	(600)	—	—	—
Recreation – operating expense	22,115	(22,115)	—	—	—
COA Program Donation – operating expense	15,677	(15,677)	—	—	—
COA Van Replacement – operating expense	1,823	(1,823)	—	—	—
Tri-Centennial – operating expense	24,000	(24,000)	—	—	—
Available funds – Ambulance funding	(626)	626	—	—	—
Available funds – BOH	(4,192)	4,192	—	—	—
Available funds – Community center debt service	(73,600)	—	—	73,600	—
Revolving – Water operations	—	(101,346)	101,346	—	—
Revolving – Sewer operations	—	(10,677)	—	—	10,677
Total net transfers to (from)	\$ 1,053,772	(1,239,395)	101,346	73,600	10,677

Financial performance

- Operating surpluses / adding to fund balance
- A structurally balanced budget

Financial flexibility

- Sufficient reserves
- The ability to respond to the unexpected
- Liquidity

... and, by the way

- You should plan on your audit being complete and available to the public by March 1**
- You should promptly (immediately) forward it to your F/A for filing on EMMA**
- And, no, unless absolutely necessary, your auditor should not attend the rating review call or meeting**

Debt and contingent liabilities

- The amount of debt and/or debt service is generally not an issue
- The benefit of Proposition 2½ debt exclusions
- Your pension liability
- OPEB

Management issues

- The “big picture”
- Where we are going ...
- Management initiatives

The prerequisites to a good management discussion

- Capital improvement program
- Five year revenue and expenditure projections
- Financial policies

Be prepared to provide –

- Your CIP
- Your projections
- Your financial policies
- Your year to date budget vs. actual report
- OPEB valuation
- Also, a good land use map or zoning map

And if you say “we have ...”, then expect them to say “please send it along ...”

List of policies

- Reserve
- Debt management
- Debt service
- Capital planning
- Revenue and expenditure projections
- Financial performance review
- OPEB
- Investment / review of investments
- Post-issuance Compliance

... and the “what???” questions ...

- Direct bank loans
- Variable rate debt
- Derivatives

What about **reserves**?

Prepare – but be confident

- You only need to be nervous if you haven't ever done this before or if you have a really bad story to tell.
- You do know your community.
- And with an unexpected question, you can always say you will check and get back to them.

Questions, comments, discussion ...