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Ratings

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Summary:

Town of Plymouth, Massachusetts; General Obligation; Note

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Credit Profile		
US$22.649 mil GO BANs ser 2018 B dtd 06/15/2018 due 06/14/2019		
Short Term Rating	SP-1+	New
Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Town of Plymouth, Mass.' series 2018 B general obligation (GO) bond anticipation notes (BANs). We also affirmed our 'AA+' issuer credit rating (ICR) on the town's existing GO debt. The outlook on the ICR is stable.

The ICR reflects the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect.

The short-term rating on the notes reflects our criteria for evaluating and rating BANs. In our view, Plymouth maintains a very strong capacity to pay principal and interest when the notes come due. We view the town's market risk profile as low because it has strong legal authority to issue long-term debt to take out the notes and is a frequent debt issuer that regularly provides ongoing disclosure to market participants. We understand officials intend to use proceeds from the notes to temporarily finance various town-wide capital improvements, including road paving and improvements; construction of a municipal parking garage; water and sewer system improvements; and renovations to school and municipal facilities.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2 1/2, secures the notes and its existing GO bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction between the limited-tax GO pledge and Plymouth's general creditworthiness because the tax limitation imposed on the town ability to raise revenue is already embedded in our analysis of its financial and economic conditions.

The rating reflects our opinion of the following factors for Plymouth, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance that we expect will improve in the near term from

its fiscal 2017 level of 15.0% of operating expenditures;

- Very strong liquidity, with total government available cash at 33.3% of total governmental fund expenditures and 6.4x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 66.6% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Plymouth's economy very strong. The town, with an estimated population of 60,145, is located in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 122% of the national level and per capita market value of $168,062. Overall, the town's market value grew by 6.7% over the past year to $10.1 billion in 2018. Plymouth County's unemployment rate was 3.8% in 2017, which is slightly above the state's (3.7%), but below the nation's (4.4%) averages.

Plymouth is a predominantly residential community located on the southeastern coast of Massachusetts, approximately 38 miles from Boston. It is also the largest municipality in the commonwealth, encompassing about 103 square miles. Notably, as one of the oldest municipalities in the nation, Plymouth is a historical landmark that will celebrate its 400th anniversary in 2020. The town features nearly 37 miles of shoreline, which makes it a popular summer resort destination and a home to commercial fishing operations out of its port.

Due to its favorable mixture of cultural, historical, and recreational attractions, Plymouth continues to undergo substantial reinvestment in its downtown and harbor districts that support its tourism-based economy. This is reflected by a sustained trend in building permits for both residential and non-residential construction and renovation, which have surpassed 2,400 annually over the past four calendar years. As a result, the town's assessed value (AV) has grown to roughly $10.1 billion in fiscal 2018 from $9.1 billion in fiscal 2016. Town officials report that several local hotels have undergone renovations and construction of new hotels is underway, which could continue to support increase hotel tax revenue in the coming years.

Plymouth continues to plan for the closure of Pilgrim Nuclear Station (Entergy Nuclear), scheduled for no later than June 2019. Although the plant is the town's largest taxpayer (representing 6% of the tax base), we do not believe the closing will have a significant impact on the local economy, as the town is in ongoing negotiations with Entergy to develop a successor PILOT agreement to steadily sunset these payments over the next three to five years. Currently, PILOTs include $9 million for fiscal 2018 and $8.5 million for fiscal 2019. At the same time, we believe revenue from new growth and additional taxing capacity under the levy limit will mitigate the impact of the plant's closure on the town's finances. In addition, the town established a Special Purpose Nuclear Mitigation fund to reduce the impact on the tax levy during the decommissioning of the power plant, totaling $4.89 million as of June 30, 2017.

Given the town's recent and prospective commercial and residential development, which continue to support healthy tax base growth, we expect our evaluation of Plymouth's economy to remain very strong.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

In development of its annual budget, Plymouth performs a three-to-five year historical trend analysis to form its revenue and expenditure assumptions. Finance officials use conservative growth projections to measure the impact of economic activity on local revenue, and the town monitors trends related to employee salaries and benefits, debt service, and capital needs. During each fiscal year, management closely monitors revenue and expenditures and the finance director provides monthly budget-to-actuals report to the town board. In addition, management and the town board have shown the capacity to make intra-year budget adjustments in response to revenue and expenditures changes. The town's formal investment policy mirrors state statutes, and management reports investment earnings and holdings to the board quarterly.

Furthermore, Plymouth has a rolling five-year capital improvement plan (CIP) that it reviews and incorporates into budget considerations annually. The CIP presents the cost of projects by department and identifies internal and external funding sources. However, the town does not conduct formal long-term financial forecasting, but it has explored the process of developing a formal 10-year plan. Plymouth does not have a formal debt management policy, but it does adhere to statutes governing debt issuance and limitations. Informally, management strives to maintain debt service within 6%-10% of the operating budget. The town adopted a formal policy to sustain unassigned fund balance between 2.5%-10% of the operating budget and a stabilization account of at least 5% of the operating budget.

Strong budgetary performance

Plymouth's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 1.1% of expenditures, and balanced results across all governmental funds of negative 0.2% in fiscal 2017. For analytical consistency, we adjusted fiscal 2017 operating results to reflect recurring transfers and account for one-time capital expenditures paid with bond and grant proceeds. General fund operating results of the town have been stable over the last three years, with a result of 1.0% in 2016 and a result of 0.0% in 2015.

We believe management's use of conservative revenue projections and intra-year budget monitoring have yielded historically positive financial operations. In addition, Plymouth derives a majority of its general fund revenue from stable and predictable revenue sources, the largest of which is property tax. Real estate and personal property taxes comprised 68.3% of general fund revenue, and its property tax collection rate has averaged approximately 98% over the past three years. State intergovernmental aid accounted for 23% of revenue, and we note commonwealth funding has been stable recently.

Net of operating adjustments, the town reported a $2.63 million operating surplus for fiscal 2017, which management attributes to a combination of better-than-budgeted revenue from local receipts and state aid, and turnback of unexpended departmental appropriations.

Plymouth approved a $211.2 million general fund budget for fiscal 2018, which reflects a 7% increase over the prior fiscal year. Due to management's conservative local revenue projections and implementation of various cost savings measures to control expenditures during the year, the town expects to realize a $500,000 to $1 million operating surplus at fiscal year-end. Furthermore, Plymouth's adopted fiscal 2019 budget totals $218.5 million. Given its history of balanced operations and no immediate plans to draw on reserves, we anticipate Plymouth's budgetary performance will likely remain strong during our outlook horizon.

However, beyond the current fiscal year, one potential source of budgetary pressure includes elevated pension and other postemployment benefit (OPEB) costs and the pay down of high-unfunded liabilities. While we believe Plymouth has made some recent efforts to plan for and absorb increases in its budget and does not generally expect a material change in these costs within the two-year outlook period, we will continue to monitor how the town incorporates changes in its assumptions related to long-term liabilities. Should we see these costs escalate to a point of causing structural imbalance, we could modify our view of Plymouth's budgetary performance.

Very strong budgetary flexibility

Plymouth's budgetary flexibility is very strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2017 level of 15% of operating expenditures, or $34.2 million.

Due to strong and positive budgetary performance over the past three fiscal years, Plymouth improved its reserve position to approximately $34.2 million in fiscal 2017 from $23.8 million in fiscal 2015. While the town has adopted a fund balance policy to maintain available reserves between 2.5% and 10% of general fund expenditures, officials report that the town has no plans to draw down on reserves over the next two fiscal years.

Furthermore, Plymouth maintains roughly $4.4 million of unused levy capacity in fiscal 2018; the current amount represents approximately 2% of general fund expenditures. We view unused levy capacity as additional operating flexibility because the town can raise the levy up to that amount without an operating override. In the past, Plymouth has shown a willingness to use that excess taxing capacity when needed, but management reports that it has no plans to use its unused levy capacity over the next two years.

Based on Plymouth's expectation to post a surplus in fiscal 2018 and to budget for, at least, balanced operations for fiscal 2019, we do not believe its very strong flexibility position is likely to deteriorate over the next two years. However, if retirement costs begin pressuring operating performance, leading to a material weakening of reserves, we could modify our view of Plymouth's flexibility.

Very strong liquidity

In our opinion, Plymouth's liquidity is very strong, with total government available cash at 33.3% of total governmental fund expenditures and 6.4x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

In our view, the town maintains strong access to external liquidity if necessary, as it has issued GO bonds and BANs over the past 20 years. We understand that the town has not entered into any bank loans or direct-purchase debt and that it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

Furthermore, we do not consider the town's investments aggressive. It holds available cash in short-term investments with original maturities of three years or less from date of acquisition. For these reasons, we expect available cash to remain stable and overall liquidity to stay very strong over the next two fiscal years.

Weak debt and contingent liability profile

In our view, Plymouth's debt and contingent liability profile is weak. Total governmental fund debt service is 5.2% of total governmental fund expenditures, and net direct debt is 66.6% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, which is in our view a positive credit factor.

Following this debt issue, Plymouth will have $246.9 million in debt outstanding, $24.3 million of which is self-supporting through the town's enterprise funds, and $5.6 million will be reimbursed by the state for school building projects. Plymouth plans to issue an additional $41.4 million over the next two years to fund various townwide and school department capital improvement projects. We do not expect this additional debt to have a material impact on the town's debt profile given its low carry costs and low overall net debt compared to market value.

In our opinion, a credit weakness is Plymouth's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Plymouth's combined required pension and actual OPEB contributions totaled 11.1% of total governmental fund expenditures in 2017. Of that amount, 4.4% represented required contributions to pension obligations, and 6.7% represented OPEB payments. The town made 101% of its annual required pension contribution in 2017, but the funded ratio of the largest pension plan is 58.3%.

The town participates in the Plymouth Contributory Retirement System, a cost-sharing, multiple employer, defined-benefit pension plan. As of Jan. 1, 2017, the most recent actuarial valuation date, the net pension liability for the town was approximately $158 million (assuming a 7.25% discount rate). Plymouth expects to full amortize the unfunded actuarial accrued liability by 2035, if all assumptions are met. It will focus on further funding its OPEB liability after its pension liability is fully addressed.

The OPEB unfunded actuarial accrued liability for the town was 603.9 million, as of June 30, 2017, which is among the highest of similarly rated peers. Plymouth contributed $17.36 million, or 43.3% of its annual OPEB contribution for fiscal 2017. Furthermore, the town established an OPEB trust fund, which has a $2.65 million balance as of June 30, 2017. It expects to add $944,000 toward the trust in fiscal 2018. Plymouth plans to designate an amount equal to a minimum of 1% of covered payroll to the trust, based on the most recent actuarial valuation, and to update it for any cost of living adjustments. At the same time, the town is considering changing benefits to reduce the overall liability. We believe Plymouth's retirement costs will continue to represent a credit weakness based on high carrying costs and elevated unfunded liabilities.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion that Plymouth will maintain its strong budgetary performance and flexibility. Strong management practices, along with the town's diverse and growing economy, help support the financial performance and lend additional stability to the rating. We do not expect the rating to change within our two-year outlook period.

Upside scenario

Should the town increase in reserve levels through consistent positive financial performance to levels we consider commensurate with higher-rated peers, while also managing its elevated debt burden and substantially reducing its pension and OPEB liabilities, we could raise the rating.

Downside scenario

We could lower the rating if Plymouth's combined OPEB and pension liability costs, which are among the highest of its peers, continue to grow and contribute to what we believe to be sustained budgetary pressure. If Plymouth's budgetary performance were to weaken substantially, leading to a deterioration in reserves and liquidity to a level no longer commensurate with higher-rated peers, 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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of May 24, 2018)		
Town of Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed
Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.