

# RatingsDirect®

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## Summary:

# Rockland, Massachusetts; General Obligation

### Primary Credit Analyst:

Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

### Secondary Contact:

Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

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## Summary:

# Rockland, Massachusetts; General Obligation

### Credit Profile

US\$26.9 mil GO municipal purp loan ser 2021 due 10/01/2051

*Long Term Rating*

AA/Stable

New

## 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 the entirety of the debt service from the 2021 issuance from the limitations of Proposition 2-1/2. We did not make a rating distinction between the town's unlimited-tax GO pledge on the current issuance and its limited-tax GO pledge on debt outstanding 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 refund on a current basis outstanding GO bonds and provide funding for elementary school construction.

### Credit overview

Rockland's management team consistently takes a conservative approach to maintain its reserve profile. Entering fiscal 2021, the town limited budgetary growth to contractual obligations and reduced expenditures elsewhere to offset revenue uncertainty due to the pandemic and recession. Consequently, management reports that operating revenues and expenditures are on budget and we expect the town to maintain its strong reserve position. Management is also working to adopt new financial management policies to strengthen its budgeting practices; we will continue to evaluate these as they are adopted and implemented. Further supporting the rating and the stable outlook are continued growth in the tax base and manageable fixed costs, despite a debt and liabilities profile we view as very weak. We do not expect to revise the rating or outlook over the two-year outlook period.

The long-term rating further reflects our view of the following factors:

- 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;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 11.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.1% of total governmental fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;

- Very weak debt and contingent liability profile, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 89.7% 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 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 and social 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 improve budgetary flexibility to levels we consider comparable with 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 higher-rated peers.

## **Credit Opinion**

### **Very strong economy**

We consider Rockland's economy very strong. The town, with an estimated population of 17,860, is in Plymouth 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 119% of the national level and per capita market value of \$130,235. Overall, market value grew by 4.3% over the past year to \$2.3 billion in 2021. The county unemployment rate was 9.5% in 2020.

Rockland is a primarily residential town south of Boston. The town's total assessed value continues to grow annually, primarily reflecting appreciation in the residential sector. Management reports several large-scale residential and commercial projects, both fully permitted and in design stages, that are likely to materially grow the tax base and revenues. These include a \$23 million ice skating rink, a \$4.2 million daycare facility, and a \$1.3 million marijuana facility, as well as two large housing projects. The town 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. Given the town's proximity to downtown Boston and surrounding employment centers, we expect it will maintain consistent growth and a very strong economic profile.

### **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.

The town recently worked with the state to develop a comprehensive set of financial management policies, including those that would require it to undertake annually long-term financial planning and new debt and fund balance policies. The policies are in draft form and are currently under review, but we expect the town could formally adopt them over the next year. We will continue to monitor the policies and the town's implementation and adherence to them, and could revise our view of its financial management environment if warranted.

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, consistent with state law. Monthly budget-to-actual reports are presented to the town board.

At this time, Rockland does not undertake formal long-range financial planning. 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.

### **Strong budgetary performance**

Rockland's budgetary performance is strong, in our opinion. The town had balanced operating results of 0.4% of expenditures in the general fund and 0.5% across all governmental funds in fiscal 2020.

We adjusted the town's financial performance to account for recurring transfers into the general fund and one-time capital revenues and expenditures across total governmental funds. Operating revenues and expenditures were generally on budget in 2020, which management reports continued through 2021. Management entered the fiscal 2021 year with a budget that limited growth to contractually required expenditure increases, but cut expenditures elsewhere to keep overall growth to a minimum. The town used federal funds to offset losses in nongeneral fund fee-based revenues, such as recreation, town-operated daycare, and senior programs. We expect it to maintain financial balance in the general fund and across governmental funds through 2021 and 2022.

The adopted fiscal year 2022 budget totals \$74.9 million, a 4.5% increase from fiscal 2021. Growth again primarily reflects contractually required increases in personnel costs, while reinstating programming cuts made in fiscal 2021 to offset potential revenue and expenditure volatility. Management reports that operating revenues and expenditures are on budget, with no major variances. In fiscal 2020, 54% of general fund revenue was from local property taxes, with 24% from intergovernmental aid (excluding pass-through payments for the teachers' retirement plan) and 4% from motor vehicle excise taxes, with the remainder coming from a variety of local fees and charges. The revenue mix has been stable and predictable, with tax collections consistently exceeding 97% of the current year levy.

Overall, the town expects to receive approximately \$1.9 million from the Coronavirus Local Stability Fund, which it will use to offset revenue losses. It expects to receive approximately \$3.8 million from the American Recover Plan Act (ARPA), which will primarily be used on infrastructure upgrades and improvements. Management does not anticipate using ARPA or other federal funds to backstop its operating budget. Given the predictable revenue mix, along with management's demonstrated willingness to adjust its budget, we expect the town to maintain balanced results and strong operating performance.

### **Strong budgetary flexibility**

Rockland's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 11.6% of operating expenditures, or \$8.3 million.

We included committed fund balance in our calculation of available reserves, which can be made available by board approval. Given projections for fiscal 2021 balanced results and our expectation of continued balance through fiscal 2022, we do not expect a material change in reserves. We expect the town to maintain strong flexibility.

### **Very strong liquidity**

In our opinion, Rockland's liquidity is very strong, with total government available cash at 17.1% of total governmental fund expenditures and 2.9x governmental debt service in 2020. 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. We expect the town to maintain strong cash balances, with its liquidity profile bolstered by its strong access to external liquidity.

### **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 5.9% of total governmental fund expenditures, and net direct debt is 89.7% of total governmental fund revenue.

Following this issuance, the town has approximately \$76.8 million in outstanding debt, including leases. We understand at this time management does not anticipate issuing new-money debt over the next few years. We do not expect to revise our view of the town's debt profile within the outlook period.

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. The town's combined required pension and actual OPEB contributions totaled 8.6% of total governmental fund expenditures in 2020. Of that amount, 4.7% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The town made its full required pension contribution in 2020. The funded ratio of the largest pension plan is 61.6%.

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 or materially improve the costs or cost trajectory of the annual pension and OPEB contributions. While annual costs remain manageable, which totaled 8.6% of total governmental funds expenditures in 2020, 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), some of the assumptions, in particular the discount rate, are aggressive relative to our pension guidance.
- The town is prefunding its OPEB liability in a trust, but we believe costs and the total liability are likely to grow. Total OPEB costs were 3.9% of total governmental funds expenditures in fiscal year 2020. The OPEB trust is 1% funded, with a net OPEB liability of \$102 million, as of June 30, 2020.

The town participates in the following retirement plan:

- Plymouth County Contributory Retirement System (PCCRS): 62% funded, \$37 million net pension liability, as of June 30, 2020.

PCCRS uses a 7.875% discount rate, which we believe could lead to volatile contributions should market performance not meet expectations, although we note that in the most recent year, the system made material progress in addressing the unfunded liability, improving the funded ratio six percentage points. The state retirement commission noted in approving PCCRS' funding schedule that it maintains the highest discount rate of any municipal system in the state despite a recent reduction from 8%. Massachusetts requires all pension systems to achieve full funding no later than 2040. PCCRS' funding schedule is set to achieve full funding by 2029, under current assumptions. 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; the adopted funding plan current forecasts 8% contribution growth annually through 2028. The town's pension cost was 4.7% of total governmental funds expenditures in 2020. It contributes its full ADC annually. For more information on our view of the town's pension plan, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

## Related Research

- 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 September 27, 2021)         |           |          |
|---------------------------------------------------|-----------|----------|
| 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 |

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