

RatingsDirect®

Summary:

Scituate, Massachusetts; General Obligation

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Credit Profile

US\$85.543 mil GO mun purp loan bnds ser 2015 due 09/15/2039

Long Term Rating AA+/Stable New

Scituate GO muni purp loan of 2011

Long Term Rating AA+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Scituate, Mass.' series 2015 general obligation (GO) municipal purpose bonds. Standard & Poor's also affirmed its 'AA+' long-term rating on the town's existing GO debt. The outlook is stable.

Roughly \$81 million of bond proceeds will be used to fund various capital projects, the largest of which is the construction of a high school and middle school. We note that of the \$81 million, roughly \$69 million has been voted exempt from Proposition 2-1/2 levy limitations. Debt service costs for the town are anticipated to rise, but will be accommodated by a similar amount of taxes. Roughly \$14 million of this bond issue will be used for water pipe improvement and replacements and the debt service is expected to be self-supported by user charges, as the board of selectman raised water rates to accommodate these bonds. About \$4.2 million of these bonds will be used to current refund the town's series 2005 bonds for interest rate savings.

In our opinion, the rating on Scituate reflects 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 methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 11.6% of operating expenditures;
- Very strong liquidity, with total government available cash of 34.4% of total governmental fund expenditures and 11.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges of 2.9% of expenditures and net direct debt that is 137.6% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) liability, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Scituate's economy very strong. The town, with an estimated population of 18,648, is located in Plymouth County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 185% of the national level and per capita market value of \$220,063.

Overall, the town's market value grew by 7.2% over the past year to \$4.1 billion in 2015. The county unemployment rate was 6.0% in 2014.

The town is a seacoast community in Plymouth County, about 25 miles southeast of Boston. Its population increases during the summer to about 30,000.

The community is primarily residential and benefits from two commuter rail stations with direct access to Boston, providing residents with jobs throughout the MSA. Assessed value (AV) is 96% residential. As with many local and national communities, Scituate experienced an AV decrease due to the recession, but recently AV has been relatively stable.

Looking ahead, based on our regional forecasts, we expect credit conditions will remain stable. Recent data indicate that the region's median home prices will continue to improve, and that housing starts will remain positive. This is important because Scituate, along with other local governments in the region, largely look to property taxes to meet rising expenditure demands.

Strong management

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

The town conducts trend analysis for local revenue sources, and management regularly completes budget-to-actual reports that it presents to the town's board of selectmen quarterly. Scituate is thorough in its budget preparation and planning processes and conservative, with assumptions borne out by variance analyses. Along with the budget, management also now produces a five-year capital improvement plan (CIP) that identifies which projects will be funded each year through the budget. The CIP also links with the town's debt management policies. State statutes guide the town's investment policies and practices, and reporting is done at least semi-annually. We note that the town maintains policies on reserves, including a minimum target of 1% of revenues in a financial reserve account.

Strong budgetary performance

Scituate's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 1.6% of expenditures, and slight surplus results across all governmental funds of 1.0% in fiscal 2014. General fund operating results of the town have been stable over the last three years, with a result of 1.7% in 2013 and a result of 3.0% in 2012.

For fiscal 2015, management indicates the general fund is anticipated to close with a negative result of roughly \$425,000, which reflects a sizable snow and ice deficit. The town, however, is anticipating recouping roughly \$514,000 from FEMA for storm-related costs, which would generate a positive operating result when received.

Currently, we expect operating performance to remain strong and in line with performance in years past. At the same time, we believe there will be budgeting challenges due to increasing fixed costs associated with long-term liabilities, but management has done well in managing those cost increases through careful planning and prudent budgetary practices. In our view, a recovery in local fees and taxes due to an improving economy and proactive budget management will likely allow for stable operations. We also believe Scituate maintains a stable and predictable

revenue profile. Property taxes generate 71% of general fund revenue, and we consider collections strong and stable.

Based on our macroeconomic forecasts (see "U.S. State And Local Government Credit Conditions Forecast," published April 2, 2015, on RatingsDirect.), credit conditions in New England remain stable, which should translate to ancillary revenue and taxable levy growth coming in as expected. In our view, however, management will need to remain proactive to ensure spending remains in line with revenue.

Strong budgetary flexibility

Scituate's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 11.6% of operating expenditures, or \$8.0 million.

The town has continued to increase available reserves in the past three fiscal years, leading to improved budgetary flexibility, and, according to management, it does not plan to spend them down. Management projects fiscal 2015 may close with a negative result, depending on receipt of FEMA reimbursements for storm-related costs. Nevertheless, we anticipate the town will maintain reserves at strong levels over the next several years as credit conditions are stable and the town is careful in planning its capital outlay spending.

Very strong liquidity

In our opinion, Scituate's liquidity is very strong, with total government available cash of 34.4% of total governmental fund expenditures and 11.7x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

Our opinion is that liquidity will remain very strong as there is no significant deterioration of cash balances planned or anticipated. Even factoring in the higher debt service amount, total government available cash should remain strong at 2x governmental debt service. Further, we note the town does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Weak debt and contingent liability profile

In our view, Scituate's debt and contingent liability profile is weak. Total governmental fund debt service is 2.9% of total governmental fund expenditures (but expected to rise with the inclusion of this bond offering), and net direct debt is 137.6% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which is in our view a positive credit factor.

Following this issue, Scituate will have roughly \$122 million of total direct debt outstanding, the largest of which were recent debt authorizations totaling a combined \$59 million (net of construction reimbursement) for a middle and high school project and a public safety complex. We anticipate the town's debt service carrying charge will rise above 15% of expenditures; however, as mentioned above, the increase in debt service will be paid through additional taxes, as 80% of these bonds have been excluded from Proposition 2-1/2 levy limits.

In our opinion, a credit weakness is Scituate's large pension and OPEB liability, but we acknowledge it has proactively managed them. Pension and OPEB contributions totaled 7.6% of total governmental fund expenditures in 2015. Of that amount, 5.2% represented contributions to pension obligations and 2.4% represented OPEB payments.

The town participates in the Plymouth County retirement system, and it contributes 100% of the required amount. As

of Jan. 1, 2013, the system, as a whole, was 50.5% funded. While pension costs are manageable, due to the county retirement system's below-average funded ratio, we believe this will likely remain a growing cost over the next few years.

Scituate also provides OPEBs to retirees, but has been proactive in managing this long-term liability. As of the last actuarial valuation, the town reported a \$65 million OPEB liability. Scituate funds OPEBs through pay-as-you-go financing; however, the town has established an OPEB trust fund, which currently has a balance of \$386,000, with plans to contribute an additional \$400,000 for fiscal 2016. In addition to its annual contributions, the town's policy is to budget (at minimum) 2% of pension contribution costs to this fund in the future.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view that Scituate's very strong liquidity, strong management, and predictable operating profile should translate into continued strong budgetary flexibility over the next two years. Rating upside is currently limited due to the town's weak debt and liability factors. While currently unlikely, significant pressure on budget performance and budgetary flexibility could lead us to lower the rating, but we do not expect to do so within the two-year outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- 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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