

RatingsDirect®

Summary:

Longmeadow, Massachusetts; General Obligation

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Credit Profile

US\$2.22 mil GO mun purp loan of 2021 bnds ser 2021 dtd 06/28/2021 due 05/15/2031

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 2021 general obligation (GO) municipal-purpose loan 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. 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 2021 bond proceeds of approximately \$2.3 million will fund 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, including its ability to maintain financial balance through the pandemic and recession, demonstrating its very strong financial management environment. Longmeadow is approaching the millage rate statutory limit of 25 and has one of the highest residential tax rates in Massachusetts. While this is incorporated into our view of the town's institutional framework, we expect the ability to fund competing priorities, particularly with the prospect of rising retirement costs, could continue to pressure the budget and test its financial management policies and budgeting framework. We do not expect to revise the rating during the two year outlook period.

The rating further reflects our opinion of the town's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA), but a high county unemployment rate exceeding 10%;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses 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 12.8% of operating expenditures;

- Very strong liquidity, with total government available cash at 19.9% of total governmental fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 90.3% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

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's budgetary flexibility were to materially increase, including growth in reserve levels, along with making meaningful progress in mitigating its debt, OPEB, and pension liabilities.

Credit Opinion

Strong economy

We consider Longmeadow's economy strong. The town, with a population of 15,722, is in Hampden County in the Springfield MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 156% of the national level and per capita market value of \$145,245. Overall, market value grew by 1.4% over the past year to \$2.3 billion in 2021. The county unemployment rate was 10.4% in 2020, which we consider high and a negative credit factor.

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 Bradley Airport. We expect the underlying tax base will generally remain stable, with growing incrementally due largely to redevelopment and improvements of existing residential properties. Our view of the economy changed to strong from very strong due to the county-level unemployment rate averaging greater than 10% in 2020. However, the town saw limited effect from the unemployment rate on its financial performance and we expect that improvement through the latter half of 2020 will continue through 2021, and our view of the economic profile will ultimately return to very strong.

Very strong management

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

Longmeadow conducts trend analysis using one- to two-year look-backs 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 three- and 10-year financial forecasts, incorporating conservative revenue and expenditure projections. Notably, in fiscal 2018, a special task force, the "Tax Ceiling Task Force," began to explore options of how to avoid reaching the tax rate ceiling, as well as how to prevent 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 effects.

Strong budgetary performance

Longmeadow's budgetary performance is strong, in our opinion. The town had operating surpluses of 3.4% of expenditures in the general fund and 2.7% across all governmental funds in fiscal 2020.

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. We believe the high reliance on local property taxes provides a generally stable and predictable revenue source, which saw little decline in the collection rate during the pandemic. Management reported about \$2 million in unexpended appropriations in fiscal 2020, which was only partially offset by declines in some nonproperty tax revenue sources such as local option meals taxes and building permits.

For fiscal 2021, the town cut its budgeted unrestricted state aid by 14%, and cut budgeted building permit, meals taxes and motor vehicle excise tax revenue relative to 2020. To offset the revenue losses, management elected to hold open vacant positions and furlough some staff, although it began the process of rehiring certain staff members. Management reports that revenues are largely on budget, with motor vehicles and ambulance revenues slightly below budget to date. However, expenditures again are outperforming the budget due to closures. It currently projects an approximately .5 million increase to general fund reserves at year-end.

The town expects to receive about \$4.6 million through the American Recovery Plan Act (ARPA). Management

continues to explore how it will expend the ARPA funds. The 2022 budget totals about \$67.9 million, or a 2.75% increase over the 2021 budget. School operational costs, which are accounted for in the general fund, debt service and personnel costs (including retiree benefits) account for the majority of the budgetary growth. We expect the town to continue producing at least balanced operations, leading to ongoing strong budgetary performance.

Strong budgetary flexibility

Longmeadow's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 12.8% of operating expenditures, or \$9.0 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 and we expect the town's budgetary 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 19.9% of total governmental fund expenditures and 2.8x governmental debt service in 2020. 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 and certain nonmajor funds cash primarily held in restricted trust funds. 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 expect the town to maintain very strong cash balances and an overall very strong liquidity profile.

Weak debt and contingent liability profile

In our view, Longmeadow's debt and contingent liability profile is weak. Total governmental fund debt service is 7.2% of total governmental fund expenditures, and net direct debt is 90.3% of total governmental fund revenue.

We expect the town to periodically issue new-money debt to support capital projects, but do not expect a material change in its debt ratios at this time. It is exploring two new schools, as well as relocating office space, but the project timelines and costs are currently unknown. Depending on the magnitude and timing, these could alter our view of the town's debt profile should costs or the debt to revenue ratio rise significantly.

Pension and other postemployment benefits

- In our opinion, a credit weakness is Longmeadow's large pension and OPEB obligation, given the low pension funded ratio, relatively high pension and OPEB unfunded liabilities, and our expectation of rising costs.
- Because the town's pension actuarially determined contribution 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.

- Annual OPEB costs are 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, 2020:

- Hampden County Retirement System: 50% funded, \$48.3 million proportionate share of the net pension liability.

Longmeadow's combined required pension and actual OPEB contributions totaled 7.2% of total governmental fund expenditures in 2020. Of that amount, 4.7% represented required contributions to pension obligations, and 2.5% represented OPEB payments. The town made its full required pension contribution in 2020, as it does annually. We view the pension plan's discount rate as elevated, at 7.15%, despite a recent revision downward from 7.5%. The discount rate could lead to cost volatility. Additionally, given the low funded status of the pension system and, we believe costs could accelerate, potentially pressuring the operating budget if costs increase significantly.

Longmeadow also provides OPEBs in the form of health care benefits for retired employees. It recently amended its OPEB policy on prefunding the liability in a trust fund. The policy requires a \$500,000 payment for the fiscal 2021 budget year, with annual incremental increases until contributions reach \$1 million annually. Longmeadow's net OPEB liability as of June 30, 2020 was about \$30 million, with a funded ratio of 10%. 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 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

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