

RatingsDirect®

Summary:

Holliston, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$8.25 mil GO wtr bnds ser 2022 due 05/15/2047

<i>Long Term Rating</i>	AAA/Stable	New
Holliston GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Holliston GO rfdg bnds (unltd tax)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Holliston GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Holliston, Mass.' approximately \$8.25 million series 2022 general obligation (GO) municipal purpose loan bonds. At the same time, we affirmed our 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. We understand Holliston elected to exclude this debt issuance from the limitations of Proposition 2 1/2; however, certain maturities of the town's GO bonds outstanding are limited-tax obligations of Holliston, subject to Proposition 2 1/2. 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.

Officials intend to use 2022 bond proceeds to permanently finance outstanding bond anticipation notes for construction of a water treatment plant.

Credit overview

Holliston's credit profile is supported by the town's direct access to Boston's broad and diverse MSA. The strong management policies and practices have resulted in continued strong operational performance and consistently very strong reserve levels. We expect its assessed values to continue to rise, likely leading to further strengthening of its economic metrics and its ability to raise revenue.

Holliston is eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to national risk. The town's predominantly locally derived revenue base supports our view that debt repayment is at limited risk of negative sovereign intervention.

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

- Growing strong residential economy;
- Very strong management and strong institutional framework;
- Strong budgetary performance and flexibility bolstered by consistent very strong fund balance levels; and
- Manageable debt profile and proactive management of its pension and OPEB liabilities.

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 with those of 'AAA' rated state peers, or if operational performance weakens and leads to a draw on reserves, or if pension and OPEB costs rise significantly and pressure the town's budget, we could lower the rating.

Credit Opinion

Strong residential economy

Holliston is a primarily residential community in Middlesex County with a population of approximately 14,880. The town is located 25 miles southwest of Boston in the Boston-Cambridge-Newton MSA, and its proximity to Routes 128 and 495 offers residents access to the greater Boston employment base. Local employers are involved in manufacturing and chemical research. Leading taxpayers include a mix of manufacturing and utilities companies, including Eversource, SIA Assets, and EIP Holliston Corp. The town is also home to several cannabis-growing facilities and two solar farms are expected to come online within the calendar year.

Given its geographic location and access to multiple employment centers, the town is experiencing a significant level of residential development. We expect this growth in the residential tax base will result in stability in the underlying wealth and income metrics that will ultimately support revenue growth.

Very strong management with formalized financial policies that are adhered to

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 underscores consistent reserve levels and strong liquidity levels

For analytical consistency, we adjusted for recurring transfers out of the general fund to the capital projects fund and other project funds. The town ended fiscal 2021 with a positive operating result of approximately \$580,000 in surplus funds primarily due to better-than-budgeted revenue collections in excise tax and local receipts. In addition, expenditures came in below budget and the town received federal funds to cover pandemic-related expenses.

The town's 2022 budget totals about \$65 million, a 4% increase over the fiscal 2021 budget. Most of the departments saw an increase in appropriations, with the largest increases in education, public safety and general government. Management reports that revenue collections have been robust, and expenditures are in-line with budgeted amounts. The town expects to end fiscal 2022 with at least break-even operations, if not adding to fund balance.

Holliston was allocated approximately \$4.4 million in American Rescue Plan Act (ARPA) funds. A planning committee was established to review potential uses of the federal funds and has recommended to distribute the funds to equity-focused services, infrastructure projects and public health response.

Given Holliston's history of balanced operating and total governmental funds results, along with stable projections for fiscal 2022, we expect continued strong budgetary performance. The town has also maintained strong flexibility with consistent fund balance levels and has no plans to draw on reserves.

Commonwealth laws do not allow municipalities to issue variable-rate debt. We understand the town does not have any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Manageable debt profile

Following this issuance, Holliston will have approximately \$13.5 million in total direct debt outstanding. Of the total outstanding, \$3 million in the water enterprise funds is self-supporting through user fees. We understand the town expects the current issuance will also be fully self-supported through water usage fees. The town currently has no authorized but unissued debt, but we understand the town is in the midst of planning for a high school capital project and a potential DPW project that will likely be authorized and issued outside of our outlook period.

Large pension and OPEB obligations that the town continues to proactively manage

- Despite the low funded ratio of the pension system, we do not view retirement liabilities as an immediate credit pressure given our expectation that the town will adequately absorb escalating costs, and 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 five years, the town's OPEB contribution exceeded the ADC and its OPEB liability funded ratio continues to increase, which we believe is a significant credit positive and demonstrates the town's willingness to address its liabilities.

As of June 30, 2021, the town participated in the following plan:

- Middlesex County Retirement System, which is 53% funded with a \$25 million proportionate share of the net

pension liability.

- Its defined-benefit health care plan, which is 45% funded with a \$27 million net OPEB liability.

We believe the discount rate of 7.3% is elevated and 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 2035. 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 will significantly rise. We expect that the town will continue to actively manage its budget to absorb these rising costs. 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.

We also believe that Holliston has been more proactive in managing its pension and OPEB liabilities. The town made 100% of its required pension contribution in 2021, and its OPEB contribution of 144% includes the town's payments in excess of the pay-as-you-go cost and ADC. In addition, Holliston established a pension stabilization fund in 2021 to address its unfunded pension liability; the balance of the fund is approximately \$339,000.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Holliston Township, Mass.--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	197			
Market value per capita (\$)	206,702			
Population			14,705	14,584
County unemployment rate(%)			7.3	
Market value (\$000)	3,039,554	2,860,673	2,661,778	
Ten largest taxpayers % of taxable value	4.7			
Strong budgetary performance				
Operating fund result % of expenditures		0.8	(0.3)	2.1
Total governmental fund result % of expenditures		4.0	4.6	3.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		17.0	14.8	15.4
Total available reserves (\$000)		13,122	11,623	11,211
Very strong liquidity				
Total government cash % of governmental fund expenditures		50	47	42
Total government cash % of governmental fund debt service		1419	752	611
Very strong management				
Financial Management Assessment	Strong			

Holliston Township, Mass.--Key Credit Metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2021	2020	2019
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.5	6.3	6.8
Net direct debt % of governmental fund revenue	12			
Overall net debt % of market value	0.3			
Direct debt 10-year amortization (%)	54			
Required pension contribution % of governmental fund expenditures		2.9		
OPEB actual contribution % of governmental fund expenditures		4.6		

Strong institutional framework

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

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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