

New Issue: Moody's assigns Aa2 rating to the County of Norfolk's (MA) \$12.26 million G.O. bonds; outlook remains stable

Global Credit Research - 05 Oct 2012

Affirmation of Aa2 rating and stable outlook applies to \$700,000 in outstanding parity debt

NORFOLK (COUNTY OF) MA
Counties
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2012 Bonds	Aa2
Sale Amount	\$12,260,000
Expected Sale Date	10/10/12
Rating Description	General Obligation

Moody's Outlook STA

Opinion

NEW YORK, October 05, 2012 --Moody's Investors Service has assigned a Aa2 rating with a stable outlook to the County of Norfolk's (MA) \$12.26 million General Obligation Municipal Purpose Loan of 2012 Bonds. Concurrently, Moody's has affirmed the Aa2 rating and stable outlook on \$700,000 in outstanding parity debt. The bonds are secured by the county's general obligation limited tax pledge, as debt service is subject to the levy limitations of Proposition 2 ½. The bond proceeds will redeem \$6.55 million in outstanding bond anticipation notes scheduled to mature on October 26, 2012 that were originally issued to finance costs associated with courthouse repairs and school renovations. The balance of the proceeds will go toward the ongoing school renovation project.

SUMMARY RATINGS RATIONALE

The Aa2 rating and outlook reflect Norfolk County's large and mature tax base with a strong demographic profile, maintenance of a solid financial position despite limited growth in county tax and volatile deeds registry revenue, and a very low debt burden.

STRENGTHS:

- Large and wealthy tax base
- Stable local economy with low unemployment
- Reliable, but limited, increases in county tax assessment revenue
- Healthy reserves and liquidity, minimal reliance on fund balance appropriations

WEAKNESSES:

- Limitation on increases to county tax assessments
- Projected structural imbalance
- Moderate risk related to golf course enterprise

DETAILED CREDIT DISCUSSION

COUNTY BENEFITS FROM LARGE, DIVERSE AND WEALTHY REGIONAL ECONOMY

Norfolk County is favorably located southwest of Boston (G.O. rated Aaa/stable outlook) and is comprised of 28 municipalities. Aggregate equalized value is a robust \$121.7 billion, reflecting strong growth that doubled the county's size over the last decade. Growth has slowed recently, and the county posted its first tax base decline, a moderate 3.6%, in 2012 (reflecting values as of January 1, 2010), although moderate growth is expected over the long term.

The county encompasses a large geographic area from Brookline (G.O. rated Aaa/stable outlook) and Quincy (G.O. rated Aa3), which are contiguous with Boston, southwest to Wrentham (G.O. rated Aa2) and Bellingham (G.O. rated Aa2), which are on the border with Rhode Island (G.O. rated Aa2/negative outlook). The county's 2010 population of 670,850 represents over 10% of the commonwealth's 6.5 million total. The county's largest municipalities are the Town of Brookline (13% of county tax assessments), the City of Quincy (10%) and the Towns of Wellesley (G.O. rated Aaa/stable outlook, 8%) Needham (6%), and Weymouth, (G.O. rated Aa3, 6%). Overall credit quality of the cities and towns is above average and hovers around the Aa2 median for Massachusetts (G.O. rated Aa1/stable outlook). Unemployment has remained consistently below state and national rates and was 5.2% in June 2012, favorable relative to Massachusetts (6.3%) and the US (8.4%).

OPERATIONS STREAMLINED; SOUND FINANCIAL POSITION WITH SATISFACTORY RESERVES

Following legislative action, responsibility for operating the county's correctional facility was transferred to the state in January, 2010, eliminating the county's administrative responsibility for the jail and reducing annual revenues and expenditures by roughly \$30 million. The county is now statutorily responsible for providing and maintaining a registry of deeds, an agricultural school, and a recreational facility and program. The county owns six courthouses, which are leased to the commonwealth of Massachusetts, a golf course and an agricultural school which will accommodate 550 students when the current expansion is completed.

County governance is complex, with independently-elected county commissioners, school trustees, and a county treasurer, with a clerk and register of deeds each overseeing the operations of the respective department. Generally, management has been strong, resulting in stable financial operations with sound reserves available to offset fluctuations in economically-sensitive mortgage and deeds excise fee revenues.

The county's tax assessment revenue accounts for roughly 20.9% of fiscal 2011 operating revenue and is limited by the state's Proposition 2 ½ property tax limit. Although cities and towns in the state are able to raise property tax levies in excess of the 2.5% cap annually by incorporating revenue from new tax base development or with voter approval, counties are not able to increase assessments above 2.5% annually under any circumstances. The county transfers \$3.2 million to the agricultural school annually to support operations, as mandated by the commonwealth, representing a substantial portion of the total \$5.1 million of the county's annual tax assessments. Additional revenues include state aid for school operations (13% of revenues), charges for services primarily for school tuition (28.4%), courthouse rent (12.9%) and deeds registry fees and excise taxes (21.1%). Golf course revenue is roughly \$1 million annually, and is accounted for in the General Fund.

The county's financial position is sound, with ample reserves to offset fluctuations in economically-sensitive deeds and excise fees. At fiscal 2011 year end, the county's General Fund balance totaled \$3.2 million, a strong 23.4% of General Fund revenues, and includes a \$600,000 assignment reserve for future capital improvements. In addition, the combined operating fund (General Fund, Agricultural High School Fund, Deeds Excise Fund and Non-major Governmental Fund) balance totaled \$8.8 million, an ample 35.7% of operating revenues. Maintenance of strong reserve levels is an important factor in maintaining long-term credit strength, given the county's reliance on economically-sensitive revenues and state aid.

Based on the fiscal 2012 draft audited financials the county experienced a slight operating fund deficit of \$83,000 attributed to continued revenue pressure from economically sensitive revenues and a one-time capital cost of \$350,000 for new courthouse windows. The fiscal 2013 budget increased by 1.9% and is balanced with the county's limited tax levy increase of 2.5% and a total of \$900,000 in general fund appropriations and \$300,000 from the agricultural high school reserves for related operations.

The county's liabilities for pension and OPEB have both declined after the transfer of correctional operations, including the liability for active correctional employees, and after restructuring the county's health plan and joining a consortium. The county's unfunded pension liability is roughly \$20 million and the county budgets the full annually required contribution (ARC), which in FY13 is \$2 million and includes \$1.1 million in funding for retired correctional employees. Under the terms of the transfer of the jail to the state, the county General Fund will continue paying up

to \$1.1 million of existing retiree costs annually until the cost declines over the next several decades. The county's OPEB liability is approximately \$51 million and includes a liability for the agricultural school teachers. The liability dropped from \$71 million after employee contributions were adjusted and the county's costs were lowered after joining a regional consortium. The county funds OPEB on a pay-as-you-go basis. Fixed costs, including debt service, pension and OPEB contributions, claim 15.8% of the county's operating expenditures in 2011.

County expenses are likely to rise more than 2.5% annually over the near term, and management projects ongoing budgetary pressure as revenue growth fails to keep pace. Norfolk County's financial position is expected to remain stable, however, given its strong approach to management, sound reserves, and ability to operate within budgetary constraints.

FAVORABLE DEBT PROFILE AND MINIMAL FUTURE CAPITAL NEEDS

Norfolk County will continue to maintain a minimal debt position, including the current high school expansion project which is expected to be completed by Spring 2014. The county's direct debt burden is a negligible 0.01% of the very large equalized value. The county has no plans to issue additional debt in the near term, although an authorization for \$3.1 million of courthouse improvements remains outstanding. The county targets \$500,000 in pay-as-you-go capital funding for routine capital maintenance and upgrades at its six courthouses and the school, although in recent years, the county has reduced this budget as revenue growth has slowed.

The county's overall debt burden, which includes the outstanding debt of the municipalities in the county, is still below average at 1.1%. Long-term principal amortization, primarily attributed to the current financing, is slow at 29.3% within 10 years. All of the county's long-term debt is fixed rate and the county is not party to any derivative agreements.

Outlook

The stable outlook incorporates the county's effective approach to budgeting and management, healthy regional tax base and economic conditions, limited future capital needs and low direct debt burden.

WHAT COULD MAKE THE RATING GO UP

- Improved diversity in operating revenues
- Significant improvement in funding for long-term liabilities
- Adoption of comprehensive financial management policies and long-range planning

WHAT COULD MAKE THE RATING GO DOWN

- Significant deterioration of tax base size or wealth profile
- Reduction in reserves
- Growing reliance on appropriations of fund balance or other one-time revenue

KEY STATISTICS

2010 population: 670,850 (+3.2% since 2000)

2010 per capita income: \$78,567 (125% of MA, 155% of US)

2010 median family income: \$101,870 (125.5% of MA, 161.7% of US)

2012 equalized valuation: \$121.6 billion

2012 equalized valuation per capita: \$180,144

June, 2012 county unemployment: 5.2% (MA 6.3%, US 8.4%)

Direct debt burden: 0.01% of equalized value

Overall debt burden: 1.1% of equalized value

Principal amortization (10 years): 29.3%

FY11 General Fund balance: \$3.22 million (23.4% of General Fund revenues)

FY11 Unassigned General Fund balance: \$1.5 million (10.9% of General Fund revenues)

FY11 General Fund Cash Balance: \$2.8 million (20.6% of General Fund revenues)

FY11 Operating Funds balance (General, School, Deeds Excise and Non-governmental Funds): \$8.8 million (35.7% of Operating Funds revenues)

Long-term general obligation debt outstanding: \$12.96 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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