MOODY'S INVESTORS SERVICE

# New Issue: Moody's assigns MIG 1 to Quincy, MA's $18M GO BANs and Aa3 to $8.3M GO bonds

Global Credit Research - 26 Aug 2013

**Affirms Aa3 rating on $95M of rated outstanding debt**

QUINCY (CITY OF) MA
Cities (including Towns, Villages and Townships)
MA

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| General Obligation Municipal Purpose Loan of 2013 Bonds | | Aa3 |
| **Sale Amount** | $8,250,000 | |
| **Expected Sale Date** | 08/28/13 | |
| **Rating Description** | General Obligation | |
| General Obligation Bond Anticipation Notes 2013 | | MIG 1 |
| **Sale Amount** | $18,000,000 | |
| **Expected Sale Date** | 08/28/13 | |
| **Rating Description** | Note: Bond Anticipation | |

**Moody's Outlook** NOO

**Opinion**

NEW YORK, August 26, 2013 --Moody's Investors Service has assigned a MIG 1 rating to the City of Quincy (MA) $18 million General Obligation Bond Anticipation Notes (dated September 13, 2013 and payable September 12, 2014) and a Aa3 rating to the city's $8.25 million General Obligation Municipal Purpose Loan of 2013 Bonds. Concurrently, Moody's has affirmed the long-term Aa3 rating assigned to the city's $95 million outstanding general obligation bonds.

The notes and bonds are secured by the city's general obligation limited tax pledge as debt service is subject to the levy limits of Proposition 2 ½. Proceeds of the BANs will renew a like amount of notes originally issued for city hall and Coddington School renovations. Bond proceeds will refinance a like amount of notes payable on September 13, 2013 which originally financed high school and middle school design and construction.

SUMMARY RATINGS RATIONALE

The MIG 1 rating incorporates the city's demonstrated history of access to the capital markets as well as its satisfactory long-term credit characteristics. The Aa3 long-term rating reflects the city's improving financial position with slim reserve levels. The rating also incorporates a favorably-located and diverse tax base with an above average demographic profile as well as significant redevelopment potential and a manageable debt position.

STRENGTHS:

- Demonstrated market access

- Large and diverse tax base with above-average wealth and income indices

- Stable employer base and strong regional institutional presence

- Significant unused property tax levy capacity

CHALLENGES:

- Slim financial position

- Above average long-term liabilities including pension and OPEB

- Significant future general obligation debt for economic development

DETAILED CREDIT DISCUSSION

HISTORY OF SATISFACTORY MARKET ACCESS

Quincy has demonstrated adequate access to the capital markets, having received four bids on its most recent note sale dated July 26, 2013, eight bids on its note sale date June 21, 2013, eight bids on its note sale dated January 25, 2013, and six and five bids on its note sales dated September 14, 2012 and July 27, 2012, respectively. All bids were received from major regional and national financial institutions. Moody's believes the city's history of satisfactory market access and long-term credit strength will permit adequate market access to refund the notes, if necessary, at the September 2014 maturity.

CONSERVATIVE BUDGETING IMPROVES FINANCIAL POSITION AND SLIM RESERVES

The city's financial position has begun to stabilize in recent years as the city has taken measures to restore structural balance and control expenditure growth. General fund revenues have improved in fiscal 2012, primarily due to a slight increase in state aid and local revenue growth including property taxes, motor vehicle excise, and building permit fees. The 2012 audited financials reflect an operating surplus of $3.2 million, increasing the total General Fund balance to $12.5 million a still narrow, 4.7% of revenues, and the unassigned fund balance to $9.1 million or 3.4% of revenues. The operating surplus is attributed to the city's aggressive efforts to collect on tax liens which brought in $1.7 million as well as improved local receipts and departmental expenditure savings. In addition, operations were positive in Quincy's water and sewer enterprise funds, which appear to have stabilized after several years of uneven performance and a major rate increase. Rates are reviewed frequently and adjusted to maintain healthy reserves and adequate pay-as-you-go capital funding.

The fiscal 2013 budget increased by 3.7% and was balanced with a 6.9% levy increase while still maintaining $16.2 million in unused levy capacity. The fiscal 2013 budget was balanced without any appropriations from free cash. Also, beginning in 2013, the city has formalized plans and transferred 50% of its annual certified free cash to reserves for OPEB (10%), stabilization (20%) and inclement weather (20%). Currently, year-end projections reflect a $2.5 million operating surplus. The fiscal 2014 budget increased by 4.4% ($9.9 million) due primarily to an increase in staffing levels. The budget is again balanced without appropriation of fund balance and includes transfers of free cash to reserves.

Although property taxes remain the city's main source of revenue, representing 65.2% in fiscal 2012, the city receives a substantial 24.5% of its revenue from the commonwealth, the majority of which supports K-12 education. Despite recent actions to restore positive operations and improve the city's efficiency, the city remains reliant on state aid. Going forward, Quincy's ability to return to a sound financial position and improve reserve levels, while maintaining positive operations in enterprise funds and adherence to its financial strategy will be key factors in future rating reviews.

MAJOR REDEVELOPMENT PROJECTS EXPECTED TO SPUR LONG-TERM GROWTH

Declines in Quincy's assessed valuation have begun to moderate with a minimal 0.1% increase recorded for fiscal 2013, the first increase in five years. The value declines over the past five years reflect the weakness in the residential sector, despite stable commercial valuations and moderate new growth. Long-term growth potential remains strong in the city's sizeable $11.4 billion equalized value tax base. Favorably located 12 miles south of Boston (GO rated Aaa/stable outlook) Quincy is predominantly residential (81% of base in fiscal 2013) with a moderate commercial and industrial component (15%). Equalized values, reflecting new growth as well as market declines, produced an average annual decline of 1.5% from 2008 to 2013, although new growth revenue has remained relatively healthy, averaging $4.1 million annually with a fiscal 2013 ending estimate of $3.5 million. The presence of corporate headquarters, large financial and medical institutions, and convenient marine, subway and highway access have contributed to the city's growing employment base, while its 27 miles of coastline and proximity to Boston continue to attract significant housing development interest. Moody's expects more moderate growth trends, but recognizes ongoing development of office and residential space downtown, and the potential expansion of Marina Bay, which will add additional high-end housing and office/retail space.

Quincy has received funding commitments from the commonwealth for $22 million of traffic improvements, enhancing future development opportunities in the city's downtown district, which in the long term could yield up to $1.6 billion in development. The recently-completed access ramp from Interstate 93, adjacent to Crown Colony Office Park, has improved access to this commercial zone and is expected to expand commercial development opportunities. Income levels in the city are above national medians but are slightly lower than state medians, with a per capita income and median family income of 95.6% and 94.5% of the commonwealth, respectively. Quincy's equalized value per capita of $122,584 remains just below the state average, which incorporates estimated population growth of roughly 4.8% since the 2000 US census. Also, the city's unemployment rate of 6.8% (June 2013) remains below the state (7.4%) and US (7.8%).

SCHOOL CONSTRUCTION AND DOWNTOWN REDEVELOPMENT PROJECTS DOMINATE NEAR-TERM CAPITAL NEEDS

Moody's expects the city's 1.7% direct debt burden to remain affordable considering substantial amounts of debt that have historically been supported by both the city's water and sewer revenues and by the Massachusetts School Building Authority (MSBA rated Aa2/stable outlook). Principal and interest on outstanding school debt has historically been reimbursed at 63% by the MSBA and Quincy will receive 80% for its current projects. The city funds the substantial obligations of the Massachusetts Water Resources Authority (senior lien rating Aa1/stable outlook) primarily through water and sewer fees. The city's overall debt burden of 4.8%, includes a $25.5 million capital lease obligation for energy-saving fixtures installed in Quincy's 40 municipal and school buildings, as well as water meters installed for water system customers city-wide.

Near-term bond issuance includes approximately $50 million for various city projects including schools, some of which will redeem outstanding short-term notes. Debt service accounted for a manageable 3.2% of general fund expenditures in fiscal 2012 and outstanding principal is retired at a rate of 56.1% within 10 years. Notably, the city council approved a master plan for redevelopment in the city's downtown, which could include up to $319 million in debt, over the next 7-10 years, to finance infrastructure. However, the city cannot take on additional debt without signed agreements in place from the private developer. Also, a recent unfavorable court judgment involving a trust account held by the city to benefit the Woodward School for Girls may result in the city paying a settlement of up to $3 million plus other related costs. However the city is legally able to borrow to fund the settlement should anticipated legal appeals be unsuccessful. Quincy has no exposure to variable or auction rate debt or swap agreements.

The city participates in the Quincy Contributory Retirement System, a single-employer, defined benefit retirement plan. The city's annual required contribution (ARC) for the plans was $20.3 million in fiscal 2012, or 7.8% of General Fund expenditures. The city's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $443.8 million, or a slightly elevated 1.76 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. Also, the city contributed 42% of its annual Other Post Employment Benefit costs in 2012, representing $14.9 million. The OPEB UAAL as of June 30, 2012 is $562.7 million. Positively, the city has established an OPEB Trust and has begun making contributions in fiscal 2013.

WHAT COULD MAKE THE LONG-TERM RATING GO UP

- Sustained improvement in financial position including fund balance levels

- More conservative budgeting approach

- Improved socio-economic indicators

WHAT COULD MAKE THE LONG-TERM RATING GO DOWN

- Decline in fund balance

- Deterioration in tax base or demographic profile

- Significant increase in direct debt burden

KEY STATISTICS:

2010 Population: 92,271 (+4.8% increase since 2000)

2013 Equalized Value: $11.4 billion

2013 Equalized Value Per Capita: $122,584

Average Annual Equalized Value Growth (2008-2013): -1.5%

Median Family Income (as a % of state and US median): $76,284 (94.5% of MA, 122.8% of US)

Per Capita Income (as a % of state and US median): $32,471 (95.6% of MA, 120.5% of US)

FY12 Total General Fund Balance: $12.5 million (4.7% of General Fund revenues)

FY12 Unassigned General Fund Balance: $9.1 million (3.4% of General Fund revenues)

Direct Debt Burden: 1.7%

Overall Debt Burden: 4.8%

Amortization of Principal (10 years): 54%

Long-Term General Obligation bonds outstanding: $103 million

The principal methodology used in rating the general obligation debt was General Obligation Bonds Issued by US Local Governments published in April 2013. The principal methodology used in rating the bond anticipation notes was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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