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## Summary:

# Marshfield, Massachusetts; General Obligation; Note

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## Summary:

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### Credit Profile

US\$30.35 mil GO BANs dtd 12/05/2013 due 07/29/2014

<i>Short Term Rating</i>	SP-1+	New
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Marshfield Twn GO

<i>Long Term Rating</i>	AA+/Stable	Upgraded
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Marshfield Twn GO BANs dtd 12/05/2013 due 07/29/2014

<i>Short Term Rating</i>	SP-1+	Affirmed
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## Rationale

Standard & Poor's Ratings Services raised its unenhanced rating on Marshfield, Mass.' general obligation (GO) debt to 'AA+' from 'AA', based on our recently released local GO criteria. In addition, we assigned our 'SP-1+' short-term rating to Marshfield's GO bond anticipation notes (BANs) payable on July 29, 2014. The outlook is stable.

Marshfield's full faith and credit GO pledge secures the BANs and bonds outstanding. The notes are authorized to provide financing toward the construction of the new high school as well as funding other capital projects.

The short-term rating reflects our view that Marshfield maintains a very strong ability to pay principal and interest when the notes come due. In our opinion, Marshfield maintains a low market risk profile as it maintains strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The 'AA+' SPUR is based on our recently released local GO criteria and reflects Marshfield's:

- Very strong economy, which participates in the Boston metropolitan statistical area (MSA);
- Adequate budgetary flexibility, with 2013 available reserves at 5.7% of general fund expenditures;
- Weak budgetary performance, albeit with a stable and consistent revenue profile;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Strong management environment with good financial management practices;
- Very strong debt and contingent liabilities; and
- Strong institutional framework.

### Very strong economy

Marshfield, with an estimated population of 24,914, is on the Atlantic Coast, about 32 miles south of Boston. The town participates in the strong and diverse economy in the Boston MSA. Its projected per-capita effective buying income is 144% of the U.S. level, and unemployment in Plymouth County averaged 6.9% in 2012, down from 7.8% in 2011 and 9.1% in 2010. In 2013, the per-capita market value for the town was \$171,622. While we note the town's assessed

values (AVs) have declined by 15% since peaking in fiscal 2008, there are signs in the regional economy that the town's tax base is stabilizing.

Based on our regional forecasts, we anticipate the regional economy will remain stable, but with lower growth compared with the nation. On a positive note, recent data indicate that the region's median home prices continue to improve, and that housing starts will remain positive.

About 92% of its tax base is residential properties, while 5.9% is commercial and industrial. The top 10 taxpayers constitute 6.9% of AV.

### **Adequate budget flexibility**

Marshfield closed fiscal 2013 with available reserves at 5.7% of expenditures. The town's assigned plus unassigned general fund balance totaled \$4.7 million, down roughly \$612,000 from the prior year. We anticipate the town's budget flexibility remaining adequate, since there are no plans by management to draw on reserves below 4% of expenditure over the next few years.

### **Adequate budgetary performance**

Marshfield's budgetary performance is weak, in our view. For fiscal 2013, the general fund closed with an operating deficit of \$910,000, or 1.1% of expenditures. Our calculations do not factor in the \$3.5 million in bond premiums realized in the year. Across all funds, we calculate a deficit of 0.8% of expenditures, after excluding capital costs paid from bond proceeds in the high school construction fund and other capital project funds. For fiscal 2013, the town estimates budgetary performance will remain balanced.

We do not expect budgetary performance to weaken further, due to several factors. In 2008, following several years of decreasing reserves, a strategic fiscal planning task force was created to help set standards for forecasting, budget growth, capital planning, and reserves. These efforts have enabled management to identify and make the necessary budgetary adjustments in a timely manner, ensuring greater financial stability. Moreover, the town continues to increase its tax levy by the allowable limit each year to accommodate budgetary growth; it also actively works with department heads and collective bargaining units to keep costs in line with the budget. A modest economic recovery has also increased economically sensitive revenues. Property taxes comprise 60% of revenues and collections have remained strong.

### **Very strong liquidity**

Supporting the town's finances is what we consider very strong liquidity, with total government available cash at 23% of total governmental fund expenditures and at 461% of debt service. Additionally, we believe the town has strong access to external liquidity. It has issued bonds over the past several years, including GO bonds and short-term BANs.

### **Strong management**

We consider Marshfield's financial policies "good" under Standard & Poor's Financial Management Assessment methodology, indicating that the finance department maintains adequate policies in some, but not all, key areas. Highlights include a good focus on financial and capital planning, demonstrated by the town's five-year capital improvement program, which sets the parameters and outlays the funding for both debt and nondebt financing of all the capital projects in the plan, and its five-year budget forecast, which identifies future revenue and expenditure

trends. Budget assumptions are done conservatively and monitoring of budget performance is conducted monthly, along with investment performance.

The town recently adopted a reserve fund policy that manages several reserve accounts. The town considers the stabilization account its main reserve account, and the policy requires, at minimum, 5% of general fund revenues. While Marshfield is not currently at that level, management remains adamant about building reserves and meeting the target. We note, the town's total available reserves are above 5%.

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

In our opinion, the town's debt and contingent liabilities profile is very strong. Marshfield has roughly \$101 million in total direct debt; of that amount, we calculate roughly \$11.9 million is self-supporting enterprise debt. Total governmental funds debt service is 5% of total governmental funds expenditures, and net direct debt is 95% of total governmental funds revenue. Debt service may increase once the town takes out the BANs with long-term bonds, but we believe they will remain below 8% of expenditures. Positive factors include Marshfield's aggressive amortization schedule and overall net debt to market value. Marshfield is scheduled to retire 74% of principal by 2024. Overall net debt as a percentage of market value is low, in our view, at 2.1%.

The town's pension and OPEB liabilities are manageable at 6.5% of expenditures. Marshfield participates in the Plymouth County pension plan that is only 50% funded, according to the latest valuation. The town's share of the unfunded actuarial accrued liability is roughly \$50 million as of January 2012. The town has been funding 100% of its annual required contribution (ARC), which was \$4.2 million in 2013, or about 4.4% of expenditures.

Marshfield's unfunded OPEB liability is about \$72.8 million. While the town has explored ways to lower this liability, fully funding the ARC will remain a challenge, in our view. The town currently funds the liability on a pay-as-you-go basis, although the town established an OPEB trust, with a current balance of \$40,000. Its ARC is estimated to be \$4.8 million. In 2013, the town's pay-as-you-go cost was \$1.3 million, or 2% of expenditures.

## **Outlook**

The stable outlook reflects our view of Marshfield's focus on maintaining adequate operating flexibility. We believe an improved economic outlook and predictable operating profile will result in balanced operations. Marshfield also maintains a very strong debt and liability profile, and we believe pension and OPEB costs are expected to remain manageable. A modest statewide economic recovery should also aid in tax base stability and enhance local revenues. For these reasons, we do not expect to change the rating within the two-year outlook horizon.

### **RELATED CRITERIA AND RESEARCH**

#### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

#### **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, Oct. 1, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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