

RatingsDirect®

Summary:

Rockland, Massachusetts; General Obligation

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Credit Profile

US\$31.16 mil GO mun purp loan of 2020 bnds due 08/01/2050

Long Term Rating AA/Stable New

Rockland Twn GO (AGM)

Unenhanced Rating AA(SPUR)/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Rockland, Mass.' series 2020 general obligation (GO) municipal-purpose bond and affirmed its 'AA' long-term and underlying ratings on the town's GO debt outstanding. The outlook is stable.

Rockland's full-faith-and-credit-GO pledge secures the bonds. We understand that the town voted to exempt a portion of the debt service from this issuance from the limitations of Proposition 2-1/2. Despite the limitations imposed by the commonwealth levy limit law, we did not make a rating distinction between the limited-tax GO pledge and Rockland's general creditworthiness because the tax limitation imposed on the town's ability to raise revenue is already embedded in our analysis of its financial and economic conditions. Bond proceeds from this issuance will permanently finance existing bond anticipation notes (BANs) issued for various capital projects and provide new money for elementary school construction.

Credit overview

Supporting the long-term rating are the town's strong economic growth and operating results over the past several years that have led to maintenance of strong operating reserves. While we note significant uncertainty around certain revenue shortfalls and potential state aid cuts that could weaken the town's performance as it heads into fiscal year 2021, we understand management has already taken measures to cushion the effects of potential revenue shortfalls and has additional measures at its disposal that it could implement should significant cuts happen. That said, given that there is still much uncertainty related to the potential effects of COVID-19 and the ensuing economic recession on the town's finances, we will continue to monitor for any material adverse effects throughout the outlook period. Our outlook is generally for two years, but we see some risks due to the COVID-19 pandemic and U.S. recession over the next six-to-12 months. For more information on the coronavirus' effect in U.S. Public Finance, please see our reports titled "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions" (published April 2, 2020 on RatingsDirect) and "The U.S. Faces A Longer And Slower Climb From The Bottom" (published June 25, 2020).

The long-term rating reflects our view of the following credit factors for the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment

(FMA) methodology;

- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2019;
- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 12.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 12.0% of total governmental fund expenditures and 2.0x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 6.0% of expenditures and net direct debt that is 92.7% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Environmental, social, and governance factors

We evaluated the town's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile. We acknowledge, absent the implications of COVID-19, that we consider the town's social risks in line with those of the sector. We view its environmental risks as in line with the sector, and note that it is working through the state's Municipal Vulnerability Preparedness Program to address identified storm water management issues. We view its governance risks as in line with the sector.

Stable Outlook

Downside scenario

If the town's available reserves were to decline from current levels, due to budgetary pressure from rising costs or stagnant or negative revenue growth, we could lower the rating.

Upside scenario

We could raise the rating if management were to continue to grow budgetary flexibility to levels we consider comparable with those of higher-rated peers through consistent positive financial performance while reducing its long-term retirement liabilities and debt, coupled with improved economic indicators in line with those of higher-rated peers.

Credit Opinion

Very strong economy

We consider Rockland's economy very strong. The town, with a population of 18,013, is in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. It has a projected per capita effective buying income of 116% of the national level and per capita market value of \$123,752. Overall, market value grew by 5.2% over the past year to \$2.2 billion in 2020. The county unemployment rate was 3.0% in 2019.

Rockland is a primarily residential town south of Boston. The town's total assessed value grew annually over the past

five years, including following a 2019 revaluation, by a total of 22% since fiscal 2016. It has a number of large private employers in the educational, medical and manufacturing sectors, with participation in the broad and diverse Boston MSA supporting residents' employment throughout the metro area. Management reports that activity in its business and permitting offices has not slowed down materially over the past few months, leading to expectations of continued development across residential, commercial, and industrial sectors. However, if health or economic pressures persist, new growth revenues derived from property taxes could become pressured, potentially weakening the town's financial performance over time. While at this time, we do not expect a change in our view of the economic profile, we will continue to monitor recessionary effects on its budget and financial performance.

Adequate management

We view the town's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

We believe that management's budgetary assumptions are generally conservative, particularly with regard to forecasting state revenue, and as evidenced through consistent year-end positive budgetary variances. The town is able to amend the budget at town meetings, which management recognizes could be required in fiscal 2021. Monthly budget-to-actual reports are presented to the town board.

Although Rockland does not do formal long-range financial planning, we understand it is in the process of developing and implementing a financial plan. It annually updates its five-year capital improvement plan, which identifies funding sources for the projects. The town's investment policy mirrors commonwealth policy. Rockland lacks formal debt-management and reserve policies, although management targets maintaining stabilization fund reserves at 5% of the levy.

Adequate budgetary performance

Rockland's budgetary performance is adequate, in our opinion. The town had slight deficit operating results in the general fund of negative 1.4% of expenditures, and deficit results across all governmental funds of negative 2.2% in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve somewhat from 2019 results in the near term and revenue and expenditure uncertainty from the recessionary environment.

The town's negative fiscal 2019 GAAP financials were primarily due to the use of reserves for cash-funded capital projects in its general and water special-revenue funds. For fiscal 2020, management expects a small surplus, and we consequently expect performance to improve relative to 2019. However, due to the sudden rapid economic deterioration, our assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. We incorporated this uncertainty into our forward-looking assessment of budgetary performance.

The town adopted a fiscal 2021 budget that totals about \$70.9 million, a 0.3% increase from the fiscal 2020 budget. It reduces state aid 10% and local nontax receipts 15% relative to fiscal 2020. The budget includes contractually required expenditure increases, but cuts expenditures elsewhere to keep overall growth to a minimum. The town has used appropriated reserves to balance budgets, and the 2021 budget appropriates approximately \$630,000 from reserves. In fiscal 2019, the primary audited revenue sources were local property taxes (55% of operating revenue), intergovernmental aid (25%), and motor vehicle excise tax (4%). While the town is working to mitigate potential effects

from revenue and expenditure volatility from the recession and pandemic, due to the unpredictable environment, we believe it could face budgetary pressure.

Strong budgetary flexibility

Rockland's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2019 of 12.4% of operating expenditures, or \$8.6 million.

We have included committed fund balance, which can be made available by board approval, in our calculation of available reserves. While the town appropriated reserves in its current budget, we do not expect reserves to deteriorate such that it would change our view of budgetary performance. Holding adjusted 2019 operating expenditures constant, the town would need to draw, or project drawing, approximately \$3 million from its current reserve position. We believe a drawdown of this size is unlikely over the next two years.

Very strong liquidity

In our opinion, Rockland's liquidity is very strong, with total government available cash at 12.0% of total governmental fund expenditures and 2.0x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We adjusted the town's cash ratios to exclude cash we believe is not readily available for liquidity purposes. We believe it has demonstrated strong market access through its frequent issuances of GO debt for capital projects. Rockland does not have any variable-rate or direct-purchase debt, or any financial provisions with repayment provisions that could accelerate. While the town could face some variability in tax collections due to the current economic environment, we do not expect material pressure from delayed collections.

Very weak debt and contingent liability profile

In our view, Rockland's debt and contingent liability profile is very weak. Total governmental fund debt service is 6.0% of total governmental fund expenditures, and net direct debt is 92.7% of total governmental fund revenue.

Following this issuance, the town has approximately \$76.1 million in outstanding debt, including leases. Management anticipates issuing the remainder of the local portion of the authorized debt for the current school project, estimated at \$21.0 million.

Pension and other postemployment benefits

- In our opinion, a credit weakness is Rockland's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. While annual costs remain manageable, we expect costs will rise given the size of the liability and low funded ratios.
- Additionally, while the pension plan uses an actuarially determined contribution (ADC), we believe some of the assumptions are likely to lead to cost escalation and volatility.
- The town is prefunding its OPEB liability in a trust, but we believe costs and the total liability are likely to grow.

The town participates in the following retirement plans:

- Plymouth County Contributory Retirement System (PCCRS): 56.1% funded, \$39.4 million net pension liability
- Single-employer defined benefit health care plan (OPEB): .9% funded, \$99.6 million net OPEB liability

PCCRS uses a 7.875% discount rate, which we believe could lead to volatile contributions should market performance not meet expectations. We note the system has recently lowered the discount rate from 8% and will continue to explore further reductions, which we view positively. While Massachusetts requires all pension systems to achieve full funding no later than 2040, PCCRS has planned to do so by 2029. We generally view closed, short amortization schedules as positive, but for PCCRS to meet its adopted funding schedule to achieve full funding in 2029, costs must rise, given the low funded ratio and the level-percent basis using a 3.75% payroll growth assumption. PCCRS met both our static and minimum funding progress metrics in the most recent year, indicating that the system is addressing current costs and making headway in addressing its unfunded liabilities.

Rockland's combined required pension and actual OPEB contributions totaled 8.7% of total governmental fund expenditures in 2019. Of that amount, 4.6% represented required contributions to pension obligations, and 4.1% represented OPEB payments. The town made its full annual required pension contribution in 2019, as it does annually. While we expect it will continue to at least contribute its pension ADC and OPEB pay-as-you-go cost, we expect costs will rise and could increasingly pressure the budget.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of July 15, 2020)

Rockland Twn GO mun purp loan		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Rockland Twn GO st qual mun purp ln bnds ser 2015		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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