



Michael J. Driscoll
Town Manager

TOWN OF
WATERTOWN
Office of the Town Manager

Administration Building
149 Main Street
Watertown, MA 02472
Phone: 617-972-6465
www.watertown-ma.gov
townmgr@watertown-ma.gov

To: Honorable Town Council
From: Michael J. Driscoll, Town Manager
Date: February 4, 2021
RE: Agenda Item – Transfer of Funds Request

As you are aware, on June 9, 2020 the Honorable Town Council unanimously approved a Proposed Loan Order totaling \$103,455,000 to pay costs of constructing a new Hosmer and Cunniff Elementary Schools.

As stated in the Fiscal Year 2021 Budget Message dated June 8, 2020, given the leasing of Saint Jude’s and the acceleration of the Cunniff and Lowell Schools Project with completion dates two years earlier than originally projected, the following is the timeline for borrowing \$170,000,000 for the Three Elementary Schools Project:

| | |
|------------------|----------------------|
| Fiscal Year 2020 | \$ 16,521,891 |
| Fiscal Year 2021 | \$ 64,000,000 |
| Fiscal Year 2022 | \$ 46,000,000 |
| Fiscal Year 2023 | \$ 43,478,109 |
| | <u>\$170,000,000</u> |

Given all of the above and as indicated on page 7 of the Fiscal Year 2022-2026 Capital Improvement Program correspondence dated January 26, 2021, the \$64,000,000 listed for borrowing in Fiscal Year 2021 less \$4,640,000 related to an upcoming Transfer of Funds of budgeted Fiscal Year 2021 monies for principal and interest was permanently borrowed on January 26th. The winning bid on the bonds was an average interest rate of 1.343% for the 20-year General Obligation Bond Issue!

Additionally, a Net Premium of \$7,215,000 will be applied to the project costs and thereby lowering the Bond Issue to \$52,145,000 as outlined below:

| | |
|----------------------|-------------------|
| \$64,000,000 | |
| (\$4,640,000) | Upcoming Transfer |
| <u>(\$7,215,000)</u> | Net Premium |
| \$52,145,000 | |

As a follow-up, attached please find the January 27th Miscellaneous Items to Council which provides additional information on the \$52,145,000, 20-year General Obligation Bond Issue and informs that

Standard & Poor's assigned their highest rating of AAA to this issue. As stated in the Miscellaneous Items correspondence, maintaining the AAA Bond rating will be helpful in our continued efforts to provide the highest level of services to the citizens of Watertown while utilizing the taxpayers' dollars as efficiently as possible.

As mentioned above, \$4,640,000 is included in the Fiscal Year 2021 Budget to be applied to the original borrowing amount of \$64,000,000 which was further reduced by the Net Premium of \$7,215,000, thereby lowering the Bond Issue related to financing the construction of a new Hosmer & Cunniff Elementary Schools to \$52,145,000.

The utilization of Debt Retirement account monies for the acquisition and payment of capital equipment items is consistent with the Honorable Town Council's Ongoing Budget Policy Guideline to make annual capital expenditures (including debt and exclusive of the school Building for the Future Initiative funding and enterprise funds) equal to at least 7.5 – 8% of the operating budget in order to maintain and improve its infrastructure, facilities, and equipment.

Additionally, reducing the permanent borrowing amounts is consistent with a "very strong debt and contingent liability profile" which is one of the factors Standard & Poor's Rating Services cited in the affirmation of the Town's AAA Bond Rating.

Therefore, in order to partially fund the above-mentioned June 9, 2020 loan order, I respectfully request the attached transfer be placed on the February 9, 2021 Town Council Agenda.

Thank you for your consideration in this matter.

cc: Honorable School Committee
Department Heads


TRANSFER AMOUNT \$4,640,000

FROM: FY 21 DEBT RETIREMENT- PLANNED DEBT \$ 4,640,000
0171000-590927

TO: FY 21 TRANSFER TO CAP. PROJECTS - 3 ELEM. SCHOOLS PROJ. \$ 4,640,000
0193059-596505

I hereby certify to the availability, authority of funding source, mathematical accuracy and appropriate fiscal year.

2/4/21
DATE


TOWN AUDITOR



Michael J. Driscoll
Town Manager

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WATERTOWN
Office of the Town Manager

Administration Building
149 Main Street
Watertown, MA 02472
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To: Honorable Town Council
From: Michael J. Driscoll, Town Manager
Date: January 27, 2021
RE: Miscellaneous Items

Today's Miscellaneous Items includes the following:

COVID VACCINATIONS ---Newsflash & Everbridge message

Praise for free Covid test at Commander's Mansion

Vaccine Discussion, Tonight 6PM -- Reminder and Documents

Massachusetts residents 75 years and older can book appointments for COVID vaccine_ Here's how

Biden-Harris administration increasing amount of COVID vaccines coming to Massachusetts, Gov. Charlie Baker announces

→ Yesterday's General Obligation Bond Sale

Belmont Select Board votes to put \$6.4 million override question on April ballot

Repositioning of Munger Apts

Cultural District Discussion was FANTASTIC!

From: Driscoll, Michael
To: Hand, JoAnna; Osmond, Marsha
Cc: Morrison, Katherine; Dept. Heads; schoolcommittee@watertown.k12.ma.us; Library Trustees; Brownsberger, William (SEN); JOHN.LAWN@MAHOUSE.GOV; steven.Owens@mahouse.gov; "Mark R. Reich"; Joe Fair (JFair@k-plaw.com); Scott McIntire; BSHEEHAN@WATERTOWNRETIREMENT.COM; Peter Frazier (HTS); Lisa Driscoll (HTS)
Subject: Yesterday's General Obligation Bond Sale
Date: Wednesday, January 27, 2021 1:11:37 PM

Please include in today's Misc Items to Council.

As a follow up to Standard & Poor's assigning their highest rating of AAA for the Town's proposed long term bond (see below), the Town received competitive bids from bond underwriters yesterday for a \$ 59,360,000, 20-year General Obligation Bond Issue related to financing the construction of a new Hosmer & Cunniff Elementary Schools. The town received a total of 9 bids on the bonds.

Raymond James & Associates, Inc. was the winning bidder on the bonds with an average interest rate of 1.343 %

Additionally, a Net Premium of \$ 7, 215,000 will be applied to the project costs and thereby lowering the Bond issue to \$ 52,145,000.

From: Driscoll, Michael
Sent: Saturday, January 23, 2021 4:03 PM
To: Town Councilors <TownCouncilors@watertown-ma.gov>; Dept. Heads <Dept.Heads@watertown-ma.gov>
Cc: 'schoolcommittee@watertown.k12.ma.us' <schoolcommittee@watertown.k12.ma.us>; Library Trustees <LibraryTrustees@watertown-ma.gov>; 'Will Brownsberger' <william.brownsberger@masenate.gov>; 'JOHN.LAWN@MAHOUSE.GOV' <JOHN.LAWN@MAHOUSE.GOV>; 'steven.Owens@mahouse.gov' <steven.Owens@mahouse.gov>; 'Mark R. Reich' <MReich@k-plaw.com>; Joe Fair (JFair@k-plaw.com) <JFair@k-plaw.com>; 'Scott McIntire' <smcintire@MelansonHeath.com>; 'BSHEEHAN@WATERTOWNRETIREMENT.COM' <BSHEEHAN@WATERTOWNRETIREMENT.COM>; 'Peter Frazier (HTS)' <peter.frazier@hilltopsecurities.com>; 'Lisa Driscoll (HTS)' <Lisa.Driscoll@hilltopsecurities.com>; Osmond, Marsha <mosmond@watertown-ma.gov>; Hand, JoAnna <jhand@watertown-ma.gov>
Subject: Watertown, MA Rating Report

Good afternoon; attached please find information from Standard & Poor's (S & P's) Rating Services assigning its AAA long-term rating to next week's General Obligation (GO) Bond Sale totaling \$ 59.4 million related to constructing a new Hosmer and Cunniff Elementary Schools. At the same time, S & P's affirmed its SP-1+ short-term rating on Watertown's existing bond anticipation notes (BANs) and AAA long-term rating on the Town's existing GO debt. **These ratings are S & P's highest ratings.**

As indicated in the attachment, the rating reflects their opinion of the Town's :

- Very strong economy
- Strong management
- Adequate budgetary performance
- Very strong budgetary flexibility
- Very strong liquidity
- Very strong debt and contingent liability profile
- Strong institutional framework

Thank you for all of your efforts in this matter as maintaining the AAA Bond rating will be helpful in our continued efforts to provide the highest level of services to the citizens of Watertown while utilizing the taxpayers' dollars as efficiently as possible.

From: Peter Frazier (HTS) [<mailto:peter.frazier@hilltopsecurities.com>]

Sent: Friday, January 22, 2021 10:28 AM

To: Driscoll, Michael <mdriscoll@watertown-ma.gov>; Tracy, Thomas <ttracy@watertown-ma.gov>

Cc: Lisa Driscoll (HTS) <Lisa.Driscoll@hilltopsecurities.com>

Subject: Watertown, MA Rating Report

Michael and Tom,

Attached is the final version of Standard & Poor's Credit Opinion for your reference.
Congratulations!

Peter

Peter Frazier
Managing Director
Hilltop Securities

direct 617.619.4409 fax 617.619.4411
54 Canal Street, Suite 320, Boston, MA 02114

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RatingsDirect®

Summary:

Watertown, Massachusetts; General Obligation; Note

Primary Credit Analyst:

Makai C Edwards, Chicago (1) 312-233-7017; makai.edwards@spglobal.com

Secondary Contact:

Victor M Medeiros, Boston + 1 (617) 530 8305; victor.medeiros@spglobal.com

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Credit Profile

US\$59.36 mil GO mun purp loan bnds ser 2021 due 02/01/2041

| | | |
|----------------------------------|------------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | New |
| Watertown GO | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| Watertown GO | | |
| <i>Unenhanced Rating</i> | AAA(SPUR)/Stable | Affirmed |
| Watertown GO mun purp ln of bnds | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| Watertown GO BANs | | |
| <i>Short Term Rating</i> | SP-1+ | Affirmed |

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AAA' long term-rating to the Town of Watertown, Mass.' series 2021 general obligation (GO) school bonds totaling \$59.4 million. At the same time, S&P Global Ratings affirmed its 'SP-1+' short-term rating on Watertown's existing bond anticipation notes (BANs) and 'AAA' long-term rating on the town's existing GO debt. The outlook on all long-term ratings is stable.

The short-term BAN rating reflects our criteria for evaluating and rating BANs. In our view, Watertown maintains a very strong capacity to pay principal and interest when the notes come due. In our view, and in accordance with our criteria "Bond Anticipation Note Rating Methodology" (published Aug. 31, 2011), the town maintains a low market risk profile, because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full-faith-and-credit GO pledge secures the BANs and bonds, subject to limitations of Proposition 2 1/2. We rate the limited-tax GO debt on par with our view of Watertown's general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the town's overall ability and willingness to pay debt service.

Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Watertown higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2019, local property taxes generated 77% of revenue, which demonstrated a lack of

dependence on central government revenue.

The town intends to use proceeds of the bonds to finance its elementary school construction projects.

Credit overview

The rating reflects our view of Watertown's very strong and growing economy, anchored by its access to Boston and research institutions in the surrounding area to support the growing life sciences/biomedical sector in the town, and its continued maintenance of strong budgetary flexibility as evidenced by continued additions to fund balance, including in fiscal 2020, on a budgetary basis. Furthermore, the town's policies and procedures continue to enhance our view that management will make the necessary budgetary adjustments to keep reserves at levels we consider strong and maintain balanced operations. Pension and other postemployment benefit (OPEB) costs are contained and the town will likely begin meaningfully contributing toward its OPEB trust fund since the pension system is projected to be fully funded in the near term. While the town does maintain exposure to economically sensitive revenues, the budget primarily consists of property taxes (77% of annual revenues) and recent growth has helped to continue to offset the excise tax declines and continues to contribute to a stable operating profile. While our outlooks are generally for two years, we believe there remains risks associated with the continuation of the pandemic and recent recessionary pressures over the next six-to-12 months.

The rating reflects what we view as the following credit characteristics for Watertown:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.6% of total governmental fund expenditures and 8.2x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 4.2% of expenditures and net direct debt that is 69.1% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. However, because of strong management conditions and historically consistent positive results, we expect management to make the necessary budgetary adjustments to maintain balanced operations. Furthermore, management doesn't expect any cash flow pressures in the near term as a result of tax collection delays. Absent the implications of the pandemic, we consider Massachusetts' social risks in line with those of the sector. We also view governance and environmental risks as being in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could lower the rating if finances were to deteriorate significantly or the town were to experience budgetary pressure, especially given potential market volatility, leading to a drawdown on reserves.

Credit Opinion

Very strong economy

We consider Watertown's economy very strong. The town, with an estimated population of 34,795, is located in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 193% of the national level and per capita market value of \$261,492. Overall, the town's market value grew by 13.7% over the past year to \$9.1 billion in 2020. The county unemployment rate was 2.3% in 2019.

Watertown is located approximately six miles west of Boston's center. It has direct access to regional employment centers via the Massachusetts Turnpike; U.S. Route 20; and Massachusetts Bay Transportation Authority, which operates commuter rail and bus services throughout the region.

The town is primarily residential with residential properties accounting for over 75% of the tax base; however, Watertown maintains a strong mix of residential neighborhoods and retail centers to diversify the tax base. The town has focused on growing this mix, with economic development projects centered on a new life science and biomedical space given growth in the industry and location of the town near Massachusetts Institute of Technology and Harvard. With continued investment in economic development, the town's assessed value continues to improve, with the assessed valuations rising an average of 8.5% per year over the past five years. Watertown continues to see investment in its Arsenal Corridor with Arsenal Mall undergoing construction of a regional entertainment, retail, mixed-used, 424-residential-unit complex called Arsenal Yards. Construction continues as the project moves to Phase B including development of further life sciences/lab space in a former restaurant. Furthermore, Tufts Healthcare, a nonprofit company, announced it is moving to Canton from Watertown and completed the sale of its 500,000-square-foot building to the for-profit life science developer, Spear Capital Group.

With ongoing development, the town noted that employment remains in line with expectations, with no changes to the main employers. In line with neighboring areas, the unemployment rate in the region spiked during the pandemic to a high of 15% in June 2020; however, it has since recovered to 5% as of November 2020. We expect Watertown's local economy to remain very strong in the near term because of the town's stable residential tax base and continued development in the growing life sciences and biomedical industry.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Strong management practices remain evident in the town's maintenance of strong budget-making policies and assumptions and regular monitoring of financial performance. Management uses five years of historical data to develop revenue and expenditure forecasts and adjusts for growth swings on a year-to-year basis. Furthermore, management monitors and reviews budget performance weekly and presents budget-to-actual reports quarterly to the town council during the first two quarters and then on a monthly basis during the remainder of the year. Management engages in outyear planning, using both a five-year capital improvement plan it updates annually and a five-year financial plan that identifies revenue and expenditure issues and trends. It also maintains a formal investment management policy and presents investment-performance reports quarterly to the council.

The town maintains budgetary guidelines for debt management policy, which sets aside 8% of its operating budget for debt service and capital projects. It has a formal reserve policy to maintain the fund balance at 8%-15% of government expenditures, to which it has adhered historically.

In addition, the town continues to address concerns related to climate change that could directly affect taxable properties. In particular, Watertown formed a Sustainability Committee to begin the process of planning for climate change and resilience and implementing priority projects.

Adequate budgetary performance

Watertown's budgetary performance is adequate in our opinion. The town had operating surpluses of 1.7% of expenditures in the general fund and of 5.4% across all governmental funds in fiscal 2019.

Fiscal 2019 results include adjustments for one-time capital expenditures paid for with bond proceeds and recurring transfers. Management attributes the positive performance to higher-than-budgeted revenue, including excise taxes, building permit fees, and other local receipts.

The town is currently in the process of completing the fiscal 2020 audit. Preliminary figures indicate that Watertown's performance remained stable from fiscal 2019, with revenues expected to come in about \$1.4 million favorable to budgeted, driven by inspection fees generated during the year. Expenditures are also expected to end favorable to budget, at approximately \$3 million favorable to expectations, driven by hiring pauses implemented during the year in addition slower spending in departments including lower snow and ice expense items due to a warmer winter. Overall, the town expects to end the year with \$2.0 million added to the fund balance, on a budgetary basis. Despite Watertown's expectations for surplus performance in fiscal 2020, our assessment takes into account potential downside risks from the COVID-19 pandemic and related recessionary pressures (for more information, see "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect).

Property taxes account for 77% of revenue, followed by intergovernmental revenue at about 12% and excises at about 3%. In line with state legislation, the town did allow residents to delay payment of the May 1, payment to June 1, to provide some relief; however, collections continue to remain strong at 97% for fiscal 2020, down slightly from the typical 99% collections annually. Local excise taxes were lower compared with fiscal 2019 due in part to fewer hotel stays and lower meal tax collections.

The fiscal 2021 budget was finalized at \$152.2 million or approximately 1.7% higher than fiscal 2020. The main drivers of the increase include strong growth in property tax revenues, resulting from continued growth in assessed valuations

during the period. Management remained conservative, with state aid and local receipts revenues adjusting the budget before finalizing by including a 20% decrease in state aid and a 10% decrease in local receipts. With Massachusetts' announcement to maintain state aid level funded from fiscal 2020 levels, the town expects positive variances in the state aid performance; however, it anticipates continuing to include a 20% cut in the fiscal 2022 budget given uncertainty surrounding funding. Budget-to-actual figures remain on target for balanced performance for the town for fiscal 2021, despite recent pandemic headwinds on excise tax collections.

Very strong budgetary flexibility

Watertown's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 22% of operating expenditures, or \$31.3 million.

The town has consistently maintained very strong budgetary flexibility in the past three fiscal years. Given budgetary figures for fiscal 2020, we expect the town's flexibility will remain strong given the growth in the fund balance on a budgetary basis. Management has used reserves to fund capital in the past, but is often reimbursed from grants or future bond proceeds. Management indicated that they have \$2.7 million in an undesignated reserve fund typically used for settling contracts that they can tap into if needed, but overall, Watertown does not anticipate drawing down on its fund balance materially over the next year. However, if available reserves were to decline materially and management is unable to replenish them, we could revise our view of budgetary flexibility to strong and, should reserves decline significantly, this could pressure the rating.

Very strong liquidity

In our opinion, Watertown's liquidity is very strong, with total government available cash at 34.6% of total governmental fund expenditures and 8.2x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

Watertown is a regular market participant that has issued debt frequently over the past several years, including GO bonds. The town does not maintain any variable-rate debt, direct-purchase debt, or other contingent liquidity risks that could pressure its liquidity.

Town investments are subject to commonwealth guidelines. Watertown invests its cash in low-risk assets, including the commonwealth's short-term investment pool (the Massachusetts Municipal Depository Trust), registered money market funds, or short-term certificates of deposit. For these reasons, the town's available cash remains strong and stable. We expect its liquidity profile to remain very strong over the outlook period.

Very strong debt and contingent liability profile

In our view, Watertown's debt and contingent liability profile is strong. Total governmental fund debt service is 4.2% of total governmental fund expenditures, and net direct debt is 69.1% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, which is in our view a positive credit factor.

Following this issue, Watertown has about \$110.2 million of total direct debt outstanding, approximately \$859,000 of which is self-supporting enterprise debt and \$6.2 million is in BANs. This issuance will cover the first phase of a school construction project.

Pension and other postemployment benefits

- We do not view pension costs as a long-term credit concern due to high funding, manageable liabilities, and overall low costs.
- We expect contribution increases will likely remain affordable due to revenue strength, strong reserves, and conservative budgeting.

At June 30, 2019, Watertown participated in:

- Watertown Contributory Retirement System (WCRS): 82.1% funded, with a \$39.5 million proportionate share of the net pension liability.
- The state-administered Massachusetts Teachers Retirement System (MTRS): 54% funded. The town does not contribute to and does not recognize a liability under MTRS.

Watertown's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 15.0% of total governmental fund expenditures in 2019. Of that amount, 12.3% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The town made its full annual required pension contribution in 2019. The system uses a 7.8% discount rate, which we view as high. The system is expected to be fully funded by fiscal 2022. We have received the 2020 valuation report, which shows the plan's funded ratio improved to 91% as of Jan. 1, 2020.

We consider Watertown's OPEB liability a long-term credit consideration; however, it will prevent these costs from escalating by showing greater funding discipline. As of June 30, 2019, the OPEB unfunded actuarial accrued liability totaled \$114 million. The town maintains an OPEB stabilization fund totaling \$9.4 million, and it currently plans to appropriate this money toward the OPEB trust. In addition, Watertown plans to appropriate savings from pension costs, which will decline significantly in 2021 by approximately \$13 million--to pay the added debt service on the school projects, and meaningfully fund its OPEB liability.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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