

RatingsDirect®

Summary:

Longmeadow, Massachusetts; General Obligation

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Credit Profile

US\$18.505 mil GO bnds ser 2020 dtd 05/28/2020 due 06/30/2040

Long Term Rating AA+/Stable New

Longmeadow Twn GO muni purpose ln bnds ser 2019 due 04/15/2039

Long Term Rating AA+/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Longmeadow, Mass.' series 2020 general obligation (GO) municipal purpose bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the town's existing GO debt. The outlook on all ratings is stable.

Longmeadow's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the existing GO debt. We understand the town voted to exclude a portion of the debt service of the current issuance from Proposition 2 1/2 limitations. Despite commonwealth levy-limit laws, we did not make a rating distinction between the town's limited-tax debt and its general creditworthiness, because our analysis of Longmeadow's financial and economic conditions already includes the tax limitation imposed on the town's revenue-raising ability.

We understand the 2020 bond proceeds of approximately \$18.6 million will refund approximately \$12.6 of currently outstanding debt, as well as provide \$6.1 million of new money financing for various public works capital projects.

Credit overview

The rating reflects our opinion of the town's stable economic growth and operating results over the past several years, while also considering recessionary pressures resulting from the COVID-19 pandemic. (For more information, please see the article titled "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect.) Our outlook is generally for two years but we see significant downside risks due to the COVID-19 pandemic and U.S. recession over the next six to twelve months, with a prolonged disruption possibly weakening Longmeadow's local economy and affecting state aid revenues. While we believe the current economic environment, in combination with the existing fixed-cost burden, could pressure the budget, we expect the town's strong management practices, access to a large employment center, and mix of revenue sources should provide stability from outsized pressures. However, we will closely monitor economic and financial trends to the extent they affect the town.

The rating further reflects our opinion 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;
- Adequate budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the

total governmental fund level in fiscal 2019;

- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 10.3% of operating expenditures;
- Very strong liquidity, with total government available cash at 20.3% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 6.0% of expenditures and net direct debt that is 100.6% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Stable Outlook

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.

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.

Credit Opinion

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 182% of the national level and per capita market value of \$143,213. Overall, the town's market value grew by 3.2% over the past year to \$2.3 billion in 2020.

Longmeadow is a primarily residential town, with housing properties accounting for 95% of total assessed value (AV). The town benefits from 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. While growth in the town has been steady over the past several years, we believe the COVID-19 pandemic stay-at-home directives and associated economic contraction may stagnate new growth. For more information, see "The COVID-19 Outbreak Weakens U.S. State and Local Government Credit Conditions" (published April 2, 2020). However, we expect the underlying tax base will generally remain stable, in particular as the town's tax collection rate has consistently exceeded 99% over the past five years. Furthermore, over the medium-to-long term we expect Longmeadow's residents will continue to benefit from easy access to nearby employment centers, facilitating renewal of steady AV growth. Consequently, we expect the town's economy will remain very strong throughout the 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 10-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 to 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 for approval 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. Per the policy, the select board and town manager review the debt management plan 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.

Adequate budgetary performance

We revised our opinion of Longmeadow's budgetary performance to adequate from strong. This assessment incorporates our belief that heightened uncertainty exists relative to the recessionary pressures related to the COVID-19 pandemic. In fiscal 2019, the town had slight surplus operating results in the general fund of 1.1% of expenditures, and surplus results across all governmental funds of 2.2%. We adjusted fiscal 2019 expenditure data to reflect the one-time use of \$8.1 million in bond proceeds out of the town's capital project fund.

The town derives the greater part of its operating revenues from local property taxes, followed by state aid, which make up 80% and 10% of total operating revenues, respectively.

For fiscal year 2020, Longmeadow adopted a balanced budget of \$63 million, which is an increase of 2.5% over the fiscal year 2019 budget. As of March 2020, Longmeadow's finances were outperforming budgeted forecasts, generating an expectation of approximately a \$1 million surplus at year-end. Resulting from the COVID-19 pandemic response, the town has incurred increased expenditures for overtime of fire employees, contract tracing measures, and disinfecting public buildings. However, the town has also recognized budgetary savings due to energy and fuel savings from school closures, deferred training programs and capital projects, and the furloughing of select employees through June 2020. As a result, the town does not expect to see material variance from its budgeted forecast, projecting at least break-even results for year-end fiscal 2020.

The select board adopted the fiscal 2021 budget in mid-March, however the budget was reopened, and is currently under review. Management expects the budget will be largely in line with the fiscal 2020 budget, with approximately \$600,000 in expenditure reductions, \$250,000 of which is attributed to expected state aid reductions and the remainder primarily due to anticipated reductions in excise and meals tax revenues. The town is also considering a hiring freeze, extending/expanding furloughs, and increasing the tax levy above its self-imposed target, if necessary. As towns are finalizing their 2021 budgets, the state has not yet released projected aid figures, and we believe the likelihood of midyear cuts in 2021 is high. Consequently, we believe the broader economic shock from the COVID-19 restrictions presents a fiscal risk to many municipalities in the state, including Longmeadow, which we have reflected in our assessment of the town's budgetary performance. If the town is able to manage revenue reductions while producing approximately balanced results, we could revise our view of performance to strong.

We expect Longmeadow to close fiscal 2020 with approximately break-even results. However, while we acknowledge management is working to mitigate budgetary imbalance for fiscal 2021, we believe year-end results currently remain uncertain.

Strong budgetary flexibility

Longmeadow's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2019 of 10.3% of operating expenditures, or \$6.9 million.

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. Management is committed to maintaining a strong reserve fund balance, including throughout the duration of the economic contraction, and has no expectation of large or sustained drawdowns of reserves given the budget adjustments it is making relative to projected revenue declines. As such, we expect the town's flexibility to remain strong over the outlook period.

Very strong liquidity

In our opinion, Longmeadow's liquidity is very strong, with total government available cash at 20.3% of total governmental fund expenditures and 3.4x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We adjusted the town's cash levels to exclude bond proceeds held in the capital project fund. 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 short-term certificates of deposit and the commonwealth's short-term investment pool.

We understand management is not exploring cash-flow borrowing at this time and expect management will ensure consistent cash flow for debt service and operations. We do not expect the town to close 2020 or 2021 with materially weakened cash levels or an inability to access external markets.

Weak debt and contingent liability profile

In our view, Longmeadow's debt and contingent liability profile is weak. Total governmental fund debt service is 6.0% of total governmental fund expenditures, and net direct debt is 100.6% of total governmental fund revenue.

Following this issuance, Longmeadow will have approximately \$80 million in outstanding direct debt. Management notes it expects to issue approximately \$2 million in new money debt in the next one to two years for ongoing and new capital projects, which we do not expect to materially change our view of Longmeadow's debt profile.

Pension and other postemployment benefits

Longmeadow's combined required pension and actual OPEB contributions totaled 7.1% of total governmental fund expenditures in 2019. Of that amount, 4.6% represented required contributions to pension obligations, and 2.5% represented OPEB payments. The town made its full annual required pension contribution in 2019.

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Longmeadow despite low funding levels and our expectation that costs will increase.
- Because the town's pension actuarially determined contribution (ADC) is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the town's revenue base and our expectation that management will factor rising costs into the budget.
- OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. The town is prefunding liabilities, which we believe is positive.

Longmeadow participated in the following plans as of June 30, 2019:

- Hampden County Retirement System: with a proportionate share of net pension liability of \$48.6 million, and an annual required contribution of \$3.5 million. Plan assumptions include: 7.5% discount rate, projected salary increases of 4.0-4.5%, and 3.25% inflation rate.

Longmeadow also provides OPEBs in the form of health care benefits for retired employees; the town provides medical and prescription drug insurance to retirees and their covered dependents. Longmeadow's net OPEB liability is about \$40.0 million and the town maintains an OPEB trust fund with an asset value of \$2.6 million as of June 30, 2019.

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.

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

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