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Summary:

Longmeadow, Massachusetts; General Obligation

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Credit Profile

US\$16.105 mil GO muni purpose ln bnds ser 2019 due 04/15/2039

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Longmeadow, Mass' series 2019 general obligation (GO) municipal purpose bonds. The outlook is stable.

Credit summary

The town is predominantly residential, located in southwestern Massachusetts approximately 90 miles west of Boston. Residents commute to the nearby economic and employment centers of Springfield, Mass. and Hartford, Conn. The rating reflects our opinion of Longmeadow's very strong economic indicators, with a healthy market value per capita of about \$139,000, as well as very strong management, with established and thorough financial management policies, which support consistent and strong budgetary performance.

Security and use of proceeds

The town's full-faith-and-credit pledge secures the bonds. Voters agreed to exempt some of the authorizations included in this issuance from the limitations of Proposition 2 1/2; however, while the majority of the issuance is exempt from Proposition 2 1/2, a portion of the issue is not exempt, thus we view this as a limited tax obligation, subject to Proposition 2 1/2 limits. Despite limitations imposed by the commonwealth's levy-limit law on municipal bonds, we do not make a rating distinction between the limited-tax GO pledge and Longmeadow's general creditworthiness because we have already embedded the tax limitation imposed on the town's ability to raise revenue and resource fungibility into our analysis of its financial and economic conditions.

Proceeds from the bonds will be used to design and construct a new Council on Aging building, as well as to finance general purpose capital projects.

The long-term rating reflects our assessment of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 8.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.7% of total governmental fund expenditures and

2.9x governmental debt service;

- Weak debt and contingent liability position, with debt service carrying charges at 5.4% of expenditures and net direct debt that is 99.2% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very Strong economy

We consider Longmeadow's economy very strong. The town, with an estimated population of 15,720, is located in Hampden County in the Springfield, Mass. MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 177% of the national level and per capita market value of \$138,810. Overall, the town's market value grew by 4.7% over the past year to \$2.2 billion in 2019. The county unemployment rate was 4.6% in 2018.

Longmeadow is a primarily residential town, with easy access to Interstate Route 91 and State Route 5, as well as close proximity to the Massachusetts Turnpike, Amtrak service in Springfield, and to the Bradley Airport.

Management reports that Baystate Health and Wellness Center, a 54,000 square foot medical office building offering primary and multi-specialty care, opened earlier this year, which will increase the town's valuation. Management notes a possibility of another medical facility to be added within the next two years.

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

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Longmeadow conducts trend analysis using one-to-two year look-back of local receipts, property taxes, state aid, and economic factors for revenue and expenditure assumptions. Management adheres to a formal policy that requires budget-to-actuals be reported to the board on a monthly basis. It also maintains a three-year and ten-year financial forecast, incorporating conservative revenue and expenditure projections. Notably, a special task force, the "Tax Ceiling Task Force", in fiscal year 2018 began to explore options of how avoid reaching the tax rate ceiling, as well as how to avoid reaching projected deficits within the plan's 10-year forecast period.

In addition to maintaining a growing capital projects fund, Longmeadow maintains a five-year capital plan, which identifies funding sources and is reviewed/renewed on an annual basis. Management adheres to an established investment management policy identifying guidelines and process on selection of financial institutions, diversification, and investment goals; the town treasurer provides investment reports to the select board on a quarterly basis. Longmeadow's current debt management policy was approved in February 2015 and caps the annual General Fund debt service ceiling at no more than 12% of General Fund operating expenditures and a floor of 3% of operating expenditures; the plan also specifies that a ceiling of Proposition 2 1/2 debt is not to exceed 10% of total property tax revenue. Any debt shall also not exceed 10 years. The policy notes that the debt management plan should be reviewed

by the select board and town manager annually.

Longmeadow maintains and adheres to an operating reserve policy, meant to provide flexibility during times of economic volatility, requiring reserve levels to remain between 5%-10% of operating revenues. The policy notes that the stabilization fund should withstand two to three years of negative economic impact.

Strong budgetary performance

Longmeadow's budgetary performance is strong in our opinion. The town had balanced operating results of negative 0.5% of expenditures in the general fund and of 0.1% across all governmental funds in fiscal 2018.

We adjusted expenditure data to reflect the one-time use of \$4.5 million of bond proceeds in fiscal year 2018, as well as a one-time expenditure of \$679,000 for a capital lease. For fiscal 2018, Longmeadow ended with breakeven operating results, in both the general fund as well as total governmental funds. Management generally produces surplus results; however, it increased commitments to the capital projects fund and the other postemployment benefits (OPEB) Trust Fund in fiscal year 2018, in addition to experiencing a slight increase in employee benefits/insurance expenditures. As a result, management has tightened its revenue assumptions and estimates fiscal year 2019 will close with about \$500,000 in operating surplus.

Longmeadow's adopted fiscal year 2020 general fund operating budget is \$63 million, which is an increase of \$1.5 million, or 2.5%, over the fiscal year 2019 general fund operating budget; nearly half of this increase is directly attributable to increases in employee benefits costs. In addition, the town increased its commitment to the capital budget to 3% of general fund operating revenues. Longmeadow is maintaining and monitoring its conservative budgeting, and expects to end fiscal year 2020 with approximately \$1 million in operating surplus.

We believe Longmeadow maintains a stable revenue profile, with a property tax base that contributes 82% of general fund revenues and minimal reliance on state aid. Tax collections have historically remained strong, collecting approximately 98%.

Strong budgetary flexibility

Longmeadow's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 8.9% of operating expenditures, or \$5.9 million.

Notably, Longmeadow has the highest millage rate in Massachusetts, currently at approximately \$24 per \$1,000 of assessed value; the median residential tax rate for the state is approximately \$15 per \$1,000 of assessed value. As such, the town may have limited capacity to increase property tax in the future should it need to do so.

The town has a written reserve policy to maintain a combined unassigned free cash balance and general stabilization funds (which form a portion of available reserves) to stay between 5%-10% of operating revenues, to which it has historically adhered and sustained. In addition, management notes that it is exploring strategies to build up a stronger reserve fund balance, which would improve its flexibility profile. With no expectation of large or sustained drawdowns of reserves, and given our expectation of continued strong budgetary performance, we expect the town's flexibility to remain very strong over the next two years.

Very strong liquidity

In our opinion, Longmeadow's liquidity is very strong, with total government available cash at 15.7% of total governmental fund expenditures and 2.9x governmental debt service in 2018. In our view, the town has satisfactory access to external liquidity if necessary.

Longmeadow is a regular market participant that has issued debt regularly over the past several years. Commonwealth laws do not allow municipalities to issue variable-rate debt. In addition, the town has no direct-purchase debt, 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 Longmeadow invests its cash in low-risk assets, including the commonwealth's short-term investment pool (the Massachusetts Municipal Depository Trust), registered money market funds, or short-term certificates of deposit. For these reasons, the town's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong over the next two years.

Weak debt and contingent liability profile

In our view, Longmeadow's debt and contingent liability profile is weak. Total governmental fund debt service is 5.4% of total governmental fund expenditures, and net direct debt is 99.2% of total governmental fund revenue.

Following this issuance, Longmeadow will have approximately \$77 million in outstanding debt. Management notes it expects to issue approximately \$4 million in new money debt in the next two to three years for ongoing and new capital projects, which we do not expect to impact the debt profile. Therefore, we do not expect our debt profile view to change within the outlook period.

In our opinion, a credit weakness is Longmeadow's large pension and OPEB obligation. Longmeadow's combined required pension and actual OPEB contributions totaled 6.8% of total governmental fund expenditures in 2018. Of that amount, 4.5% represented required contributions to pension obligations, and 2.3% represented OPEB payments. The town made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 54.8%.

The town contributes to the Hampden Country Retirement System, a cost-sharing multiple-employer defined-benefit pension plan. In addition, certain employees of the town participate in the Massachusetts Teachers' Retirement System (MTRS); the commonwealth is a non-employer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit payments of MTRS.

The town contributed \$3.3 million to the Hampden retirement system in fiscal 2018, which equaled the actuarially determined contribution requirement for the fiscal year. Its contributions as a percentage of covered payroll was about 25% in fiscal 2018. As of June 30, 2018, the town reported a liability of \$44.6 million for its proportionate share of the net pension liability. In January 2018, the discount rate used in the actuarial valuation decreased from 7.75% to 7.50%, which we view as higher than the national average. As of fiscal 2018, the funded ratio was 54.8%, which is a level we consider low.

Longmeadow also provides OPEBs in the form of healthcare benefits for retired employees; the town provides medical and prescription drug insurance to retirees and their covered dependents. Longmeadow maintains an OPEB trust fund, established in FY 2013 and governed by the OPEB Trust Funding Policy, into which management allocates 1.25% of

property tax revenue. The funding policy dictates an annual incremental contribution increase of .25% of property tax revenue, up to a maximum of 2% or once the balance reaches \$5 million. In FY 2018, the OPEB allotment was approximately \$600,000, and management expects to maintain at least similar contribution levels in the next several years. As of June 30, 2018, the OPEB Trust Fund had an asset value of \$1.9 million.

In fiscal year 2018, Longmeadow contributed \$1.3 million toward OPEB costs, of Longmeadow's net OPEB liability as of June 30, 2018 was \$42.5 million, with a plan fiduciary net position as a percent of the total OPEB liability of 4.4%.

Management expects to gain cost efficiencies with regard OPEB, as the obligation of certain police dispatchers will be transferred to a regional dispatch center. In addition, the management of the OPEB trust fund has been transferred to the State Retiree Benefits Trust Fund.

Given the low funded status of the pension system, we believe costs could accelerate, potentially pressuring the operating budget. We do not expect our view of the town's pension and OPEB liabilities to change within the outlook period.

Strong institutional framework

The institutional framework score is strong.

Outlook

The stable outlook reflects S&P Global Ratings' view of Longmeadow's very strong economy, coupled with very strong management practices, leading to strong budgetary performance and very strong liquidity. As a result, we do not anticipate changing the rating in our two-year outlook horizon, as we expect the town's strong management to maintain stable budgetary performance.

Upside scenario

We could raise the rating if Longmeadow makes meaningful progress in mitigating its debt, OPEB and pension liabilities, coupled with increasing available reserves that would enhance budgetary flexibility.

Downside scenario

Should the town's financial performance deteriorate, whether due to revenue pressure or growth in expenditures, leading to a lower reserve position relative to the budget, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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