

RatingsDirect®

Summary:

Scituate Town, Massachusetts; General Obligation

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Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

Scituate Town, Massachusetts; General Obligation

| Credit Profile | | |
|---|------------|----------|
| US\$8.535 mil GO mun purp loan of 2022 bnds due 12/01/2042 | | |
| Long Term Rating | AA+/Stable | New |
| Scituate Twn GO | | |
| Long Term Rating | AA+/Stable | Affirmed |
| Scituate Twn GO muni purpose loan of 2020 bnds due 11/01/2040 | | |
| Long Term Rating | AA+/Stable | Affirmed |

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Scituate Town, Mass.' roughly \$8.535 million series 2022 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the town's existing GO debt.
- The outlook is stable.

Security

Scituate's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the bonds and GO debt outstanding. Despite limitations imposed by the commonwealth's levy limit law, we did not make a rating distinction between the limited- and unlimited-tax GO pledges because of the town's operating flexibility under the levy limit. The town has exempted a portion of the bonds and debt outstanding from Proposition 2-1/2 limits.

Officials intend to use series 2022 bond proceeds to:

- Acquire land for, as well as design, a new water treatment plant;
- Construct a new senior center;
- Finance engineering for a new water main;
- Construct a new well;
- Improve the sewer system; and
- Purchase a front-end loader for the transfer station.

Water, sewer, and transfer station revenue supports a portion of debt.

The town is also issuing \$770,000 in bond anticipation notes (BANs) for golf-facility improvements, which the town has not asked us to rate.

Credit overview

Scituate is an affluent community that benefits from its coastal location south of Boston. Wealth-and-income metrics have remained stable during the past few years, and its continued financial-management strength has led it to continued budgetary surpluses that have provided reserve stability. Although Scituate is fully funding its required contributions to the pension fund, large and rising pensions costs could pose a future problem; climate concerns are a potential risk due to expansive coastal exposure, partially offset by the town's continued planning to manage the risk.

The rating reflects our opinion of the town's:

- Very strong local economy, benefiting from its access to Boston and participation in a broad, diverse metropolitan statistical area;
- Stable operating environment, leading to positive finances and growing reserves;
- Good financial-management policies, practices under our Financial Management Assessment (FMA) methodology with a strong Institutional Framework score; and
- Manageable debt and fixed costs with a large pension and other postemployment benefit (OPEB) obligation.

Environmental, social, and governance

We have assessed Scituate's environmental, social, and governance (ESG) risks. We view social and governance risks as neutral in our credit-rating analysis. Environmental risk is higher than average for the sector, in our opinion, due to the town's coastal location. Scituate is pursuing grant options for home elevations; hazard-mitigation plan updates; and drainage studies, as well as other coastal assessment and resiliency projects. The town has a coastal advisory commission to implement the sustainability plan, including community outreach and education; it also participates in the National Flood Insurance Program's community rating system program to maintain the rating, which qualifies homeowners for a 15% discount on flood insurance.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the town's economy will likely remain very strong and that finances will likely support sustained reserve strength, providing budgetary flexibility for the town to handle liabilities and climate-risk exposure.

Downside scenario

We could lower the rating if budgetary performance were to deteriorate, requiring significant reserve draws.

Upside scenario

We could raise the rating if reserves were to continue to improve to levels we consider consistent with higher-rated peers and if pension metrics, such as the funded ratio and aggressive actuarial assumptions, were to improve.

Credit Opinion

An affluent community with a stable residential property tax base

Scituate is a primarily residential community with a population of about 19,000 that increases in the summer due to its oceanfront location and five beaches along its 57 miles of coastline. The town's access to Boston and coastal location make Scituate a desirable residential community. Scituate is largely built out; recent projects include mixed-use developments, market-rate and affordable-housing units, and additional units under construction. The town has also created an overlay district designed to attract development around Massachusetts Bay Transportation Authority commuter-rail stations. The town expects its current efforts to bring sewer service to north Scituate; the ongoing economic development campaign will likely attract investment and lead to additional tax base growth, which has grown by about 17% during the past three years.

A consistently positive budgetary performance, supporting strong reserves

For analytical consistency, we have adjusted annual budgetary performance to account for recurring transfers among the general, nonmajor governmental, and enterprise funds. In addition, we accounted for the expenditure of bond proceeds and special revenue funds within the nonmajor governmental funds. Property taxes generate 70% of general fund revenue, followed by intergovernmental operating aid at 9%.

The fiscal 2021 budget reflected even more conservative assumptions and limitations on departmental expenses to protect the town from potential COVID-19 effects on the budget. Officials found COVID-19 effects on the town to be limited, and revenue exceeded the budget by about \$2.3 million while expenses were about \$2 million underbudget. It reports revenue exceeded estimates by \$2.4 million in fiscal 2022 with expenses \$1.2 million underbudget.

Scituate adopted a fiscal 2023 budget that maintains level services, which is consistent with financial-management policies that stipulate it will not use free cash to balance the budget. The budget restored meals tax revenue to pre-COVID-19 estimates and reduced local receipts; it also includes a 3% increase in state aid. The budget also includes additional appropriation for fuel and electricity costs. To date, the town has seen higher-than-expected meals tax revenue with growth surpassing the budgeted \$1.2 million, which has been certified by the commonwealth at \$2.4 million. While early in the process, early fiscal 2024 budget guidelines include the continued reduction in local receipt revenue and increased fixed costs

Strong management and good FMA, continued adherence to adopted policies

When developing the budget, management uses conservative assumptions and considers 10 years of historical trend analysis. Management regularly completes budget-to-actual reports for each fund, which it shares with the town's select board quarterly on an ad hoc basis. Scituate also produces monthly reports for each fund to track revenue. As part of the annual budget process, it also maintains a five-year financial plan.

The town maintains a five-year, rolling capital-improvement plan that tracks capital expenditures with identified funding sources. In addition to the water system's modernization and the feasibility study of regional sewer expansion, capital planning incorporates coastal risk management.

Scituate has an investment-management policy that limits investments to safe and highly liquid vehicles, and it mandates an annual review by the treasurer and town administrator. While the policy requires semiannual reports, the town produces monthly reports. It also has basic debt-management and reserve policies. The reserve policy sets a minimum reserve at 1% of revenue, which the town adheres to historically.

The Institutional Framework score for Massachusetts municipalities is strong.

Manageable debt with plans for some additional debt

After the series 2022 issuance and BANs, Scituate will have about \$120 million in direct debt outstanding, including \$29 million of enterprise-user-fee-supported debt. The town has about \$67 million in authorized, but unissued, debt remaining. We understand Scituate will rescind a portion of this amount due to Federal Emergency Management Agency and other grant funds received. We recognize \$50 million of the authorization is associated with a debt exclusion authorized for the water treatment plant. While Scituate has not yet determined the total amount of debt it will issue during the next few years, we do not expect the additional debt will have a meaningful effect on our view of the town's debt profile unless debt service were to increase to more than 8% of expenditures.

Pension and OPEB

In our opinion, Scituate's large pension and OPEB obligation is a credit weakness. The town's retirement liability carrying charge remains low; however, due to optimistic pension assumptions, we think costs are likely to grow.

Scituate meets its actuarially determined pension contribution annually, and it contributes to an OPEB trust fund. It pays OPEB on a pay-as-you-go basis. As we expect costs to grow, we do not expect the town to make material progress in funding its OPEB liability during the next few fiscal years. In addition, we think the pension plan might not meet assumptions, resulting in a longer-than-planned amortization period.

As of June 2021, the town participates in:

- Plymouth County Contributory Retirement System, which is 67.9% funded, with a \$38.1 million proportionate share of the net pension liability; and
- Scituate's defined-benefit, health-care plan that provides health-care insurance to retirees, which is 2.25% funded, with an OPEB liability of about \$83 million.

Plymouth County's system is a cost-sharing, multiple-employer pension plan. We expect the plan's annual costs to largely outpace budgetary growth. (For more information, see the article, titled "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.) The plan's discount is 7.875%, which remains materially higher than our 6% guideline. We expect costs will likely continue to increase as a percent of expenditures.

Scituate has established an OPEB trust for the liabilities, totaling \$1.9 million as of fiscal 2022.

Scituate Town, Massachusetts Select Key Credit Metrics

| | Most recent | --Historical information-- | | |
|---|-------------|----------------------------|--------|--------|
| | | 2021 | 2020 | 2019 |
| Very strong economy | | | | |
| Projected per capita effective buying income as a % of U.S. | 178.3 | | | |
| Market value per capita (\$) | 300,744 | | | |
| Population | | 19,038 | 18,955 | 18,891 |
| County unemployment rate(%) | | 6.1 | | |
| Market value (\$000) | 5,725,569 | 5,146,329 | | |
| 10 leading taxpayers as a % of taxable value | 1.6 | | | |

Scituate Town, Massachusetts Select Key Credit Metrics (cont.)

| | Most recent | --Historical information-- | | |
|--|-------------|----------------------------|--------|-------|
| | | 2021 | 2020 | 2019 |
| Strong budgetary performance | | | | |
| Operating fund result as a % of expenditures | | 3.7 | 1.8 | (1.7) |
| Total governmental fund result as a % of expenditures | | (0.4) | (1.3) | 5.0 |
| Strong budgetary flexibility | | | | |
| Available reserves as a % of operating expenditures | | 13.3 | 11.3 | 9.2 |
| Total available reserves (\$000) | | 12,699 | 10,372 | 8,291 |
| Very strong liquidity | | | | |
| Total government cash as a % of governmental fund expenditures | | 30.2 | 23.9 | 24.8 |
| Total government cash as a % of governmental fund debt service | | 472.0 | 344.4 | 322.9 |
| Strong management | | | | |
| Financial Management Assessment | Good | | | |
| Adequate debt and long-term liabilities | | | | |
| Debt service as a % of governmental fund expenditures | | 6.4 | 6.9 | 7.7 |
| Net direct debt as a % of governmental fund revenue | 79.4 | | | |
| Overall net debt as a % of market value | 1.6 | | | |
| Direct debt 10-year amortization (%) | 63.4 | | | |
| Required pension contribution as a % of governmental fund expenditures | | 4.6 | | |
| Other postemployment benefits actual contribution as a % of governmental fund expenditures | | 2.7 | | |
| Strong Institutional Framework | | | | |

Data points and ratios may reflect analytical adjustments.

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
- 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
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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