

# RatingsDirect®

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## Summary:

# Holliston, Massachusetts; General Obligation

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### Credit Profile

US\$11.25 mil GO rfdg bn ds ser 2016 due 01/25/2036

*Long Term Rating* AA+/Stable New

Holliston GO

*Long Term Rating* AA+/Stable Affirmed

#### **Holliston GO**

*Unenhanced Rating* AA+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to the 'Town of Holliston, Mass.' series 2016 general obligation (GO) refunding bonds and affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the GO debt. We understand that officials intend to use series 2016 bond proceeds to refund 2006 bonds for an estimated present value savings of \$835,000. A portion of the savings will be shared with the Massachusetts School Building Authority.

The rating reflects our opinion of the following factors for the town:

- 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 (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 10.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 16.8% of total governmental fund expenditures and 3.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 25.8% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

### **Very strong economy**

We consider Holliston's economy very strong. The town, with an estimated population of 14,012, is located in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 185% of the national level and per capita market value of \$162,389. Overall, the town's market value grew by 8.7% over the past year to \$2.3 billion in 2016. The county unemployment

rate was 4.6% in 2014.

Holliston is primarily a residential community, approximately 25 miles southwest of Boston. Local employers are involved in manufacturing and chemical research. Residents also benefit from access to the employment base in the greater Boston metropolitan area. Leading taxpayers include a mix of manufacturing and utilities companies, including Nstar Electric, Deluxe-Lista Corp., and EIP Holliston Corp.

### **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, but that governance officials might not formalize or monitor all of them on a regular basis.

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. Although the town has an investment policy that restricts investments to obligations guaranteed by the federal government, money market accounts, and certificates of deposit, it does not regularly report 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 surplus operating results in the general fund of 2.4% of expenditures, and balanced results across all governmental funds of negative 0.2% in fiscal 2015. General fund operating results of the town have been stable over the last three years, with a result of 3.9% in 2014 and a result of 2.5% in 2013.

In our calculation of performance, we net out a \$3.2 million one-time transfer to establish an other postemployment benefit (OPEB) trust fund. The full amount of the transfer was \$4.7 million. However, \$1.5 million of this we consider recurring. Although snow-and-ice expenditures were about \$195,000 more than the budgeted amount, the town covered the majority from the projected operating surplus and expected Federal Emergency Management Agency reimbursements. Officials report that all other revenues and expenditures came in on target.

The fiscal 2016 budget totals \$58.3 million, a 6.6% year-over-year increase. According to management, operating results are currently tracking on budget and could result in a year-end surplus.

### **Strong budgetary flexibility**

Holliston's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 10.7% of operating expenditures, or \$6.1 million.

The town's available reserves declined from \$8.2 million the year before, primarily as a result of a \$4.7 million transfer to establish an OPEB trust. The town has no plans to spend down reserves in the near term and currently maintains a reserve policy that sets a minimum fund balance level of 8.1%, with a target of 10%. We expect our assessment of budgetary flexibility to remain unchanged in the next few years, barring any changes to the town's policies.

### **Very strong liquidity**

In our opinion, Holliston's liquidity is very strong, with total government available cash at 16.8% of total governmental fund expenditures and 3.9x governmental debt service in 2015. 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. Liquidity will likely remain very strong, in our opinion. At present, the town does not have any contingent liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events.

### **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 4.3% of total governmental fund expenditures, and net direct debt is 25.8% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, which is in our view a positive credit factor.

Total direct debt is \$35 million of which \$7 million is self-supporting enterprise debt and \$10.9 million will be reimbursed by the state for school building projects. We account for the annual reimbursements from the state by subtracting the annual reimbursements (\$2.3 million) from our calculation of debt service carrying costs. We understand the town has about \$3 million in GO debt plans in the next two fiscal years. We do not believe this additional debt issuance will materially impact Holliston's debt burden given the town's rapid amortization of existing debt.

Holliston's combined required pension and actual OPEB contributions totaled 4.3% of total governmental fund expenditures in 2016. Of that amount, 2.8% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The town made its full annual required pension contribution in 2016.

Holliston participates in the Middlesex County Retirement System. As of Jan. 1, 2014, the most recent actuarial valuation, the entire system was 44% funded with an unfunded actuarial accrued liability (UAAL) of \$1.2 billion, roughly \$22.3 million of which was allocable to the town. Holliston also provides OPEB benefits to retirees. As of June 30, 2014, the UAAL was more than \$30 million, which was entirely unfunded. In fiscal 2015, however, the town established an OPEB trust with an initial contribution of \$4.7 million to address this liability. Officials intend to include an annual appropriation of \$1.5 million in future budgets.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion that Holliston will likely maintain its strong budgetary flexibility, supported by good financial management and conservative budgeting practices. We believe access to the broad and diverse Boston-Cambridge-Newton MSA provides additional rating stability.

### **Upside scenario**

We could raise the rating if, over time, reserves were to improve to levels we consider very strong and if economic indicators rise to levels comparable with those of other higher-rated peers.

### **Downside scenario**

Although currently unlikely to occur, if budgetary performance were to deteriorate and if reserves were to decrease to levels we consider adequate, we could lower the rating. However, we do not expect to change the rating within the outlook's two-year period.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

### **Related Research**

- 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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