

CREDIT OPINION

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City of Newton, MA

Update to credit analysis

Summary

[Newton's](#) (Aaa stable) rating reflects a very strong and diverse economy within the greater Boston metro area with high resident income adjusted for regional price parity of over 200% of the US median and wealth as measured by full (equalized) value per capita of over \$400,000. The city is likely to maintain a healthy financial position bolstered by diligent and forward-looking fiscal management. Additionally, the city's available reserves and net unrestricted assets are large nominally, although the amount as a percent of revenue (equal to 24.9% as of the fiscal 2023 audit) is well below the state (37.9%) and US (60.2%) medians for the highest rating category. Newton's long-term liabilities are expected to remain manageable given taxpayer support for certain debt exclusions to the tax levy limit and the city's aggressive funding commitment towards pension and OPEB liabilities while also maintaining a modest fixed costs ratio.

Credit strengths

- » Strong economy with high resident income and wealth
- » Strong fiscal management including a five-year forecast, a capital plan and formal policies
- » History of taxpayer support for debt exclusions and general overrides to the tax levy limit

Credit challenges

- » Below-average reserves and liquidity as a percent of revenue for the highest rating category
- » Revenue raising constraint under the Proposition 2½ tax levy limit
- » Large unfunded pension and OPEB liabilities

Rating outlook

The stable outlook reflects the expectation that the economy and taxpayers will continue to support the city's financial position with satisfactory reserves and liquidity while managing a large capital plan and continuing to reduce the unfunded pension and OPEB liabilities.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Decline in available reserves and net unrestricted assets to below 20% of revenue

- » Material increase in leverage and a fixed costs ratio greater than 20% of revenue
- » Significant downgrade of the city's issuer rating to A3 or below (BANs only)

Key indicators

Exhibit 1

Newton (City of) MA

	2020	2021	2022	2023	Aaa Medians
Economy					
Resident income ratio (%)	211.3%	217.2%	209.6%	N/A	170.6%
Full Value (\$000)	\$30,006,442	\$33,734,313	\$33,734,313	\$35,764,453	\$8,680,662
Population	88,322	88,647	88,453	N/A	36,119
Full value per capita (\$)	\$339,739	\$380,547	\$381,381	N/A	N/A
Annual Growth in Real GDP	-1.5%	7.0%	2.3%	N/A	4.9%
Financial Performance					
Revenue (\$000)	\$594,074	\$632,590	\$642,985	\$675,909	\$101,733
Available fund balance (\$000)	\$119,697	\$180,506	\$149,238	\$168,019	\$62,520
Net unrestricted cash (\$000)	\$142,868	\$196,867	\$177,199	\$193,188	\$88,880
Available fund balance ratio (%)	20.1%	28.5%	23.2%	24.9%	61.7%
Liquidity ratio (%)	24.0%	31.1%	27.6%	28.6%	91.1%
Leverage					
Debt (\$000)	\$361,862	\$351,078	\$347,377	\$349,649	\$68,781
Adjusted net pension liabilities (\$000)	\$667,068	\$753,499	\$658,156	\$492,780	\$105,726
Adjusted net OPEB liabilities (\$000)	\$793,553	\$791,613	\$577,622	\$556,764	\$11,674
Other long-term liabilities (\$000)	\$21,645	\$27,965	\$27,455	\$29,963	\$3,903
Long-term liabilities ratio (%)	310.4%	304.2%	250.5%	211.4%	258.2%
Fixed costs					
Implied debt service (\$000)	\$23,730	\$25,914	\$24,625	\$24,261	\$4,899
Pension tread water contribution (\$000)	\$28,472	\$25,822	\$25,230	N/A	\$3,333
OPEB contributions (\$000)	\$26,980	\$28,885	\$26,990	\$28,798	\$503
Implied cost of other long-term liabilities (\$000)	\$1,677	\$1,550	\$1,961	\$1,917	\$262
Fixed-costs ratio (%)	13.6%	13.0%	12.3%	11.9%	11.2%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area.

Sources: US Census Bureau, Newton (City of) MA's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Newton is a diverse city that is primarily residential in nature with notable commercial and institutional presence. The city has a population of around 88,322 and is located seven miles west of the [City of Boston, MA](#) (Aaa stable) and occupies a land area of 18.33 square miles. The city provides general governmental services including police, fire, solid waste, public education, street maintenance, parks and recreational facilities, and public library facilities, water and sewer.

Detailed credit considerations

Economy: strong economy and tax base with healthy development pipeline; high resident income and wealth

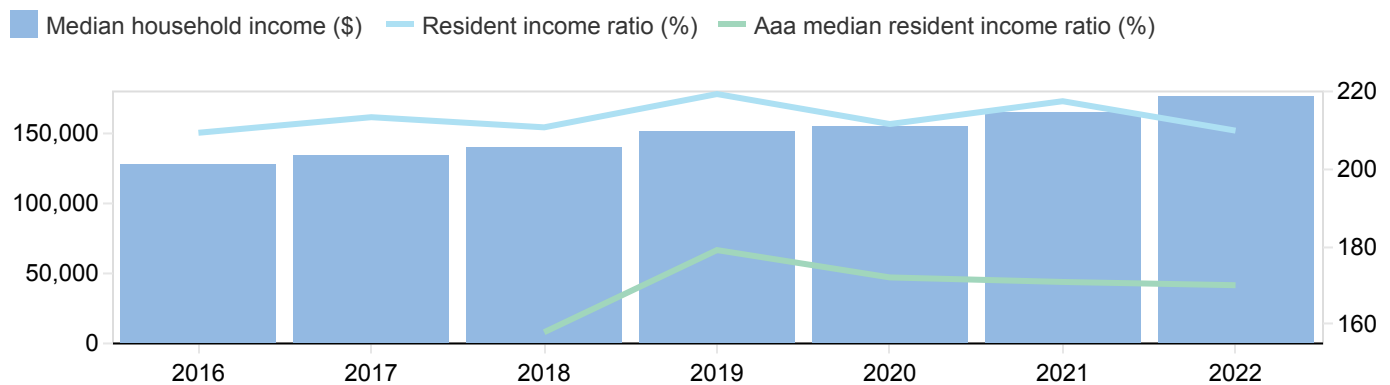
Newton's local economy is part of the greater Boston MSA with a five year CAGR of 0.9% of real GDP compared to the US GDP growth rate. The economy is supported by the education and health services industries with Newton Wellesley Hospital, a member of [Mass General Brigham Incorporated, MA](#) (Aa3 stable), and [Boston College](#) (Aa3 stable) representing the two largest employers. There is also a large presence of professional and business services.

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The tax base is just over 90% residential in nature and is likely to continue to be the primary contributor to assessed value growth over the near term. The 2024 AV grew by 9.1% from the prior year, with an average sales price of over \$1.6 million for single family homes in 2023. While commercial office space could be a weakness for the tax base in the coming years, it represents a very small portion of the overall value and is likely to be mitigated by stable values in other subsectors. Additionally, the city's economic development pipeline remains robust and in line with prior years. Significant projects include a mixed use project on Dunstan East that includes 8,000 square feet of commercial space and 292 rental units, Northland Oak mixed used project with 180,000 square feet of office space, 115,000 square feet of retail space and 800 residential units. The Riverside project continues to move forward and the city is in compliance with the Massachusetts MBTA Communities Act which will prioritize housing development in and around commuter rail stations over the long-term.

The city's credit profile is bolstered by the strong resident income (see exhibit) and wealth that is reflected in the city's 2024 full (equalized) value per capita of \$404,333.

Exhibit 2

Resident Income

Source: Moody's Ratings

Financial operations: strong fiscal management remains key to balanced operations and maintenance of reserves and liquidity

The city is poised to maintain a balanced financial position over the next few years given strong fiscal management that prioritizes general government service levels for residents, employee benefits and capital needs. Recently, the city finalized a labor contract negotiation with the Newton Teachers Association that included a teachers strike which closed schools for two weeks. The final contract term is four years that includes annual salary increases of 2.5% in each of the first two years, 3% increase in year three and a fourth year that totals around a 3.6% increase. Employee salaries and benefits, retirement contributions, and education funding are expected to continue to drive the overall budget.

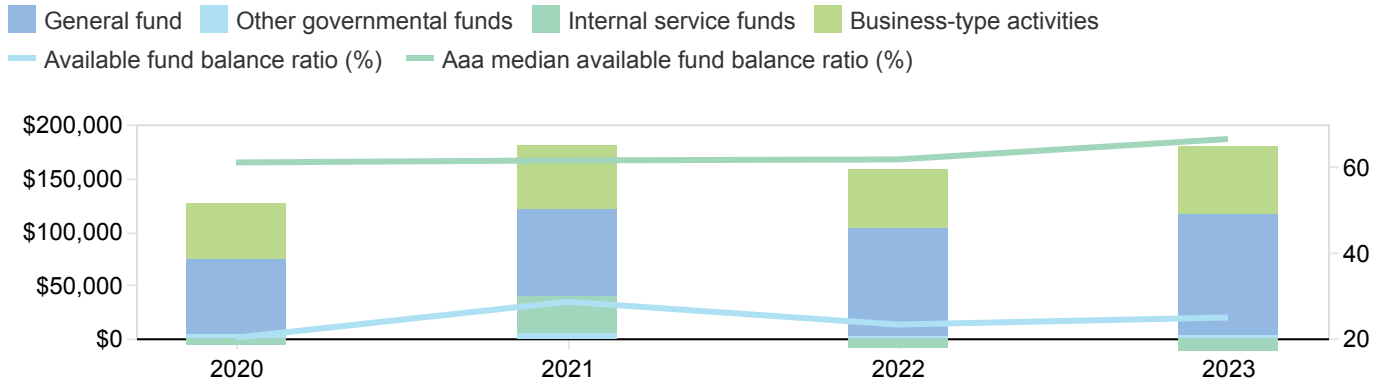
The city's fiscal 2025-29 financial forecast remains relatively unchanged due to the teachers contract. The forecast incorporates conservative assumptions and indicates budget gaps of 0.2% of revenue in fiscal 2025 that grow annually to 2.4% in 2029. A new feature recently approved to aid the funding of teacher salaries and education costs is the establishment of a \$22 million public school stabilization reserve that has been funded by a portion of the fiscal 2023 operating surplus and funds available in the city's overlay account. The city anticipates drawing on the balance and interest earnings over the next five years.

The fiscal 2024 budget increased by 4.1% over the prior year and is balanced with a 2.9% increase to the tax levy, state aid for education up 4.6% and conservative local receipt increases. Operations through the end of December reflects balanced expenses with a positive variance in revenues largely from interest earnings that were up \$11 million over budget.

Fiscal 2023 audited results reflect a general fund operating surplus of \$12.3 million and governmental funds benefiting from a \$30 million increase over the prior year. The city's available fund balance and net current assets increased to \$168 million, representing 24.9% of revenue (see exhibit). We expect that reserves as a percent of revenue will remain stable with gradual increases but remain

well below the median for the highest rating category. A factor the city will need to continue to monitor and balance against its overall credit strength.

Exhibit 3
Fund Balance



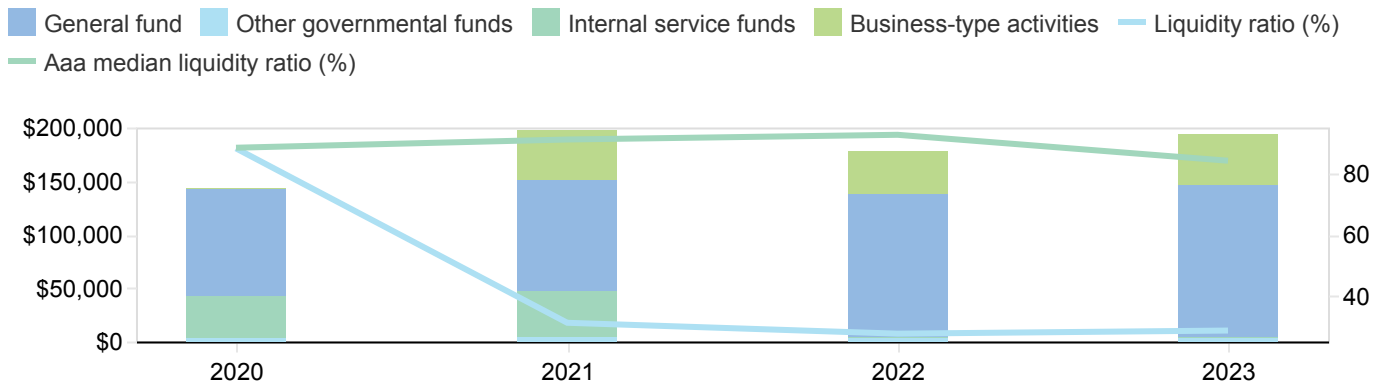
Source: Moody's Ratings

About 89% of the city's revenue base is comprised of governmental activities with property taxes being the largest revenue driver, representing 68% of fiscal 2023 governmental revenue. Business-type activities from water, sewer and nonmajor stormwater enterprises represent the remaining revenue sources. Although the city has lower reserves and liquidity, its property tax revenue is very dependable with over 98% collection rates and a history of annually increasing the property tax levy to the 2.5% levy limit each year.

Liquidity

The city's net unrestricted cash in governmental and business-type activities at the end of fiscal 2023 was \$193.2 million representing 28.6% of revenue (see exhibit). The 2023 audit lists another \$136.6 million in restricted cash dedicated for specific services and capital projects.

Exhibit 4
Cash



Source: Moody's Ratings

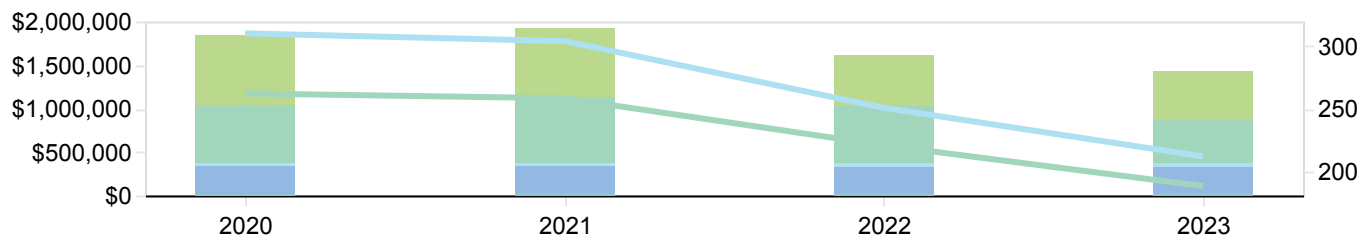
Leverage: capital plan will drive long-term liabilities while city continues to aggressively fund pension liability

Newton's leverage is slightly above-average for the rating category driven in part by the amount of debt associated with school projects. The city's prudent capital planning and strong funding towards its pension liability is likely to keep the long-term liabilities manageable. The city ended fiscal 2023 with a long-term liabilities ratio of 211.4% of revenue (see exhibit). The city's debt accounts for 24% of the total leverage ratio while adjusted net pension liability and adjusted OPEB liability represent 34% and 39%, respectively.

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt
 ■ Business-Type Activity Debt
 ■ Adjusted net pension liabilities
■ Adjusted net other post-employment liabilities
 ■ Other long-term liabilities
 — Long-term liabilities ratio (%)
— Aaa median long-term liabilities ratio (%)



Decline in 2023 ratio is largely due to an increase in the discount rate Moody's uses in the ANPL and ANOL
 Source: Moody's Ratings

The city's capital plan for fiscal 2025-29 totals \$192.2 million, with the potential for bonding to represent all or a portion of the cost totaling \$44.9 million. The plan does not include large projects that will receive initial funding from the current 2024 bond issuance. The capital plan cost is in addition to \$161.1 million in authorized unissued debt for three school projects and the senior center project.

Legal security

The bonds and notes are backed by the city's full faith and credit general obligation limited tax pledge given that not all of the debt service has been voted to be excluded from the Proposition 2½ tax levy limit.

Debt structure

The entire debt portfolio of \$402 million including the 2024 issuance is all fixed rate with a final maturity in 2054.

Debt-related derivatives

Newton is not party to any swap agreements or derivative products.

Pensions and OPEB

Newton's pension and OPEB liabilities are larger than its debt burden and though manageable at this time, represent a potential future credit challenge. The city participates in the Newton Retirement Plan, a multi-employer defined benefit plan and makes annual required contributions. The latest actuarial report assumes a 6.9% discount rate and maintains a funded date of 2032 on a reported basis. Annual pension contributions are scheduled to increase by 6.6% annually until 2032. The city's teachers participate in the Massachusetts Teachers Retirement System in which the city receives on-behalf payments toward that liability that is covered by the Commonwealth.

The city also funds its OPEB liability on a pay-go basis plus annual budgeted deposits into an OPEB trust. The OPEB plan fiduciary net position is 4.38% of the total OPEB liability as of the end of fiscal 2023.

ESG considerations**Credit impact score**

The City of Newton's ESG credit impact score is neutral-to-low (CIS-2), reflecting neutral to low environmental exposure, neutral to low social risk and a strong governance profile that supports the city's credit rating, resilience and capacity to respond to shocks.

Environmental

Newton's E environmental issuer profile score is neutral to low (E-2). The city's carbon transition, natural capital, and water and pollution risks are modest. Given Newton's geographical location, physical climate risk is also neutral to low with no material exposure to sea level rise and moderate exposure to shocks from extreme weather events such as hurricanes and nor-easters.

Social

The city's S issuer profile score is neutral-to-low (S-2). Newton benefits from favorable educational attainment and health and safety. City residents have access to basic services and risks associated with demographics, labor and income and housing are limited.

Governance

Newton's G governance issuer profile score is positive (G-1). The city has a favorable institutional structure, transparency and disclosure. The city also consistently approves and releases its budgets and audited financial statements in a timely manner. Newton's budget management and policy credibility and effectiveness are strong.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

Newton (City of) MA

	Measure	Weight	Score
Economy			
Resident income ratio	209.6%	10.0%	Aaa
Full value per capita	404,333	10.0%	Aaa
Economic growth metric	0.9%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	24.9%	20.0%	A
Liquidity ratio	28.6%	10.0%	A
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	211.4%	20.0%	A
Fixed-costs ratio	11.9%	10.0%	Aa
Notching factors			
Additional Strength in Local Resources	1.0		
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aaa

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area [issuer specific] Metropolitan Statistical Area to the five-year CAGR of real GDP for the US

Sources: US Census Bureau, Newton (City of) MA's financial statements and Moody's Ratings

Appendix

Exhibit 7

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Ratings

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