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Ratings

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## Summary:

# Marshfield, Massachusetts; General Obligation; Note

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**Summary:**

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| Credit Profile | | |
|---|---|---|
| US$10.956 mil GO BANs ser 2018 dtd 07/27/2018 due 07/26/2019 | | |
| *Short Term Rating* | SP-1+ | New |
| US$2.792 mil GO muni purp loan bnds ser 2018 due 07/15/2038 | | |
| *Long Term Rating* | AA+/Stable | New |

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Marshfield, Mass.' series 2018 general obligation (GO) municipal purpose bond and affirmed its 'AA+' long-term rating on the town's existing GO debt. The outlook is stable.

S&P Global Ratings also assigned its 'SP-1+' short-term rating to Marshfield's series 2018 bond anticipation notes (BANs) and affirmed its 'SP-1+' short-term rating on the town's existing BANs maturing July 27, 2018.

The short-term rating reflects our view that Marshfield maintains a very strong capacity to pay principal and interest when the BANs come due. The town maintains what we view as a low market-risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer that regularly provides ongoing disclosure to market participants.

Marshfield's full-faith-and-credit-GO pledge secures the bonds and BANs. Notably, the town is subject to the limitations of Proposition 2-1/2. Despite general limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax-GO pledge due to the town's flexibility under the levy limit.

Officials plan to use series 2018 bond proceeds to fund seawall repair. They intend to use series 2018 BAN proceeds to renew existing BANs.

The rating reflects our opinion of the town's:

- 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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2017 of 7.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 24.6% of total governmental fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;

- Adequate debt and contingent liability position, with debt service carrying charges at 8.6% of expenditures and net direct debt that is 77.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 68.9% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### Very strong economy

We consider Marshfield's economy very strong. The town, with an estimated population of 26,181, is in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 146% of the national level and per capita market value of $185,261. Overall, market value grew by 6.0% over the past year to $4.9 billion in 2018. The county unemployment rate was 3.9% in 2017.

Marshfield is a predominantly residential coastal community with a small commercial and industrial property tax base. Residential properties make up approximately 92% of total assessed value (AV), followed by commercial properties at 5%. Marshfield's property tax base grew to $4.85 billion, or 10.5%, from $4.3 billion in fiscal 2016. Officials indicate the town continues to see growth in its tax base. New restaurants continue to be built and officials expect 370 housing units to be completed over the next two years. Therefore, we expect the town's economy to remain very strong. Furthermore, the tax base is very diverse with the 10 leading taxpayers accounting for just 3.9% of AV.

### 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's assumptions are generally conservative, coupled with a five-year historical trend analysis. Management reports budget-to-actual results to the board of selectmen monthly, along with reports on investment holdings and earnings. The town also maintains a formal five-year capital improvement plan (CIP), with funding sources identified for some projects that it updates annually. The town's formal debt-management policy limits net general fund debt service, without debt-service exclusions, to a maximum of 5% of general fund expenditures and total debt service, which includes debt-service exclusions, not to exceed 10% of general fund expenditures. It also has a formal reserve policy of maintaining unassigned fund balances at a minimum of 5%-7% of budgeted revenue, which management views as sufficient to cover cash flows for one-time or emergency expenditures.

### Strong budgetary performance

Marshfield's budgetary performance is strong, in our opinion. The town had operating surpluses of 2.6% of expenditures in the general fund and 2.1% across all governmental funds in fiscal 2017.

Fiscal 2017 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Management attributes the surplus to strong local receipt collections and better-than-budgeted permit revenue.

Management is projecting to end fiscal 2018 with break-even results, which it primarily attributes to conservative budgeting.

The town adopted a $107.6 million budget for fiscal 2019, a 7% increase over fiscal 2018; the fiscal 2018 budget does not contain any fund balance appropriation. Although we expect budgetary performance to remain strong, we believe retirement costs will likely continue to increase due to the size of the town's retirement long-term liabilities and low funded pension ratio. While we expect the town to continue to manage its budget accordingly, if it cannot maintain balanced operations amid rising fixed costs, we could change our assessment of its budgetary performance. Property taxes account for 63% of general fund revenue, followed by intergovernmental revenue at 29%.

### Adequate budgetary flexibility

Marshfield's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2017 of 7.5% of operating expenditures, or $7.3 million.

The town has maintained, in our view, adequate reserves over the past three fiscal years. Management attributes the decline in reserves for fiscal 2016 mainly to one-time capital expenditures.

The fiscal 2019 budget does not include any use of fund balance. Therefore, due to the break-even performance in fiscal 2018 and management's plan not to draw down reserves, we expect budgetary flexibility to remain adequate. However, although unlikely, should available reserves decrease below 4% of expenditures, our assessment of the town's budgetary flexibility could change to weak and potentially pressure the rating.

### Very strong liquidity

In our opinion, Marshfield's liquidity is very strong, with total government available cash at 24.6% of total governmental fund expenditures and 2.8x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Marshfield is a regular market participant that has issued debt frequently over the past several years, including GO bonds and BANs. In addition, commonwealth law prohibits municipalities from issuing variable-rate debt. Furthermore, the town does not currently have any direct-purchase debt. Management has confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Town investments are subject to commonwealth guidelines. Marshfield invests its cash in low-risk assets, including the commonwealth's short-term investment pool (the Massachusetts Municipal Depository Trust), registered money-market funds, or short-term certificates of deposit. For these reasons, its available cash position remains strong and stable. We expect its liquidity profile to remain very strong over the next two years.

### Adequate debt and contingent liability profile

In our view, Marshfield's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.6% of total governmental fund expenditures, and net direct debt is 77.3% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and approximately 68.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, the town will have about $96 million in total direct debt outstanding. Officials currently have $18.6 million in authorized new debt they will issue within the next two-to-three years for capital needs.

In our opinion, a credit weakness is Marshfield's large pension and OPEB obligation. Marshfield's combined required pension and actual OPEB contributions totaled 7.3% of total governmental fund expenditures in 2017. Of that amount, 4.9% represented required contributions to pension obligations, and 2.4% represented OPEB payments. The town made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 58.3%.

Marshfield contributes to the Plymouth Regional Retirement System, a cost-sharing, multiple-employer defined-benefit pension system. As of Dec. 31, 2016, the system was 58% funded. The system uses an 8% discount rate. We consider the discount rate above average, which may be understating the system's unfunded liability. Given the current funded ratio, along with the system's projection of full funding by 2032, we expect pension costs to accelerate over the medium term.

The town plans to focus on further funding its OPEB liability after it fully addresses the pension liability. The OPEB unfunded actuarial accrued liability was $80.4 million at July 1, 2015. Marshfield maintains an OPEB trust fund that currently totals $250,000. The town also plans to designate an amount equal to 25% of meal tax revenues up to $100,000 to go into the trust annually. While we currently view the town's pension and OPEB costs as manageable, should costs continue to rise due to the size of the liabilities and low funded pension ratio, the town's finances could be pressured.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

## Outlook

The stable outlook reflects S&P Global Ratings' opinion of Marshfield's very strong economy, supported by its access to the Boston MSA, strong management conditions, and very strong liquidity profile, coupled with balanced financial performance. Limiting the rating is the town's adequate budgetary flexibility and debt and contingent liability profile. However, we expect management to continue to make the necessary budgetary adjustments to maintain its strong budgetary performance and at least adequate budgetary flexibility. Therefore, we do not expect to change the rating within the two-year outlook horizon.

### Downside scenario

Should the town's budgetary flexibility weaken due to negative financial performance, necessitating use of reserves or its debt and contingent liability profile worsens, we could lower the rating.

### Upside scenario

If the town were to improve its budgetary flexibility through consistent positive budgetary performance while reducing its debt burden and maintaining its very strong economy, we could raise the rating.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local

Government GO Criteria, Sept. 2, 2015

| Ratings Detail (As Of July 10, 2018) | | |
|---|---|---|
| Marshfield Twn GO | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| Marshfield Twn GO BANs dtd 07/28/2017 due 07/27/2018 | | |
| *Short Term Rating* | SP-1+ | Affirmed |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.