

# RatingsDirect®

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## Summary:

# Holliston, Massachusetts; General Obligation; Note

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## Summary:

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### Credit Profile

US\$8.375 mil GO BANs ser 2021 dtd 07/22/2021 due 07/22/2022

<i>Short Term Rating</i>	SP-1+	New
Holliston GO		
<i>Long Term Rating</i>	AAA/Stable	Upgraded

## Rating Action

S&P Global Ratings raised its long-term and underlying ratings to 'AAA' from 'AA+' on the Town of Holliston, Mass.' general obligation (GO) bonds outstanding. At the same time, we assigned our 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs) dated July 22, 2021, and maturing July 22, 2022. The outlook, where applicable, is stable.

The rating action reflects the town's maintenance of higher reserve levels (currently 14.8% of general fund expenditures) than it historically maintained, which we expect will continue. We also believe the town has demonstrated a significant willingness to address its pension and other postemployment benefit (OPEB) obligations, through overfunding of the annual contribution, and its adherence to strong financial management policies and practices.

The town's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the GO bonds and BANs. We understand Holliston elected to exclude from the limitations of Proposition 2-1/2 debt service on the current BAN issuance and on the long-term financing, expected to be issued next year. Certain maturities of the town's GO bonds outstanding are limited-tax obligations of Holliston. Despite limitations imposed by the commonwealth's levy-limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledges because of the town's operating flexibility under the levy limit. We rate the limited-tax-GO debt on par with our view of Holliston's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource fungibility limitations, supporting our view of its overall ability and willingness to pay debt service.

### Credit overview

Supporting the 'AAA' rating are Holliston's very strong economic, financial management, liquidity and debt profiles. We further expect the town to maintain reserves at levels we consider strong-to-very strong going forward. We expect its assessed values to continue to rise, likely leading to further strengthening of its economic metrics and its ability to raise revenue. Finally, the town's debt and contingent liability profile is a credit strength, with low fixed and debt-to-total governmental revenue ratios, although we believe the debt profile could weaken outside the outlook period. At this time, do not believe future debt issuances will materially affect either the debt or holistic credit profiles

and note that the town is committed to funding its pension and OPEB liabilities. We do not expect to change the rating over the two-year outlook period.

Holliston's GO debt is eligible to be rated above the sovereign, because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" criteria (published Nov. 19, 2013, on RatingsDirect), Holliston has a predominantly locally derived revenue source, with property taxes accounting for the majority of the town's general fund revenue. The town also has independent taxing authority and treasury management from the federal government.

The long-term rating reflects our view of Holliston's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 14.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 47.4% of total governmental fund expenditures and 7.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.3% of expenditures and net direct debt that is 14.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

### **Environmental, social, and governance risks**

We also analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. We believe its ESG risks align with the sector standard.

## **Stable Outlook**

### **Downside scenario**

If the town's reserves were to fall below levels comparable to those of 'AAA' rated state peers, or if the future debt issuance materially alters the town's debt profile, we could lower the rating.

## **Credit Opinion**

### **Very strong economy**

We consider Holliston's economy very strong. The town, with a population of 14,584, is in Middlesex County, approximately 25 miles southwest of Boston. It is in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 184% of the national level and per

capita market value of \$196,151. Overall, market value grew by 7.5% over the past year to \$2.9 billion in 2021. The county unemployment rate was 7.3% in 2020.

Holliston is primarily a residential community. As it is located in proximity to Routes 128 and 495, residents also benefit from access to the employment base in the greater Boston MSA. The town recently established a new economic development committee within the Select Board to promote community businesses, which includes engaging the local cable channel to publicize local businesses. Local employers are involved in manufacturing and chemical research. Leading taxpayers include a mix of manufacturing and utilities companies, including Eversource (f/k/a Nstar Electric & Gas), SIA Assets, and EIP Holliston Corp. The town is also home to several cannabis-growing facilities.

As the town's tax base is about 87% residential, we expect any material change in the total tax base will reflect changes in value of residential properties. Given its geographic location and access to multiple employment centers, we believe Holliston will remain a desirable residential location. We expect continued growth in the residential tax base resulting in stability in the underlying wealth and income metrics, ultimately supporting revenue growth, particularly given the current economic climate. For more information on S&P Global Ratings' economic view, see our newest Economic Outlook titled: "Sun, Sun, Sun, Here It Comes," published June 24, 2021.

We do not expect to revise our view of the economic profile.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We revised our view of the town's FMA to strong from good following its implementation of and adherence to financial policies over the past several years. We understand that Holliston, under its new town administrator, is reviewing its formal policies and planning documents. We will continue to update our view of the town's financial management environment as updates occur, but would generally expect that it would only work to strengthen existing policies and practices.

Holliston uses historical trend analysis for revenue and expenditure assumptions, and it monitors budgetary performance monthly with budget-to-actual reports shared with the finance committee. It maintains a five-year capital improvement plan and a five-year budget projection, both of which it updates annually. The town has an investment policy that restricts investments to obligations guaranteed by the federal government, money market accounts, and certificates of deposit; the Select Board receives monthly reports on holdings and earnings. The town's debt management policy limits debt service to 8% of general fund expenditures and net direct debt to 30%-60% of revenues. It also has a formal policy of maintaining at least 8.1% of expenditures in a stabilization fund.

### **Strong budgetary performance**

Holliston's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of 0.3% of expenditures, and surplus results across all governmental funds 4.6% in fiscal 2020.

For analytical consistency, we adjusted for recurring transfers out of the general fund to the capital projects fund and other project funds. The town closed fiscal 2020 with balanced general fund results. It had a \$2.5 million surplus prior

to transfers out, but elected to transfer \$4.2 million to capital projects. Partially offsetting this transfer was a \$1.5 million transfer in for indirect costs from other funds. Management did not make major year-end adjustments to account for pandemic-related uncertainty, but asked departments to limit expenditures to essential items.

The town adjusted its initial fiscal 2021 budget to reduce departmental increases to about 0% growth. It also increased its budgeted reserve fund to \$790,000, which was ultimately offset by receipts of CARES Act funding totaling \$1.3 million. The schools received approximately \$1.1 million in additional federal funding. We understand that the town's major revenue sources remain on budget, with estimated local receipts expected to exceed budget. Management reports that expenditures are on budget and it expects to report at least break-even operations again in fiscal 2021.

The town's adopted 2022 budget totals about \$70 million and holds most revenues and expenditures approximately constant with prior adopted budgets. We expect the town could amend the budget midyear to address capital articles. In fiscal 2020, local property taxes accounted for about 65% of audited general fund revenues. We expect collections to remain stable, providing the budget with a predictable base. Intergovernmental aid was about 28%, which remained stable despite expected reductions during the pandemic and recession. The town's intergovernmental aid is primarily school aid and payments for the teachers' retirement system. Given Holliston's history of balanced operating and total governmental funds results, along with projections for 2021 and stability in the 2022 budget, we expect continued strong budgetary performance.

### **Strong budgetary flexibility**

Holliston's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 14.8% of operating expenditures, or \$11.6 million.

The town's available reserves increased approximately \$400,000 at fiscal year-end 2020 from 2019 owing to a reclassification of previously restricted reserves. However, on an adjusted general fund expenditure basis, reserves dropped below the 15% threshold we consider very strong due to growth in expenditures. We generally expect the town to maintain available reserves at strong-to-very strong levels, at or about 15% of expenditures.

### **Very strong liquidity**

In our opinion, Holliston's liquidity is very strong, with total government available cash at 47.4% of total governmental fund expenditures and 7.5x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is demonstrated by its regular GO bond and BAN issuances. Commonwealth laws do not allow municipalities to issue variable-rate debt. In addition, the town has no direct-purchase debt or repurchase agreements, nor does it have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Town investments are subject to state guidelines, and Holliston invests its cash in low-risk assets, including U.S. treasury notes, mutual funds, and the state retiree benefit trust fund. For these reasons, the town's available cash position remains very strong and stable, and we expect its liquidity profile will remain very strong over the next two years.

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

In our view, Holliston's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.3% of total governmental fund expenditures, and net direct debt is 14.6% of total governmental fund revenue. Overall net debt is low at 0.4% of market value, which is, in our view, a positive credit factor.

Total direct debt is about \$16 million, of which we consider \$3.5 million self-supporting enterprise debt. We understand the town expects the current issuance BANs to be wholly self-supported by user charges on final takeout. We will continue to update our view of self-support coverage and amortization when the town permanently finances the BANs. We do not expect material change in the debt profile over the next several years. We understand the town is in the initial planning stages for a new high school, with total estimated project costs greater than \$100 million and a local share of 40%-50% of the total. Given current debt ratios, that project could weaken our view of the debt profile outside the outlook period.

Holliston's combined required pension and actual OPEB contributions totaled 7.2% of total governmental fund expenditures in 2020. Of that amount, 2.7% represented required contributions to pension obligations, and 4.4% represented OPEB payments. The town made 104% of its required pension contribution in 2020.

Pension and OPEB highlights include:

- Despite the low funded ratio of the pension system, we do not view retirement liabilities as an immediate credit pressure, because of the town's low fixed costs and financial planning.
- While the use of an actuarially determined contribution (ADC) is a positive factor, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, increasing the risk of unexpected contribution escalations.
- Over the past four years, the town's OPEB contribution exceeded the ADC. Its OPEB liability is 34% funded, which we believe is a significant credit positive and demonstrates the town's willingness to address its liabilities. Its net OPEB liability is about \$30 million.

As of June 30, 2020, the town participated in the following plan:

- Middlesex County Retirement System: 49.5% funded, with a \$26.7 million proportionate share of the net pension liability.

Holliston's combined required pension and actual OPEB contributions totaled 7.2% of total governmental fund expenditures in 2020. Of that amount, 2.7% represented required contributions to pension obligations, and 4.4% represented OPEB payments. The OPEB contribution includes the town's payments in excess of the pay-as-you-go cost and ADC. The town made 104% of its required pension contribution in 2020 and 107% of the OPEB ADC.

MCRS recently lowered its discount rate to 7.3%, although we continue to view this as elevated and believe it could lead to contribution volatility. While Massachusetts requires all pension systems to achieve full funding no later than 2040, the system is expected to be fully funded by fiscal 2037. We generally view closed, short amortization schedules as positive, but for MCRS to meet its adopted funding schedule to achieve full funding in 2035, costs must rise. However, while the system's assumptions and funding schedule are likely to lead to escalating and potentially volatile

contributions, given the current low pension charge we do not expect material financial pressure for Holliston. For more on our view of the state's pension plans, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

## Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 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

Ratings Detail (As Of June 30, 2021)		
Holliston GO rfdg bnds (unltd tax)		
<i>Long Term Rating</i>	AAA/Stable	Upgraded
Holliston GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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