

RatingsDirect®

Summary:

Chelmsford, Massachusetts; General Obligation

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Credit Profile

US\$14.19 mil GO mun purp loan bnds ser 2021 due 04/15/2041		
<i>Long Term Rating</i>	AA+/Stable	New
Chelmsford Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Chelmsford, Mass.' 2021 general obligation (GO) municipal-purpose loan of 2021 bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full faith and credit pledge secures the bonds, subject to the Proposition 2-1/2 limitations. Despite commonwealth levy limit laws, we did not make a rating distinction between Chelmsford's limited-tax bonds and its general creditworthiness, because our analysis of its financial and economic conditions already includes the statutory limitation imposed on its revenue-raising ability. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019, on RatingsDirect).

The 2021 bonds which total \$14.19 million, will be used as follows: \$6.635 million will refinance the town's series 2012 and 2013 bonds for net present savings, \$3.4 million will be used to renovate its North Fire Station, \$3.045 million will finance various capital projects as part of its 2021 capital improvement plan (CIP), and the remainder will be used to purchase land for conservation purposes.

Credit overview

Chelmsford is a primarily residential community in northeastern Massachusetts just south of New Hampshire. The 'AA+' rating reflects the town's very strong economy with access to Boston's labor markets, and proactive management practices which have afforded the town positive results during the pandemic. Rising pension and other postemployment benefits (OPEBs) could potentially stress the town's finances, along with rising public safety costs, if revenues from new economic growth were to stall over a prolonged timeframe. Generally, we expect recovery from the recent COVID-19-related recession will be gradual and uneven, and we will continue to monitor the town for material economic and financial changes. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles titled "Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder," Jan. 6, 2021, and "Across U.S. Public Finance, All Sectors Stand To Benefit From The American Rescue Plan," March 18, 2021.) That said, our ratings and stable outlook reflect that we believe the town's strong management, very strong economy, and budgetary flexibility will allow Chelmsford to weather the potential longer term economic and financial shock over our two-year-outlook period. Our view of the town's rating stability is further supported by the fact

that property taxes, which we view as less economically sensitive in the near term, account for the majority of its revenues.

The long-term rating also reflects our view 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 (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 12.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.5% of total governmental fund expenditures and 2.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 10.9% of expenditures and net direct debt that is 42.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 89.1% of debt scheduled to be retired in 10 years, but a large pension and OPEB obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic with regard to potential revenue pressure or state funding changes. Absent the implications of COVID-19, we consider Chelmsford's social risks in line with those of the sector. We also view environmental risks as being in line with our view of the sector. We believe environmental risks are broadly in line with the sector standard. We believe governance risks are broadly in line with the sector standard, but we recognize that somewhat aggressive assumptions and the funding status of its pension and OPEB plans are governance factors that could lead to escalating retirement costs. However, due to strong management conditions and historically consistent positive results, we expect management to make the necessary budgetary adjustments to maintain balanced operations.

Stable Outlook

Downside scenario

We could lower the rating if the town's budgetary performance were to weaken, resulting in a deterioration of reserves and cash balances.

Upside scenario

We could raise the rating if the town demonstrates continued and significant progress in mitigating its pension and OPEB liabilities, coupled with increasing fund balances to a level commensurate with those of 'AAA' rated peers, all else being equal.

Credit Opinion

Very strong economy

We consider Chelmsford's economy very strong. The town, with a population of 36,042, is in Middlesex 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 161% of the national level and per capita market value of \$179,539. Overall, market value grew by 5.5% over the past year to \$6.5 billion in 2021. The county unemployment rate was 2.3% in 2019.

Chelmsford is a predominantly residential community at 83% of the total assessed value (AV), which is expected to grow by 5%. Since fiscal 2014, the town's AV expanded by \$1.7 billion. The tax base is expected to increase further in fiscal 2022 as a result of a new \$40 million condominium project with 52 units, as well as two new apartment buildings with 84 and 12 new apartments, respectively.

Interstate Highway 495 and state routes 3, 4, 27, 40, 110, and 129 traverse the town, connecting residents with regional employment centers in southern New Hampshire and throughout the Boston MSA. In addition to these labor markets, Chelmsford's employment base is diversified, with leading sectors of employment including education and health services, manufacturing, and professional and business services. The town's largest employers include United Parcel Service (2,000 employees), Zoll Medical Group (1,077), and Brookes Automation (specialized equipment manufacturing; 650). In addition, Thermo Fisher Scientific received approval for an \$81.3 million renovation of a local commercial building which will manufacture medical equipment and is expected to add 250 jobs, making it the fourth-largest employer in the town with 529 employees.

Middlesex County's unemployment rate was 2.3% in 2019. However, rapidly evolving economic conditions as a result of COVID-19 and the federal stimulus have also affected the labor market in uneven ways (see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021). During the Great Recession, the county unemployment rate peaked at 6.3%, and again at 15% in June 2020. It has since tempered to 6% in December 2020, below the state and national averages. We will monitor the longer-term effects of the downturn on the labor market and the economy overall, but given the tax base growth and expansion of local employers, we expect the economy to remain stable.

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.

Chelmsford's very strong financial management policies and practices include the use of four-to-five years of revenue and expenditure information when developing the annual budget. According to management, it considers macroeconomic trends through the examination of motor vehicle excise taxes and monitoring commonwealth revenue when examining intergovernmental revenue. Officials also use a five-year rolling average to estimate snow-and-ice expenditures for the public works department, and management identifies and prioritizes appropriations based on department and community needs at the annual town meeting. Throughout the year, management monitors revenue and expenditure performance and the town accountant delivers a monthly report on budget-to-actual results to the town manager, finance director, finance committee, and select board.

Management has a strong focus on financial and capital planning. Chelmsford maintains a comprehensive five-year capital needs budget and a 10-year plan for public facilities, which it updates annually; the plan identifies internal and external funding sources. When necessary, the town also hires consultants to perform assessments of current infrastructure conditions and community needs for large-scale projects. Furthermore, it performs a five-year financial forecast of the operating budget to identify future revenue and expenditure trends. Management updates the five-year forecast semiannually.

Chelmsford maintains a written investment policy. It tracks investment earnings and holdings quarterly and reports the results to the town manager for review. The town also has a formal debt policy that limits new debt to no more than 10% of revenue and 1.5% of AV, excluding the sewer betterment fund debt. It also maintains a written reserve policy that targets available fund balances at 5%-10% of budgeted expenditures, coupled with procedures for restoring fund balance if reserves fall below 5%.

The town has a third-party cyber-security provider and is currently undergoing a cyber-threat and network vulnerability risk assessment, followed by a security upgrade. Furthermore, its property and casualty liability insurance includes cyber threats.

Strong budgetary performance

Chelmsford's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of 0.5% of expenditures, and surplus results across all governmental funds of 2.2% in fiscal 2020. General fund operating results of the town have been stable over the last three years, with results of 1.2% in 2019 and 0.0% in 2018.

For analytical consistency, our ratios have been adjusted to include recurring transfers into the general fund as revenue and transfers out of the general fund as expenditures. We also adjusted performance to account for capital expenditures paid with bond proceeds. Local property taxes account for about 70% of general fund audited revenues, and we anticipate the town will continue to collect the vast majority of property taxes levied.

Despite the pandemic, the town has continued to produce strong budgetary performance through the adoption of balanced budgets as well as strong revenue performance and expenditure controls. Chelmsford ended fiscal 2020 with \$1.72 million in free cash. While the pandemic weakened motor vehicle excise and hotel room occupancy taxes, these losses were offset by local receipt revenues, which exceeded the budget revenue by \$426,000. The town received approximately \$1 million in CARES Act funding for unforeseen expenditures associated with the pandemic such as protective gear and plexiglass. Furthermore, it had to address a sewer repair project, which resulted in a one-time expenditure of \$451,000, resulting in a net deficit of approximately \$79,000 to the sewer fund.

For fiscal 2021, revenues and expenditures are continuing as expected. The 2021 budget included a reduction in budgeted local receipt revenues by \$1.48 million, which the town expects to exceed. Furthermore, a town-approved withdrawal of \$2 million from the general stabilization fund to maintain services in light of anticipated declines in state aid and local receipts. Specifically, local receipt revenues were decreased by \$1.48 million, of which they have collected nearly half to date. Furthermore, state aid reductions resulted in a net decrease of \$971,000. Finally, the \$1 million building permit from the Thermo Fisher Scientific expansion was not budgeted, and the town is also anticipating \$3.49 million additional funding through the American Rescue Plan, which it intends to use to offset pandemic-related losses associated with the hotel and meals tax. As a result, the town is expecting positive results at

year-end.

The fiscal 2022 budget does not include any allocation from the stabilization fund, and will be structurally balanced. We expect Chelmsford to continue to produce generally balanced results.

Strong budgetary flexibility

Chelmsford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 12.5% of operating expenditures, or \$18.9 million.

The town has maintained strong budgetary flexibility in the past several fiscal years, leading to maintenance of strong reserve levels. Despite potential revenue pressures, we do not expect reserves to fall below levels we consider strong within the outlook period. Consequently, we expect our view of budgetary flexibility to remain strong.

Very strong liquidity

In our opinion, Chelmsford's liquidity is very strong, with total government available cash at 22.5% of total governmental fund expenditures and 2.1x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

Chelmsford is a regular market participant that has issued debt frequently over the past several years, including GO bonds and short-term bond anticipation notes, which we believe demonstrates strong market access. Commonwealth laws do not allow municipalities to issue variable-rate debt. The town does not currently have any 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 commonwealth guidelines and Chelmsford invests its cash in low-risk assets, including the Massachusetts Municipal Depository Trust, U.S. treasuries, or short-term certificates of deposit.

The town reports that Chelmsford Properties, their seventh-largest taxpayer at 0.38% of the levy, has not paid its fiscal year 2021 tax bill of \$90,581 that was due on Feb. 1, 2021. Given the fact that the taxpayer is actively seeking redevelopment options for their existing site, and the fact that Chelmsford's exposure is relatively immaterial at \$28,000, we do not anticipate this posing a material liquidity concern at this time. Overall, we expect the liquidity profile will remain very strong.

Strong debt and contingent liability profile

In our view, Chelmsford's debt and contingent liability profile is strong. Total governmental fund debt service is 10.9% of total governmental fund expenditures, and net direct debt is 42.8% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, and approximately 89.1% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this bond issue, we calculate that Chelmsford will have approximately \$74.7 million of total direct debt outstanding. Of this, we consider approximately \$2.9 million to be adequately supported by enterprise rates and charges based on a historical coverage test. It should also be noted that the land acquisition debt component will be supported by the community preservation fund surtax. The town anticipates issuing \$3.8 million in fiscal 2022 in line with its CIP, and up to \$4 million for fire station renovations. However given Chelmsford's rapid front-loaded amortization, we do not expect its debt profile to deteriorate.

Pension and OPEB highlights

- In our opinion, a credit weakness is Chelmsford's large pension and OPEB obligation, with costs expected to rise.
- While the pension plan uses an actuarially determined contribution, we believe some of the assumptions may lead to contribution volatility and escalation.
- While the town is prefunding its OPEB liability, which we view as a credit positive, we also expect these costs to rise.

The town participates in the following plans:

- Middlesex County Public Employees' Retirement System: 49.5% funded, \$114.8 million net liability.
- A single-employer defined-benefit health care plan: 8.6% funded, \$52 million net liability.

Chelmsford's combined required pension and actual OPEB contributions totaled 8.2% of total governmental fund expenditures in 2020. Of that amount, 5.4% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The town made 105% of its annual required pension contribution in 2020; it makes at least the required payment annually. The pension plan did not meet either our static or minimum funding progress metrics in the most recent year, indicating it did not fully address current costs or make progress against the unfunded liability. The pension plan uses a 7.3% discount rate and level-percent basis, which we believe will lead to contribution volatility and cost escalation. We view the closed 17-year amortization schedule as a positive, but ultimately expect costs to continue to rise.

It has taken steps to reduce its long-term unfunded OPEB liability, as well as reforming its health insurance and joining a group insurance plan. Although it does not follow a formal policy, the town has contributed \$1 million annually to an OPEB trust fund since 2013 to prefund future benefit payments, which as of fiscal 2020 totals \$12 million. As of fiscal 2020, Chelmsford also increased the annual funding to \$1.385 million initially with 3% increases annually thereafter. At this annual funding level, the town hopes to amortize the unfunded liability within 30 years. Management expects that as it continues to reduce annual debt service, it will continue to be able to absorb incrementally rising pension costs, which it expects to be 6.5% annually over the next seven-to-10 years. Should costs begin to pressure the budget, we could revise our view of the town's plan to address its retirement liabilities.

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

Ratings Detail (As Of March 30, 2021)		
Chelmsford Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Chelmsford Twn GO rfdg bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Summary: Chelmsford, Massachusetts; General Obligation

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