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## Summary:

# Seekonk, Massachusetts; General Obligation

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## Summary:

# Seekonk, Massachusetts; General Obligation

### Credit Profile

US\$3.775 mil GO mun purp loan of 2020 bnds dtd 05/20/2020 due 11/15/2029

*Long Term Rating* AA+/Stable New

Seekonk Twn GO

*Long Term Rating* AA+/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Seekonk, Mass.' general obligation (GO) 2020 municipal-purpose loan bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's outstanding debt. The outlook is stable.

The town's full faith and credit pledge secures the bonds. We understand that it voted to exempt the entirety of the debt service from the current issuance from Proposition 2-1/2 limitations. Despite commonwealth levy limit laws, we did not make a rating distinction between Seekonk's unlimited-tax bonds and its general creditworthiness, because our analysis of its financial and economic conditions already includes the statutory limitation imposed on its revenue-raising ability.

The 2020 bonds will permanently finance outstanding bond anticipation notes (BANs), originally issued to fund construction at an animal shelter and for a public safety radio project. Concurrent with this issuance, the town is issuing BANs totaling about \$4.3 million that we were not asked to rate. Outstanding debt following this issuance totals about \$16.1 million, including capital leases.

### Credit overview

Seekonk is a primarily residential town about four miles east of Providence, R.I. Its revenue and expenditure profile over the past few years has been generally predictable, with property taxes providing a large majority of operating revenues. Including stabilization reserves, it has consistently maintained very strong reserve and liquidity levels, which we believe positions the town with the financial flexibility to make adjustments necessary amid the current recession and economic uncertainty related to COVID-19 restrictions. We understand management is adjusting its 2021 budget to account for the loss of excise tax revenue, which makes up a small amount of operating revenues but is the most likely to contract in the current economic environment. We do not expect any immediate expenditure pressures from the COVID-19 pandemic or the economic contraction, but new economic growth could slow over the short term.

The long-term rating reflects our view on the following factors for the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with slight operating deficits in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.3% of total governmental fund expenditures and 10.0x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.2% of expenditures and net direct debt that is 24.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.0% of debt scheduled to be retired in 10 years, but significant medium-term debt plans and a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

## **Stable Outlook**

### **Downside scenario**

If economic pressures result in revenue and expenditure imbalance, resulting in a material reserve decline with no clear plan to correct, we could lower the rating.

### **Upside scenario**

Outside of the two-year outlook period, we believe growth in underlying wealth and income metrics to levels commensurate with those of higher rated peers, and significant reduction in unfunded retirement liabilities could lead to a higher rating.

## **Credit Opinion**

### **Very strong economy**

We consider Seekonk's economy very strong. The town, with an estimated population of 14,362, is in Bristol County, on the Rhode Island border, about four miles east of Providence. It is in the Providence-Warwick MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 124% of the national level and per capita market value of \$181,842. Overall, market value grew by 4.9% over the past year to \$2.6 billion in 2020. The county unemployment rate was 4.3% in 2018.

Seekonk is a primarily residential community with a sizable commercial tax base, primarily based on large retail stores. Residential assessed value (AV) accounts for 76.1% of total AV, and its 12% growth over the past two years, to \$1.99 billion, generated growth in the town's total AV.

We believe that the town's tax base will remain stable, but development leading to new growth revenues could slow in the near term. Should new growth stall for an extended period, the town's ability to generate revenue to meet rising expenditures could become pressured.

We understand the town is working through the final development stages of a master economic development plan.

Management expects the plan once completed to help diversify future economic growth and development, while enhancing the town's character. We expect that the tax base will remain stable, with our view of its economic profile bolstered by participation in a broad and diverse MSA. While the current economic downturn could pressure new economic growth, including appreciation and new development, we do not expect it to materially affect our view of the underlying economy.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management uses three-to-five years of historical trends when developing revenue and expenditure assumptions. We note that in the current environment, it is revising assumptions for the upcoming budget downward from the trend data to account for expected changes in certain revenues. It incorporates information from outside sources, including the state government and other groups when developing projections as well. Budget-to-actual reports are provided monthly to the board, which can amend the budget through the town meeting process.

Other highlights include:

- A three-year budget projection that controls for expected revenue and expenditure changes and facilitates budget discussions;
- A five-year, annually updated, capital investment plan that identifies projects by year and funding source;
- An informal reserve policy targeting 10% of budgeted operating expenses held in reserve.

The town adheres to state law on general fund investments and reports annually in the audit. It also adheres to state law on debt limitations, but does not have a separate debt management policy.

### **Adequate budgetary performance**

Seekonk's budgetary performance is adequate, in our opinion. The town had slight operating deficits of negative 1.2% of expenditures in the general fund and negative 0.6% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve from 2019 results in the near term, but the current health and economic environment presents an event risk for the town's finances.

We adjusted budgetary performance to account for recurring transfers. We understand the town's general fund projections for fiscal year-end 2020 suggest improved general fund performance relative to 2019. We believe potential revenue and expenditure volatility is likely due to the current economic and health environment beginning in fiscal 2021, which could pressure the town's financial performance. Consequently, while we expect improved budgetary performance in the short term, we believe over the next six-to-12 months, significant uncertainty exists and we believe the town's budgetary performance will remain adequate.

Over the past few years, the town used reserves to fund capital projects. In 2019, it used \$460,000 to partially fund construction at the animal shelter, along with smaller capital articles funded within the general fund. Recurring revenues and expenditures have generally come in on budget, at year-end. Property taxes are the largest general fund

revenue source, accounting for 70% of audited revenues in 2019. Intergovernmental revenues were 21% and excise taxes were 5%.

Audited intergovernmental revenues include pass-through payments for the teachers' retirement system, as well as direct school aid and unrestricted operating aid. Along with local excise taxes, we believe the school and unrestricted aid are likely to be the largest revenue pressures over the next few years, although the state has not yet released fiscal 2021 aid figures. We understand management is adjusting its fiscal 2021 budget to account for revenue reductions in these areas, but we believe significant uncertainty remains in projecting actual receipts. We do not expect material expenditure variances at this time. If the town is able to manage revenue reductions while producing approximately balanced results, we could revise our view of performance to strong.

### **Very strong budgetary flexibility**

Seekonk's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 18% of operating expenditures, or \$11.0 million.

We included in our calculation of available reserves certain stabilization funds held in committed general fund reserves that can be made available for operational costs or debt service in a stress scenario. We do not expect a material decline in reserves at this time, and expect our view of budgetary flexibility to remain strong.

### **Very strong liquidity**

In our opinion, Seekonk's liquidity is very strong, with total government available cash at 22.3% of total governmental fund expenditures and 10.0x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We adjusted available cash to include general fund investments, but exclude nonmajor fund cash we believe is generally restricted. The town has demonstrated strong market access by issuing GO bonds within the past several years. While its cash levels could decline relative to fiscal 2019 levels in the current economic climate, we do not expect significant deterioration. Seekonk does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. In addition, management is not aggressive in its use of investments. The town adopted the local option to delay the fourth quarter due date; we understand management undertook a cash-flow analysis and does not expect to require cash-flow borrowing. We believe liquidity will remain very strong.

### **Very strong debt and contingent liability profile**

In our view, Seekonk's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.2% of total governmental fund expenditures, and net direct debt is 24.4% of total governmental fund revenue. Overall net debt is low at 0.6% of market value, and approximately 65.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Negatively affecting our view of the town's debt profile are its significant medium-term debt plans.

Following this issuance, the town has approximately \$16 million in outstanding debt, including capital leases. We understand it expects to issue approximately \$11.4 million in new-money debt over the next two years, which we believe will materially affect our view of its initial debt profile.

### **Pension and other postemployment benefits (OPEBs)**

- In our opinion, a credit weakness is Seekonk's large pension and OPEB obligation, despite a low carrying charge.
- While the pension plan uses actuarially determined contributions, we believe some of the assumptions may result in contribution escalation and volatility.
- The town is prefunding its OPEB obligations, which we believe is positive, but it does not have a formal funding policy or schedule and we expect the liability and costs to rise.

The town participates in the following retirement plans:

- Bristol County Retirement System: 63.5% funded, \$25.0 million proportionate net pension liability
- Retiree health and life insurance through various contributory plans: 8.2% funded, \$34.3 million net OPEB liability

Seekonk's combined required pension and actual OPEB contributions totaled 4.7% of total governmental fund expenditures in 2019. Of that amount, 4.0% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The town made its full annual required pension contribution in 2019, which it is required to do annually. The pension plan uses a 7.75% discount rate, which we believe is high and likely to lead to contribution volatility. Additionally, the level-percent basis will also increase costs. We view the 10-year closed amortization period as positive, but believe the plan must use aggressive assumptions to meet this schedule and maintain affordable annual assessments. The plan did exceed both our static and minimum funding progress metrics in the most recent year, indicating it is making progress in address both current costs and accrued liabilities. We expect costs will rise, particularly if the plan adopts increasingly conservative assumptions. Should costs materially rise relative to current levels, we could negatively revise our view of the town's plan to address these liabilities.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

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