KINGSTON (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

NEW YORK, August 28, 2015 --Moody’s Investors Service has upgraded Kingston MA’s General Obligation rating to Aa2 from Aa3, affecting $13.9 million in outstanding debt.

SUMMARY RATINGS RATIONALE
The upgrade to Aa2 reflects the town's significantly improved financial position following six consecutive years of General Fund balance growth. Additionally the rating incorporates Kingston's moderately sized tax base on the south shore of Massachusetts, as well as manageable liabilities for debt service, pension, and OPEB.

OUTLOOK
Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP
- Continued improvement in reserve levels
- Significant tax base growth
- Improved demographic profile

WHAT COULD MAKE THE RATING GO DOWN
- Protracted structural budget imbalance resulting in reduction of General Fund balance
- Deterioration of the town's tax base

STRENGTHS
- Moderately sized tax base with a favorable location
- Above average wealth levels
- Strong reserve levels
- Manageable liabilities for pension and OPEB

CHALLENGES
- Recent Equalized Valuation declines

RECENT DEVELOPMENTS
The town finished fiscal 2014 with a $1.1 million operating surplus, representing the sixth consecutive year of General Fund balance growth. At year end, total General Fund balance was $7.6 million, or a healthy 18.2% of revenues.
The town’s $1.7 billion tax base is expected to remain stable over the medium term given a continued recovery of the area’s housing market, and favorable location on the south shore of Massachusetts. Located approximately twenty-five miles south of Boston (Aaa stable), the town’s coastal tax base has seen recent declines, with equalized value decreasing at a 3.4% average annual rate over the last five years. The decline is largely due to a 5.9% decrease in fiscal 2015, which incorporated much of the residential real estate softening that took place through the downturn. Assessed valuations have begun to stabilize, increasing 1.1% in fiscal 2015, reversing a negative trend of seven consecutive years of depreciation. Moving forward, growth is expected to come from residential appreciation and new construction, as well as modest ongoing commercial expansion.

Kingston will continue to benefit from strong resident wealth levels, with a median family income representing 120% and 155% of the state and nation, respectively.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY FINANCIAL POSITION

The town’s financial position is expected to remain healthy given the currently strong reserve levels which have improved significantly over the last several years, and adherence to formal fiscal policies. The town finished fiscal 2014 with a $1.1 million General Fund surplus, representing the sixth consecutive year of reserve growth. At year end, total General Fund balance was $7.6 million, or a healthy 18.3% of revenues. This represents significant improvement over 2009, when total General Fund balance was $1.7 million, or a slim 4.7% of revenues. Unassigned General Fund balance in 2014 improved to $5.2 million, or a solid 12.5% of revenues. The positive operations in fiscal 2014 were driven by favorable budgetary variances for most revenue and expenditure items.

In an effort to further strengthen the overall financial position, management has made a concerted effort to increase the town’s stabilization fund, which is held in committed General Fund balance. At the end of fiscal 2014, this balance was $2.3 million, or roughly 5.7% of expenditures, which exceeds the formal policy to maintain a minimum of 5% in this account. Stabilization funds can be used for any municipal purpose, however they must be appropriated at annual town meeting or special town meeting, which provides an additional layer of security.

The fiscal 2015 budget increased by 2.2% over fiscal 2014, and was balanced with a 2.71% levy increase and no use of reserves. During the fiscal year, the town overspent its snow and ice budget by roughly $452,000, although this was partially offset by favorable results in other areas. At year end, the town anticipates that it will finish with total General Fund balance that is similar to the prior year. The 2016 budget was adopted in June, and includes a modest increase in spending and does not utilize the use of reserves.

Liquidity

The town’s General Fund net cash position at the close of fiscal 2014 was $9 million, or a strong 21.55% of General Fund revenues.

DEBT AND PENSIONS; MANAGEABLE LONG-TERM FIXED COSTS

The town’s slightly below average debt burden (0.8% of equalized value) will remain manageable given an average rate of principal amortization (68.5% repaid within 10 years) and current affordability of debt service (6.5% of 2014 General Fund expenditures). The town maintains a formal 5-year capital improvement program which is primarily focused on infrastructure, and vehicle acquisition.

Debt Structure and Debt-Related Derivatives

All of Kingston’s debt is fixed rate and the town is not party to any derivative agreements.

Pensions and OPEB

The town contributes to the Plymouth County Retirement System, a cost sharing multi-employer pension plan. The town is required to fully fund its annual contribution to the plan which was $1.6 million in fiscal 2014, representing a modest 3.9% of expenditures. Kingston’s three year average adjusted net pension liability, under Moody’s methodology for adjusting reported pension data, is $34.6 million, or manageable 0.84 times operating revenues. Moody’s uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town’s reported liability information, but to improve comparability with other rated entities.

The town funds its Other Post-Employment Benefits (OPEB) liability primarily on a pay-as-you-go basis, although a trust was established in 2013, with a current balance of $50,000. In fiscal 2014, the town contributed $846,000 towards the liability, which represents 18% of the $4.7 million annual OPEB cost. As of June 30, 2014, the
unfunded liability for OPEB was $39 million, with a funded ratio of 0.0%.

MANAGEMENT AND GOVERNANCE

The town demonstrates satisfactory fiscal management practices as evidenced by prudent budgetary management, planning for capital expenditures, and adherence to formal financial policies.

Massachusetts cities and towns have an institutional framework score of 'Aa' or strong. The primary revenue source for most Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 ½ levy limit. Expenditures are largely predictable and cities have the ability to reduce expenditures.

KEY STATISTICS

- 2015 Equalized Valuation: $1.7 billion
- 2015 Equalized Value Per Capita: $136,383
- Median Family Income as % of US Median: 155%
- Fiscal 2014 General Fund balance as a % of Revenues: 18.33%
- 5-Year Dollar Change in Fund Balance as % of Revenues (2010-2014): 12.72%
- Fiscal 2014 Cash Balance as % of Revenues: 21.55%
- 5-Year Dollar Change in Cash Balance as % of Revenues, adjusted (2010-2014): 15.36%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 1.02x
- Net Direct Debt as % of Full Value: 0.83%
- Net Direct Debt / Operating Revenues: 0.3x
- 3-Year Average of Moody’s ANPL as % of Full Value: 2.01%
- 3-Year Average of Moody’s ANPL / Operating Revenues: 0.8x

OBLIGOR PROFILE

Kingston is a primarily residential community located roughly 25 miles south of Boston on the south shore of Massachusetts. The town has a total estimated population of 12,629.

LEGAL SECURITY

Of the town’s outstanding debt, approximately $10.4 million is secured by a general obligation unlimited property tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 ½. The remaining $3.5 million is secured by a general obligation limited property tax pledge as debt service has not been voted exempt from the levy limitations of Proposition 2 ½.

USE OF PROCEEDS

Not Applicable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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