

CREDIT OPINION

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Concord-Carlisle Regional School District, MA

Update to credit analysis following outlook revision to negative

Summary

The Concord-Carlisle Regional School District (Aaa negative) rating reflects the highly affluent member towns, solid tax base, above average cash position, limited debt plans, and a diminished, but still satisfactory reserve position. The rating is further supported by debt which is excluded from proposition 2 ½ limits and manageable long term liabilities.

Credit strengths

- » Mature tax base and strong wealth metrics
- » Strong cash position
- » Limited debt plans and existing debt excluded from proposition 2 ½

Credit challenges

- » Narrow and diminished reserve levels as mandated by Massachusetts statute
- » Elevated fixed costs

Rating outlook

The negative outlook reflects weakened reserve levels and elevated fixed costs following the recent completion and outfitting of a new high school. Should reserve levels weaken further or if fixed costs substantially increase it would put additional downward pressure on the rating.

Factors that could lead to an upgrade (Remove Negative Outlook)

- » Improved reserve levels
- » Growth of the member towns combined tax base
- » Reduced fixed cost burden

Factors that could lead to a downgrade

- » Continued decline in level and trend of reserves
- » Increase level of debt

- » Further decline in cash levels
- » Substantial weakness in the tax base and full valuation levels

Key indicators

Exhibit 1

Concord-Carlisle Regional School District, MA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$6,700,833	\$6,700,833	\$6,781,650	\$6,781,650	\$7,755,400
Population	23,360	23,801	24,345	24,557	24,557
Full Value Per Capita	\$286,851	\$281,536	\$278,564	\$276,160	\$315,812
Median Family Income (% of USMedian)	252.2%	250.0%	247.6%	247.6%	247.6%
Finances					
Operating Revenue (\$000)	\$27,504	\$29,634	\$27,661	\$33,767	\$35,714
Fund Balance (\$000)	\$4,475	\$3,659	\$2,673	\$2,402	\$1,823
Cash Balance (\$000)	\$5,760	\$4,804	\$4,239	\$6,424	\$5,090
Fund Balance as a % of Revenues	16.3%	12.3%	9.7%	7.1%	5.1%
Cash Balance as a % of Revenues	20.9%	16.2%	15.3%	19.0%	14.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$33,720	\$62,425	\$62,780	\$63,289	\$58,114
3-Year Average of Moody's ANPL (\$000)	\$7,649	\$12,173	\$11,861	\$12,478	\$12,055
Net Direct Debt / Full Value (%)	0.5%	0.9%	0.9%	0.9%	0.7%
Net Direct Debt / Operating Revenues (x)	1.2x	2.1x	2.3x	1.9x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.3x	0.4x	0.4x	0.4x	0.3x

Fiscal year end June 30

Source: District financial statements and Moody's Investors Service

Profile

The district provides high school education enrolling approximately 1,300 students from its two member towns. The district is located approximately 17 miles northwest of Boston (Aaa Stable). It is serviced by State Route 2 and Interstate 95, as well as the Massachusetts Bay Transportation Agency commuter rail.

Detailed credit consideration

Economy and Tax Base: Member towns wealth and tax base is anchored by its proximity and access to Boston and the Interstate 95/128 technology corridor

No change expected in economic and tax base trends over the near to medium term. The member towns are primarily residential, with a 2017-18 combined equalized value of \$7.8 billion an increase of 14.4% over the prior valuation in 2016. The district's wealth levels are very strong with a median family income equal to 2.1 times the US median. The strength of the housing market is expected to continue over the medium term. The district also has a very strong 2018 equalized value per capita of \$315,812.

District members Concord (Aaa stable) and Carlisle (Aa1) assessments are levied on a proportional basis approximately 74% and 26% respectively for Concord and Carlisle. Each member town may legally withdraw from the district, but if it does, the departing town remains liable for its share of outstanding indebtedness.

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Financial Operations and Reserves: Stability expected to continue supported by conservative budgeting and maintenance of narrow reserves

The district's operating position is expected to remain balanced over the near term, limited by statutory restrictions of unassigned fund balance. The limited fund balance is offset by the wealth and strong support from both member towns, reflected in a history of passing debt exclusions. This strong support provides additional operating flexibility and excess levy capacity are key credit strengths.

Fiscal year end 2017 available general fund balance was \$1.8 million or 5.1% of revenues, which was down from a high of \$4.7 million or 17% of revenues in 2012 after years of building up stabilization reserves for the new high school. Typically, the district has maintained an unassigned fund balance between 4-5% of revenues however in fiscal 2017 this dropped to 3%. Going forward, we expect unassigned and available reserves to remain at or above current levels. The district derives a majority of revenues from town assessments (79% of 2017 revenues) while state aid comprises 20% of revenues, which is in-line with historic norms for the district.

Fiscal 2018 is expected to end with no change in unassigned funds or available reserves. The fiscal 2018 operating budget increased by 6.42% driven by salaries, employee benefits and OPEB contributions. The adopted budget was balanced with a 5.3% increase in total town assessments and a budgeted \$660,000 of reserves.

Fiscal 2019 major budget drivers continue to be healthcare costs and OPEB contributions. Positively, management reported no major capital projects and completion of spend down of fund balance in its completion of the new high school. Management indicates they do not plan to use any fund balance in fiscal 2019.

LIQUIDITY

Cash and investments at the end of fiscal 2017 represented \$4.2 million or 14.3% of revenues.

Debt and Pensions: Elevated fixed costs characterized by increased debt service, balanced by affordable pension and OPEB expenses which are well managed

While fixed costs including debt service, required pension contributions, and retiree healthcare payments are 19% of fiscal 2017 expenses, the costs are balanced by the district's small direct debt burden of 0.7% of equalized value. Over the last three years, the district has borrowed \$62.5 million for a new high school which represents the only facility of the district. While debt service has risen dramatically given the new issuance, it remains manageable given it is excluded from member towns Proposition 2 ½ levy limits. Future borrowing plans are limited too small capital projects and redemptions.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with 50% of principal retired in ten years. Fiscal 2017 debt service represented 14.5% of expenditures.

DEBT-RELATED DERIVATIVES

The district does not have derivatives.

PENSIONS AND OPEB

Pensions for teachers and qualified staff are funded and administered at the state level as part of the Massachusetts Teachers' Retirement System. Other employee's are members of the Concord Contributory Retirement System, a multi-employer defined benefit pension plan. The district is required to fully fund its contractually required contribution which was \$666,849 in fiscal 2017, representing only 1.8% of operating expenditures. The 2017 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$12 million, or a low 0.34 times operating revenues. The district continues to contribute and reduce its OPEB liabilities contributing 92% of 2017 ARC, representing \$1.3 million. The total unfunded liability is \$17.6 million and is 17% funded as of June 30, 2017. A decline from the previous year.

Management and Governance

The school district recently hired a new CFO the prior one having retired in July 2018. The management team has done a good job of layering in a large increase in debt service to support the \$62 million in additional debt with the addition of the new high school.

Massachusetts School Districts have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts school districts major revenue sources are state aid and member assessments. Member town assessments are usually paid from property taxes, 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. Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

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