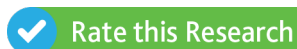


CREDIT OPINION

22 May 2019



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Avon (Town of) MA

Update to credit analysis following upgrade to Aa2

Summary

Avon, Massachusetts (Aa2) benefits from a modestly sized and diverse tax base, strong financial reserves that the town expects to draw down somewhat over the next several years, manageable debt burden and manageable pension liabilities.

On May 22, 2019, we upgraded the rating on the town's general obligation debt from Aa3 to Aa2.

Credit strengths

- » Strong financial position
- » Low debt burden

Credit challenges

- » Tax base remains smaller than prerecession peak

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant tax base growth and improvement in resident wealth and income profile
- » Material, sustained increase in reserves

Factors that could lead to a downgrade

- » Operating deficits leading to decline in reserves
- » Tax base contraction
- » Substantial increase in debt outstanding that is not excluded from Proposition 2 ½

Key indicators

Exhibit 1

Avon (Town of) MA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$827,942	\$827,942	\$770,033	\$770,033	\$823,962
Population	4,400	4,421	4,453	4,476	4,468
Full Value Per Capita	\$188,169	\$187,275	\$172,925	\$172,036	\$184,414
Median Family Income (% of US Median)	141.4%	144.8%	134.4%	131.8%	138.8%
Finances					
Operating Revenue (\$000)	\$21,681	\$23,026	\$22,578	\$24,129	\$24,758
Fund Balance (\$000)	\$3,841	\$8,254	\$9,070	\$10,977	\$13,375
Cash Balance (\$000)	\$5,659	\$9,814	\$10,258	\$12,177	\$13,850
Fund Balance as a % of Revenues	17.7%	35.8%	40.2%	45.5%	54.0%
Cash Balance as a % of Revenues	26.1%	42.6%	45.4%	50.5%	55.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$14,641	\$13,654	\$11,937	\$10,509	\$9,280
3-Year Average of Moody's ANPL (\$000)	\$16,879	\$21,686	\$24,212	\$24,847	\$22,742
Net Direct Debt / Full Value (%)	1.8%	1.6%	1.6%	1.4%	1.1%
Net Direct Debt / Operating Revenues (x)	0.7x	0.6x	0.5x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.0%	2.6%	3.1%	3.2%	2.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.8x	0.9x	1.1x	1.0x	0.9x

Note: 2019 Full Valuation (\$000s): \$855,861

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

Profile

Avon, Massachusetts is located 20 miles south of Boston (Aaa stable) and is home to 4,500 people.

Detailed credit considerations

Economy and Tax Base: Modest tax base south of Boston with muted growth anticipated

Avon's modestly sized \$856 million tax base, which is currently smaller than its prerecession peak by approximately 12%, will grow slowly in the near term as low housing inventory pushes up residential prices. The town occupies 4.3 square miles and is bordered by the larger communities of Brockton (A1) and Stoughton (Aa2). Residents benefit from convenient commuter rail access to Boston (Aaa stable).

The town's strong equalized value per capita of \$191,553 reflects a significant commercial and industrial presence, rather than the resident wealth and income profile, which are comparable to or slightly weaker than commonwealth medians. Seven of the ten largest taxpayers are retail stores, and the top ten taxpayers represented a slightly concentrated 16.7% of total assessed value. Median family income represents 105% of state and 139% of US medians, while the median home value is 84% of state and 152% of US medians. Avon's equalized value has grown at a compound annual rate of just 0.7% since 2014, though management reports several small residential projects are under way.

Financial Operations and Reserves: Significantly improved financial position will decrease over near term but remain at adequate levels

Through consistent annual operating surpluses and a one-time revenue increase from a water contamination settlement, the town has built up significant reserves relative to the size of its budget. However, over the near term, management expects to reduce these very strong fund balance and cash levels to more sustainable levels. Fiscal 2017 results reflect a \$1.5 million operating fund surplus, which increased available fund balance to \$13.4 million representing 54% of revenues. The town's primary revenue drivers are property taxes at 76% of revenues and state aid at 13%. The largest expenditures are education at 39%, pensions at 17%, and public safety at 15%.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Due to a change in auditors, the June 30, 2018 audit is still being finalized and should be completed in the next few weeks. Management expects to report another surplus of \$1.4 million. The 2018 budget was \$1.6 million larger than the prior year's budget, an increase of 6%.

The 2019 budget increased \$3.1 million from the prior year reflecting a 12% increase. Based on year to date results, management is expecting a \$1.9 million surplus. The 2020 budget has not yet been finalized but no major changes are expected.

LIQUIDITY

Cash and investments at the end of fiscal 2017 totaled \$13.9 million representing a very strong 55.9% of revenues.

Debt and Pensions: Debt and pension burdens will remain manageable

Avon's debt profile will likely remain manageable given the town's limited future borrowing plans and voters' willingness to exempt debt from the limits of Proposition 2 ½. The town's net direct debt burden of 1.1% is average for the state. In the near term, management is considering an \$11 million police station project and an \$8 million road project. The town has not finalized how it will finance these projects.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with 100% of principal retired in ten years. Fiscal 2017 debt service totaled \$1.7 million representing 7.3% of expenditures.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or derivative agreements.

PENSIONS AND OPEB

The town participates in the Norfolk County Contributory Retirement System (NCCRS) and the Massachusetts Teachers' Retirement System (MTRS), two multiple-employer defined benefit pension plans. Employer contributions for the MTRS plan are offset by on behalf payments from the commonwealth. In fiscal 2017, the on behalf payments totaled \$946,000. For the NCCRS plan, the town contributed \$1 million representing 4.5% of total expenditures. As of 2017 the town reported an unfunded pension liability of \$10 million. The 2017 three-year average Moody's Adjusted Net Pension Liability (ANPL), based on Moody's methodology for adjusting reported pension data, is \$22.7 million representing an average 0.86 times revenues and 2.6% of equalized value. Moody's ANPL is not intended to replace reported information but to support comparability to other rated entities.

The town funds its other post employment benefits (OPEB) on a pay as you go basis with excess contributions going toward an OPEB Trust. In fiscal 2017, the town contributed \$792,000 or 3.4% of total expenditures toward its OPEB. The OPEB Trust is currently funded with approximately \$1.3 million.

Fixed costs, including annual debt service, pensions, and OPEB costs, totaled \$3.5 million representing 15.2% of fiscal 2018 operating expenditures.

Management and Governance

Management is working to establish formally adopted fiscal policies including requirements to create and maintain a five year capital plan and establish a capital stabilization reserve policy.

Massachusetts towns and cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts towns and cities' 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.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible

notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Avon (Town of) MA		
Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$855,861	A
Full Value Per Capita	\$191,553	Aaa
Median Family Income (% of US Median)	138.8%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	54.0%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	41.8%	Aaa
Cash Balance as a % of Revenues	55.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	37.3%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.1%	Aa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.9x	A
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets: Reserve position expected to be drawn down in the medium term		Down
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2018 publication.

Source: US Bureau of Economic Analysis, Moody's Investors Service

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