

RatingsDirect®

Summary:

Littleton, Massachusetts; General Obligation; Note

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Summary:

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Credit Profile

US\$4.808 mil GO BANs ser A dtd 04/11/2014 due 08/15/2014		
<i>Short Term Rating</i>	SP-1+	New
US\$0.485 mil GO BANs ser B due 04/10/2015		
<i>Short Term Rating</i>	SP-1+	New
Littleton GO		
<i>Long Term Rating</i>	AAA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services assigned an 'SP-1+' short-term rating to Littleton, Mass.' bond anticipation notes (BANs) maturing Sept. 30, 2014. At the same time, we affirmed our 'AAA' rating to town's general obligation (GO) bonds outstanding. The outlook is stable.

The town's full faith and credit pledge secures the bonds. We understand that officials will use the BANs to finance the construction several town improvement projects.

The short-term rating reflects our view that the town maintains a very strong capacity to pay principal and interest when the notes come due. Littleton has a low market risk profile because of its strong legal authority to issue long-term debt to take out the notes. In addition, it is a frequent issuer that regularly provides disclosure to market participants.

The 'AAA' rating reflects our assessment of the following factors for Littleton, specifically its:

- Very strong economy with access to the Boston metropolitan statistical area (MSA);
- Very strong budgetary flexibility with 2013 available reserves at 23.5% of general fund expenditures;
- Strong budgetary performance and relatively stable and consistent revenue profile with no appreciable funding interdependence with the state and federal government;
- Very strong liquidity characterized by strong cash levels to cover both debt service and expenditures and demonstrated capital market access;
- Very strong management conditions and strong financial policies and practices that we believe are embedded and sustainable; and
- Adequate debt and contingent liabilities bolstered by a low overall net debt to market value and aggressive amortization schedule, and while we consider pension and other postemployment benefit (OPEB) liabilities sizable, we acknowledge that management is proactively managing them.

Very strong economy

We consider Littleton's economy very strong due in part to its participation in the broad and diverse economy in the Boston MSA. The town is in Middlesex County, about 26 miles northwest of Boston. The town's location at the intersection of I-495 and Route 2, with access to the Massachusetts Turnpike, the Route 128 high-technology corridor, and downtown Boston, has made it attractive to both commuters and commercial businesses. Littleton also has a

modest local employment base; the largest employer, IBM Corp., consolidated its Massachusetts operations (primarily software engineering) into a single site in the town, where it employs approximately 2,200.

The town's projected household per capita effective buying income is 155% of the U.S. level, and unemployment in the county averaged 5.3% in 2012, well below state and national averages.

The town's per capita market value for 2014 is estimated at \$161,133. The tax base is diverse, with the 10 leading taxpayers accounting for 10.7%.

Residential properties account for 79% of the tax base. Based on our regional forecasts, we anticipate the economy will remain stable, but on a positive note, recent data indicate that the region's median home prices have stabilized and there is some improvement in overall housing starts. Within the town, building permit activity in 2013 was favorable and significantly above its five-year average. New taxable levy growth is estimated to remain positive, having been \$544,000, or 1.4% of expenditures in 2014. Looking ahead, we believe the town's continued focus on economic development with both public and private investments, underpinned by its favorable location, should continue to support additional tax base growth in the future.

Very strong budget flexibility

Littleton closed fiscal 2013 with available reserves at \$9 million, equal to 23.5% of expenditures. Looking ahead, we anticipate reserves will remain above 15% of expenditures as there are no plans to considerably draw on them, and as we anticipate budgetary performance remaining stable. We note the town maintains reserve policies targeting a goal in the stabilization and undesignated fund balance each to no less than 5.0% and 2.5%, respectively, of general fund operating expenditures.

Strong budgetary performance

The town's general fund operations have been very consistent, with general fund surpluses in the past three audited fiscal years. For fiscal 2013, the general fund closed with a \$162,000 operating surplus, equal to 0.4% of expenditures. Total governmental funds, excluding capital outlay paid from bond proceeds, was also balanced.

Littleton's strong financial performance stems from several factors. The town has been very conservative in its budgeting and has improved financial management policies, practices, and controls. Since 2007, the town has demonstrated commitment to strengthen financial reserves and has been proactive with department heads to keep costs in line with the budget.

Looking ahead, based on our macroeconomic forecasts (See "U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, on RatingsDirect), credit conditions in New England are improving, which should translate to higher ancillary revenues and taxable levy growth. For fiscal 2014, the town is again estimating balanced operating results in the general fund suggesting budgetary performance should remain strong.

State aid and local receipts have been stable. On the whole, property taxes comprise 70% of revenues and state aid accounts for 22%. We believe with low reliance on state aid, there is no appreciable funding interdependence with the state or federal government. Property tax collections are strong and stable, with the town typically receiving 98% on a current basis.

Very strong liquidity

Supporting the town's finances is what we consider very strong liquidity. Total government available cash is 52% of total governmental fund expenditures and 493% of debt service. Bolstering our view of the town's overall liquidity is that we believe the town has strong access to external liquidity. It has issued bonds frequently over the past several years, including GO bonds and short-term BANs.

Very strong management

Management conditions are very strong. Since 2007, there has been a renewed focus on improving financial management policies and practices. On the whole, we consider Littleton's financial policies "strong" under Standard & Poor's Financial Management Assessment methodology, indicating that practices are strong, well embedded, and likely sustainable. Littleton maintains some best practices deemed critical to supporting credit quality and these are embedded in the government's daily operations and practices. The town regularly monitors revenue and expenditures, ensuring timely budget adjustments, and makes realistic budget assumptions based on current trends with the goal of yielding positive operating results. Management uses historical data, the current budget, and five years of operating revenue and expenditure and capital expenditure projections when compiling its budget. Management also has a goal of maintaining at least 2.5% of expenditures in its undesignated fund balance under GASB 54. Littleton has a formal long-term financial plan, with projections of revenues and expenditures through 2018. Management adopted an investment policy mirroring the state's guidelines and reports earnings and holdings to management quarterly. Finally, the town maintains a debt management policy stating that debt service for nondedicated revenue-supported debt (debt that is neither self-supporting nor excluded from Proposition 2 1/2 levy limits) be no greater than 10% of total budget.

Adequate debt and contingent liability profile

In our opinion, Littleton's debt and contingent liabilities profile is adequate. The town has roughly \$32.1 million of total direct debt, of which \$5.2 million are BANs. On the whole, factoring in partial self-support on the tax-secured enterprise debt, we calculate the total governmental funds debt service is at 10% of total governmental funds expenditures and the net direct debt at 63.4% of total governmental funds revenue. Bolstering our view of the town's debt profile is that overall net debt is a low 2.0% of market value and debt amortization is currently very aggressive, at 74% over 10 years.

A long-term credit consideration are the town's pension and OPEB liabilities, which we believe will continue to rise due to the low funding, but management is proactively managing them. On the whole, pension and OPEB costs accounted for 8.1% of total governmental expenditures.

Littleton participates in the Middlesex County Retirement System and paid \$1.6 million in 2014, roughly 3.6% of expenditures. As of Jan. 1, 2012, the system was 54% funded. Littleton's estimated share of the system's pension liability is roughly \$18.2 million. Its unfunded OPEB liability totals \$38.3 million. The town has established an OPEB trust fund with a current balance of \$1.7 million.

Strong institutional framework

We consider the Institutional Framework score for Massachusetts municipalities as strong.

Outlook

The stable outlook reflects our view of Littleton's very strong economy with access to the broad and diverse Boston employment base. The town's maintenance of very strong budgetary flexibility and its adherence to strong financial policies, along with very strong liquidity and an adequate debt profile further enhance stability. For these reasons, we do not anticipate changing the rating during the outlook's two-year horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of March 18, 2014)

Littleton GO BANs ser A dtd 04/11/2014 due 08/15/2014

<i>Short Term Rating</i>	SP-1+	Affirmed
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Littleton GO BANs ser B due 04/10/2015

<i>Short Term Rating</i>	SP-1+	Affirmed
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Littleton GO

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

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