

ISSUER COMMENT

25 April 2018

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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Masconomet Regional School District, MA

Annual Comment on Masconomet RSD

Issuer Profile

Masconomet Regional School District is located in Essex County in northeastern Massachusetts, approximately 20 miles north of Boston. Essex County has a population of 769,362 and a high population density of 1,537 people per square mile. The county's median family income is \$89,463 (1st quartile) and the December 2017 unemployment rate was 3.2% (1st quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and manufacturing.

Credit Overview

The credit position for Masconomet RSD is very good, and its Aa2 rating is slightly above the median rating of Aa3 for US school districts. Notable credit factors include exceptionally low debt and pension liabilities, a very strong wealth and income profile, a large tax base and a sound financial position.

Debt and Pensions: The district has negligible debt and pension burdens overall, which are favorable with respect to the assigned rating of Aa2. The net direct debt to full value (0.2%) is well below the US median, and stayed the same between 2013 and 2017. Also, Masconomet RSD'S Moody's-adjusted net pension liability to operating revenues (0.33x) favorably is materially lower than the US median. ANPLs for Massachusetts school districts are very low because the state assumes responsibility for all teacher pension costs. We allocate the ANPL associated with the Massachusetts Teachers' Retirement System entirely to the state.

Economy and Tax Base: The economy and tax base of the district are exceptionally healthy and are relatively strong in comparison to its Aa2 rating. The median family income equals a robust 208.7% of the US level. Moreover, the full value per capita (\$210,885) is materially above the US median, and increased from 2013 to 2017. Lastly, the total full value (\$5 billion) is considerable compared to other Moody's-rated school districts nationwide.

Finances: Masconomet RSD'S financial position is solid, yet the factor is relatively weak in comparison to the assigned rating of Aa2. The cash balance as a percent of operating revenues (6.3%) falls far short of the US median, and this metric stayed the same between 2013 and 2017. Additionally, the fund balance as a percent of operating revenues (5.9%) is well below the US median. The financial position of the district is satisfactory with limited reserves due to state statute limiting unassigned fund balance to 5% of its operating balance.

Management and Governance: Massachusetts school districts have an Institutional Framework score ³ of A, which is moderate compared to the nation. 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.

Sector Trends - Massachusetts School Districts

Massachusetts school districts face a stable operating environment, with the state providing funding increases in-line with expenditure growth. District general fund balance sheets, however reflect smaller reserves due to state limitations on unassigned fund balance, which cannot exceed 5% of the operating budget. Positively, the state makes on-behalf payments to the multi-employer Massachusetts Teachers' Retirement System, which reduces a significant portion of the district's pension liability. Enrollment trends vary across the state mostly with state population trends. Charter schools are present but do not pose a material credit risk to most districts.

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.

EXHIBIT 1

Key Indicators [4.5](#) Masconomet RSD

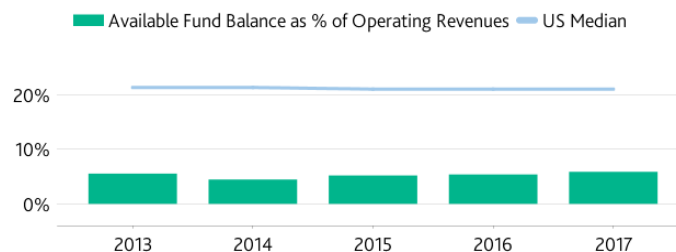
	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$4,564M	\$4,564M	\$4,559M	\$4,559M	\$4,990M	\$1,870M	Improved
Full Value Per Capita	\$195,222	\$192,895	\$190,345	\$192,654	\$210,885	\$83,193	Improved
Median Family Income (% of US Median)	193%	196%	209%	209%	209%	103%	Improved
Finances							
Available Fund Balance as % of Operating Revenues	5.5%	4.5%	5.2%	5.4%	5.9%	21.0%	Stable
Net Cash Balance as % of Operating Revenues	6.1%	7.7%	9.1%	7.9%	6.3%	25.7%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	0.4%	0.3%	0.3%	0.3%	0.2%	1.5%	Stable
Net Direct Debt / Operating Revenues	0.52x	0.45x	0.39x	0.32x	0.25x	0.72x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.2%	0.2%	0.3%	0.3%	0.3%	3.0%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.27x	0.33x	0.38x	0.36x	0.33x	1.54x	Stable

	2013	2014	2015	2016	2017	US Median
Debt and Financial Data						
Population	23,382	23,664	23,953	23,666	N/A	N/A
Available Fund Balance (\$000s)	\$1,783	\$1,495	\$1,748	\$1,983	\$2,317	\$8,051
Net Cash Balance (\$000s)	\$1,979	\$2,575	\$3,058	\$2,891	\$2,478	\$9,817
Operating Revenues (\$000s)	\$32,197	\$33,524	\$33,622	\$36,815	\$39,476	\$38,823
Net Direct Debt (\$000s)	\$16,595	\$14,960	\$13,260	\$11,604	\$9,699	\$26,674
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$8,756	\$10,994	\$12,882	\$13,353	\$13,070	\$54,746

Source: Moody's Investors Service

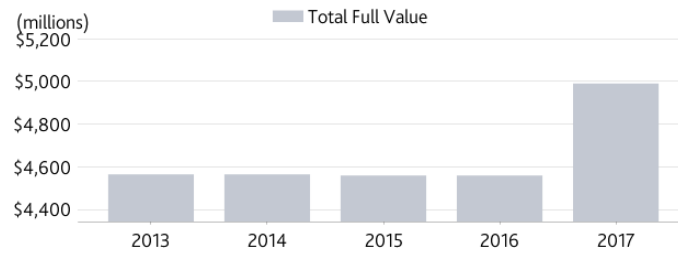
EXHIBIT 2

Available fund balance as a percent of operating revenues remained stable from 2013 to 2017



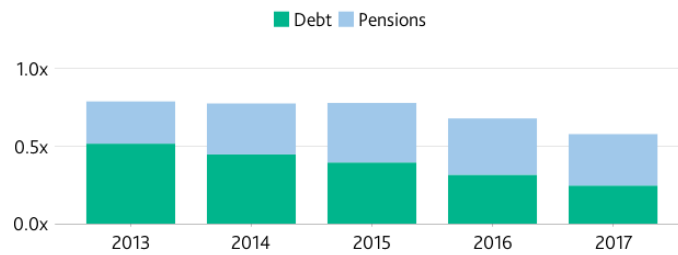
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2013 to 2017

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues remained stable from 2013 to 2017

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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