Credit Opinion

Summary
The town of Easton, Massachusetts' credit profile is supported by a strong tax base with above-average resident wealth and incomes, an adequate financial position and manageable debt and pension liabilities. The tax base will likely continue to grow based on the strong regional economy and ongoing infrastructure upgrades in the 5 Corners District, Queset Commercial District and other areas of the town which will contribute to residential and commercial growth.

Credit strengths
» Stable tax base with strong resident wealth and income profile
» Low debt burden
» Strength of regional economy

Credit challenges
» Lower fund balance levels compared to peers
» Significant capital program over the next several years
» Growing pension and OPEB liabilities

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 increase in fund balance and liquidity
» Material tax base growth

Factors that could lead to a downgrade
» Deterioration of financial operations and fund balance
» Tax base contraction
Key indicators

<table>
<thead>
<tr>
<th>Easton (Town of) MA</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy/Tax Base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$3,130,051</td>
<td>$3,130,051</td>
<td>$3,008,417</td>
<td>$3,008,417</td>
<td>$3,347,121</td>
</tr>
<tr>
<td>Population</td>
<td>23,417</td>
<td>23,548</td>
<td>23,583</td>
<td>23,770</td>
<td>24,984</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$133,666</td>
<td>$132,922</td>
<td>$127,567</td>
<td>$126,564</td>
<td>$133,971</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>176.1%</td>
<td>177.5%</td>
<td>176.0%</td>
<td>170.5%</td>
<td>170.5%</td>
</tr>
</tbody>
</table>

**Finances**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue ($000)</td>
<td>$71,605</td>
<td>$74,704</td>
<td>$70,913</td>
<td>$72,605</td>
<td>$84,355</td>
</tr>
<tr>
<td>Fund Balance ($000)</td>
<td>$6,446</td>
<td>$5,917</td>
<td>$5,883</td>
<td>$7,050</td>
<td>$9,413</td>
</tr>
<tr>
<td>Cash Balance ($000)</td>
<td>$8,061</td>
<td>$8,047</td>
<td>$8,392</td>
<td>$9,682</td>
<td>$12,895</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>9.0%</td>
<td>7.9%</td>
<td>8.3%</td>
<td>9.7%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>11.3%</td>
<td>10.8%</td>
<td>11.8%</td>
<td>13.3%</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

**Debt/Pensions**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$42,643</td>
<td>$42,648</td>
<td>$38,955</td>
<td>$39,485</td>
<td>$40,041</td>
</tr>
<tr>
<td>3-Year Average of Moody's ANPL ($000)</td>
<td>$64,140</td>
<td>$76,728</td>
<td>$78,821</td>
<td>$81,634</td>
<td>$84,716</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>0.6x</td>
<td>0.6x</td>
<td>0.5x</td>
<td>0.5x</td>
<td>0.5x</td>
</tr>
<tr>
<td>Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.6%</td>
<td>2.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)</td>
<td>0.9x</td>
<td>1.0x</td>
<td>1.1x</td>
<td>1.1x</td>
<td>1.0x</td>
</tr>
</tbody>
</table>

As of June 30 fiscal year end
Source: Moody’s Investor Service and town’s audited financial statements

Profile

The Town of Easton, Massachusetts is located 24 miles south of Boston (Aaa Stable) and has a population of 23,770. The town boasts a large historical district associated with the Ames Shovel Co. Additionally the town benefits from presence of Stonehill College (A3 Stable), a small catholic liberal arts.

Detailed credit considerations

**Economy and Tax Base: Moderately strong tax base with above average socioeconomic indicators**

Easton’s sizeable $3.3 billion tax base will likely grow incrementally as the housing market remains strong. The town is 87% residential with the most recent equalized value certification increasing a healthy 11.3% over 2015 levels. Additionally, assessed value has increased for three consecutive years including 3.3% in 2017. Ongoing development consists of additional apartments and the expectation for 40-50 new single family homes. There is also development activity in the downtown and commercial district supported by recent sewer improvements and expansion. Currently the town is moving forward on upgrading and adding infrastructure capacity for the 5 Corners District and Queset Commercial District.

Resident wealth and incomes are above average with median family income equal to 171% of the national median and equalized full value per capita of $133,971 as of 2017. The unemployment rate of 2.8% (May 2018) continues to trend lower than the Commonwealth and national rates of 3.3% and 3.6%, respectively.

**Financial Operations, Reserves and Liquidity: A modest and consistent fund balance enables the town to maintain adequate financial position**

The financial position will likely remain stable, supported by conservative budget management resulting in incremental fund balance growth. The fiscal 2017 audited financials reflect a $2.3 million operating surplus attributable to positive variance in motor vehicle fees and departmental level savings. The surplus increased the available Fund balance (committed, assigned and unassigned) to $9.4 million.

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or 11.2% of revenues. Property taxes represent the largest revenue source representing 62.2% of 2017 revenues while education is the largest expense at 58.3% of 2017 expenditures.

Management reports on a preliminary basis that fiscal 2018 year end operations were balanced. A surplus of approximately $2 million resulting from positive variance in both revenues and expenditures added to free cash and stabilization reserves.

The fiscal 2019 budget increased less than 1% from the prior year driven by health insurance, education and employee benefits. The budget is balanced with no increase in the tax levy due in part to reduced debt service resulting from final payment on obligations to MSBA in 2018. Going forward, the town plans to follow financial policies that call for 25% operating surplus to be annually deposited into the stabilization fund. This will reduce the use of stabilization funds compared to prior years and mitigate the use of free cash or reserves to cover operating needs.

**LIQUIDITY**
Liquidity remains adequate with operating cash of $12.9 million or 15.3% of revenues.

**Debt and Pensions: Debt burden and pension liability will remain manageable**
The direct debt burden of 1.1% of equalized value (including the current issuance) will remain manageable over the near term given current capital needs and voter approved debt exclusions. Near term capital plans include a $13.5 million waste water project that expects to fund largely with fees, state grants, and capital reserve funds.

**DEBT STRUCTURE**
The debt portfolio is entirely fixed rate with 79% of principal scheduled to be retired in ten years. Fiscal 2018 debt service totaled $4.7 million representing a manageable 5.7% of expenditures.

**DEBT-RELATED DERIVATIVES**
The town is not party to any interest rate swaps or other derivative agreements.

**PENSIONS AND OPEB**
The town contributes to the Bristol Retirement System, a cost sharing, multiple employer defined benefit pension plan administered by the county retirement board. The town’s fiscal 2017 contribution to the plan was $3.8 million representing 4.6% of General Fund expenditures. The Moody’s Adjusted Net Pension Liability, under Moody’s methodology for adjusting reported pension data, is $84.7 million which is an average 1 times revenues and 2.5% of equalized value. The town funds its retiree healthcare (OPEB) liability primarily on a pay-as-you-go basis. In fiscal 2017, the town contributed $3 million towards the liability, which was 44% of the actuarially determined OPEB cost. As of June 30, 2017, the town’s unfunded OPEB liability was $119 million. The town has established and funded an OPEB trust which is currently funded at a minimal 0.09% of the liability.

Fiscal 2017 total fixed costs including debt service, required pension contributions and retiree healthcare payments represented $12.2 million or an average 14.5% of expenditures.

**Management and Governance**
The town’s conservative fiscal management is supported by a policy to maintain reserves at approximately 10% of expenditures and a five year capital improvement plan that is subject to annual review and update.

Massachusetts 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 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%
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