

ISSUER COMMENT

15 May 2020

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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Town of Lancaster, MA

Annual Comment on Lancaster

Issuer Profile

The Town of Lancaster is located in northeastern Worcester County, Massachusetts, approximately 18 miles northeast of the city of Worcester and 37 miles northwest of Boston. The county has a population of 822,280 and a moderate population density of 543 people per square mile. The county's median family income is \$93,012 (1st quartile) and the March 2020 unemployment rate was 3.6% (2nd quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and manufacturing.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Lancaster. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Lancaster changes, we will update our opinion at that time.

Credit Overview

Lancaster has a strong credit position, and its Aa3 rating is level with the US cities median of Aa3. Notable credit factors include a healthy financial position, an average debt burden and a low pension liability. It also reflects a strong wealth and income profile and a modestly sized tax base.

Finances: The town's financial position is very solid and is relatively in line with the assigned rating of Aa3. However, the cash balance as a percent of operating revenues (26.3%) is smaller than the US median, after remaining stable between 2015 and 2019. In addition, Lancaster's fund balance as a percent of operating revenues (20.7%) falls short of other Moody's-rated cities and towns nationwide. That said, Massachusetts local governments tend to have financial ratios lower than US medians because they generally derive a majority of revenues from stable property taxes and their financials typically incorporate school operations which are predictable.

Debt and Pensions: The debt and pension liabilities of the town are affordable overall and are slightly favorable in relation to its Aa3 rating. The net direct debt to full value (1%) is roughly equivalent to the US median, and remained the same from 2015 to 2019. Furthermore, the Moody's-adjusted net pension liability to operating revenues (0.74x) favorably is materially below the US median.

Economy and Tax Base: Overall, Lancaster has a healthy economy and tax base, which are aligned with the assigned rating of Aa3. The median family income equates to a strong

145.1% of the US level. Additionally, the full value per capita (\$118,723) is consistent with other Moody's-rated cities nationwide, and grew markedly between 2015 and 2019. That said, the total full value (\$955 million) is smaller than the US median.

The coronavirus pandemic is driving an unprecedented economic slowdown. We currently forecast real US GDP to decline significantly over the first and second quarters of 2020, but a more moderate decline for the full year. Local governments with the highest exposure to the tourism, health care, consumer and international trade sectors could suffer particularly severe impacts.

Management and Governance: Massachusetts cities have an institutional framework score ³ of "Aa", which is strong. The sector's major revenue source of property taxes, are subject to the Proposition 2 1/2 tax levy cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. 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. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Massachusetts Cities

Massachusetts cities will generally benefit from an expanding state economy. The vibrant expansion throughout the greater Boston region will continue to bolster most of the state, resulting in favorable employment trends relative to the nation as a whole. We expect the operating environment of cities to be favorable due to the growing residential and commercial real estate markets which will boost property tax revenues. However, Massachusetts cities will remain somewhat challenged by relatively low housing affordability and very high costs of doing business.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

Key Indicators ⁴ ⁵ Lancaster

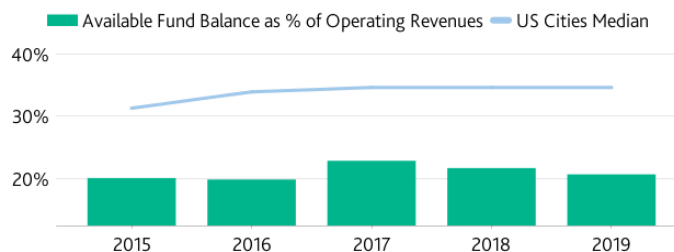
| | 2015 | 2016 | 2017 | 2018 | 2019 | US Median | Credit Trend |
|---|-----------|-----------|-----------|-----------|-----------|-----------|--------------|
| Economy / Tax Base | | | | | | | |
| Total Full Value | \$848M | \$848M | \$892M | \$892M | \$954M | \$1,904M | Improved |
| Full Value Per Capita | \$105,383 | \$104,810 | \$111,899 | \$110,994 | \$118,723 | \$94,106 | Improved |
| Median Family Income (% of US Median) | 150% | 153% | 156% | 145% | 145% | 111% | Weakened |
| Finances | | | | | | | |
| Available Fund Balance as % of Operating Revenues | 20.1% | 19.9% | 22.9% | 21.7% | 20.7% | 34.6% | Stable |
| Net Cash Balance as % of Operating Revenues | 25.2% | 23.4% | 25.3% | 26.0% | 26.3% | 39.6% | Stable |
| Debt / Pensions | | | | | | | |
| Net Direct Debt / Full Value | 1.1% | 1.0% | 0.7% | 1.2% | 1.0% | 1.1% | Stable |
| Net Direct Debt / Operating Revenues | 0.50x | 0.43x | 0.32x | 0.52x | 0.43x | 0.84x | Stable |
| Moody's-adjusted Net Pension Liability (3-yr average) to Full Value | 1.4% | 1.5% | 1.5% | 1.7% | 1.7% | 1.9% | Stable |
| Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues | 0.68x | 0.65x | 0.68x | 0.72x | 0.74x | 1.56x | Stable |

| | 2015 | 2016 | 2017 | 2018 | 2019 | US Median |
|--|----------|----------|----------|----------|----------|-----------|
| Debt and Financial Data | | | | | | |
| Population | 8,048 | 8,092 | 7,978 | 8,043 | 8,043 | N/A |
| Available Fund Balance (\$000s) | \$3,600 | \$3,900 | \$4,580 | \$4,569 | \$4,592 | \$8,028 |
| Net Cash Balance (\$000s) | \$4,510 | \$4,587 | \$5,070 | \$5,463 | \$5,825 | \$9,530 |
| Operating Revenues (\$000s) | \$17,887 | \$19,608 | \$20,015 | \$21,037 | \$22,168 | \$23,172 |
| Net Direct Debt (\$000s) | \$8,985 | \$8,508 | \$6,439 | \$10,876 | \$9,626 | \$19,139 |
| Moody's Adjusted Net Pension Liability (3-yr average) (\$000s) | \$12,169 | \$12,736 | \$13,603 | \$15,164 | \$16,501 | \$35,448 |

Source: Moody's Investors Service

EXHIBIT 2

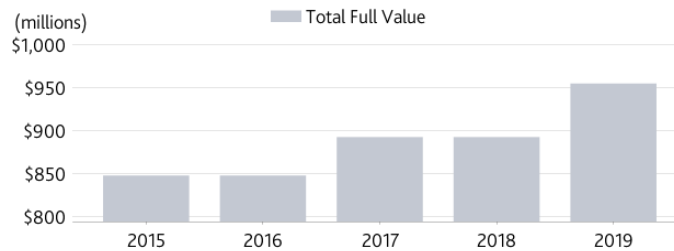
Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

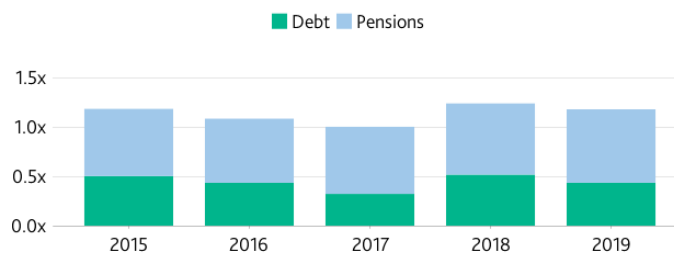
Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(September 2019\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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