

Holliston, Massachusetts; General Obligation

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Credit Profile		
US\$2.515 mil GO rfdg bnds (unltd tax) ser 2020 dtd 02/28/2020 due 05/15/2029		
Long Term Rating	AA+/Stable	New Rating
Holliston GO		
Long Term Rating	AA+/Stable	Affirmed
Holliston GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'AA+' rating to the Town of Holliston, Mass.' series 2020 general obligation (GO) refunding bonds and affirmed its 'AA+' rating on the town's previously issued GO debt. The outlook on all ratings is stable.

Security and use of proceeds

The town's full-faith-and-credit pledge secures the GO debt. We understand that officials intend to use series 2020 bond proceeds to refund 2009 GO police station bonds, for estimated present-value savings of approximately \$320,000.

The town's GO bonds outstanding are limited-tax obligations of Holliston, secured by the town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations. 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 'AA+' rating are Holliston's strong wealth and income indicators, as it is located 25 miles from the robust employment center of Boston. Assessed values within the town have increased steadily over the past several years, by a cumulative 12% between 2016 and 2020, totaling \$2.5 billion in 2020. The town has historically posted positive year-end results, which continued in fiscal year 2019. The town's budgetary flexibility has improved in recent years, and we expect it to remain at current levels for the foreseeable future. Finally, the town's debt and contingent liability profile is a credit strength, as it plans to maintain low overall net debt and is committed to funding its pension and other post-employment benefits (OPEB) liabilities.

The rating also 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 methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.1% of total governmental fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.7% of expenditures and net direct debt that is 1.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 93.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Holliston's economy very strong. The town, with an estimated population of 14,406, is located in Middlesex County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 189% of the national level and per capita market value of \$184,769. Overall, the town's market value grew by 4.7% over the past year, to \$2.7 billion in 2020. The county unemployment rate was 2.7% in 2018.

Holliston is primarily a residential community, approximately 25 miles southwest of Boston. As it is located in proximity to Routes 128 and 495, residents also benefit from access to the employment base in the greater Boston metropolitan area. Local employers are involved in manufacturing and chemical research. Leading taxpayers include a mix of manufacturing and utilities companies, including Eversource (formerly Nstar Electric & Gas), SIA Assets, and EIP Holliston Corp.

The town has demonstrated stable and modest growth in its commercial and residential development. Holliston is home to two cannabis growing facilities, with two more currently in the approval process, whose operations currently contribute more than \$260,000 to the town's revenues, according to town officials; one facility in the permitting process is expected to be an 800,000 square-foot distribution facility expected to add approximately \$12 million in assessed value. Holliston has also been the recipient of a green communities grant, which has enabled it to make energy improvements to town infrastructure, such as weatherization to buildings and the addition of two electric vehicles to its fleet. The town recently established a new economic development committee within the board of selectmen to promote community businesses, which includes engaging the local cable channel to publicize local businesses.

We expect Holliston's residents will continue to benefit from access to nearby employment centers. Consequently, we expect the town's economy will remain very strong throughout the two-year outlook period.

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..

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. Holliston 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 selectboard 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. The town 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 operating surpluses of 2.1% of expenditures in the general fund and of 2.4% across all governmental funds in fiscal 2019. General fund operating results have been stable over the past three years, with results of 3.9% in 2018 and 2.3% in 2017.

For analytical consistency, we adjusted for recurring transfers out of the general fund to the capital projects fund and other project funds. For fiscal 2019, Holliston ended with positive operating results, with a general fund surplus of \$1.5 million and a \$1.9 million total governmental fund surplus, or 2.4% of operating expenditures. Management attributes these results to increases in property taxes, investment income, and overall conservative budgeting.

For fiscal 2020, Holliston reports it is tracking in alignment with budgeted projections, and expects to generate another positive operating result. We believe Holliston maintains a stable and predictable revenue base, as property taxes make up 67% of total general fund revenues, and property tax collection has averaged 99% over the past five years.

Management is in the process of developing its fiscal 2021 budget, and does not currently expect any budgetary pressure for that fiscal year. As it remains focused on conservative budgeting, we expect that over the short term Holliston will produce at least break-even results, resulting in continued strong budgetary performance.

Very strong budgetary flexibility

Holliston's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 15% of operating expenditures, or \$11.2 million.

The town's available reserves increased from \$8.5 million in fiscal 2018. Holliston currently maintains a formal reserve policy that sets a minimum stabilization fund balance level of 8.1%, with a target maximum of 15% of expenditures, to which it has historically adhered and sustained; we do not expect the town to increase reserves beyond their formal policy limit in the next two to three years. With no expectation of large or sustained drawdowns of reserves, and given our expectation of continued strong budgetary performance, we believe the town's flexibility will stay at least strong over the next two years.

Very strong liquidity

In our opinion, Holliston's liquidity is very strong, with total government available cash at 41.1% of total governmental fund expenditures and 6.1x governmental debt service in 2019. In our view, the town has strong access to external liquidity, if necessary.

We believe the town's strong access to external liquidity is supported by its regular GO bond and bond anticipation note 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 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 6.7% of total governmental fund expenditures and net direct debt is 1.4% of total governmental fund revenue. Overall net debt is low as a percent of market value, and approximately 93.5% of the direct debt is scheduled to be repaid within 10 years; in our view, these are positive credit factors.

Total direct debt is \$13.3 million, \$4.2 million of which is self-supporting enterprise debt. We understand the town has about \$8 million in new money debt plans within the next two fiscal years that will be fully self-supported by water rates, and thus do not believe this additional debt issuance will have a material impact on Holliston's debt burden. Given the expectation of no additional debt plans, combined with a currently strong debt profile, we expect debt service to remain manageable and do not expect our view of the debt profile to change in the next several years.

Holliston's combined required pension and actual OPEB contributions totaled 6.7% of total governmental fund expenditures in 2019. Of that amount, 2.8% represented required contributions to pension obligations and 4.0% represented OPEB payments, which include prefunding an OPEB trust fund. The town made 102% of its annual required pension contribution in 2019.

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.
- The town funds its OPEB liability on a pay-as-you-go basis, while also prefunding this liability via an OPEB trust fund.

As of June 30, 2019, the town participates in the following plan:

- Middlesex County Retirement System: 46.4% funded, with a \$27.4 million proportionate share of the net pension liability.

We consider the retirement system's funded ratio as weak, in addition to our view that the assumed discount rate of 7.50% is somewhat risky and could lead to contribution volatility should actual performance not meet these assumptions. We note the system fell short of our static funding metric and did not meet the minimum funding progress calculation in the most recent year. Should the town's required pension contributions consume a larger percentage of its budget over time, we could view it as a large pension pressure. However, in fiscal 2019, Holliston

paid \$2.2 million toward its pension liability, exceeding its annual required contribution amount and accounting for 2.8% of total governmental fund expenditures, which we consider low. As such, we do not expect required pension contributions to be a near term budgetary pressure for the town.

Notably, in addition to funding OPEB on a pay-as-you-go basis, Holliston established an OPEB trust fund in 2015, which increased by \$2.2 million in fiscal 2019, in part because of an annual contribution amount of \$1.5 million, to a total of \$13.7 million. As a result, the town's OPEB liability is about 36% funded, with a \$24.4 million net liability. Given the town's commitment to funding its pension and OPEB liability, in combination with management's fixed costs, we do not expect to change our view of their debt and pension/OPEB liability within the outlook period.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of Holliston's overall strong financial practices and policies, which contribute to generally strong and predictable budgetary performance, and support its strong budgetary flexibility and liquidity profiles over the outlook period. At the same time, we expect that Holliston will maintain a stable debt profile, supported by low overall net debt over the next two years. Therefore, we do not expect to change the rating over the two-year outlook period.

Upside scenario

All factors remaining equal, should the town demonstrate an increased and sustained fund balance, in combination with improvement in economic indicators to levels comparable with those of higher-rated peers, we could raise the rating.

Downside scenario

If Holliston demonstrates consistent negative financial performance, to the extent of deteriorating its reserves to levels we consider adequate, we could lower the rating.

Related Research

- 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
- 2019 Update Of Institutional Framework For U.S. Local Governments

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