**Summary:**

# Plymouth (Town Of), Massachusetts; General Obligation; Note

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## Summary:

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| Credit Profile | | |
|---|---|---|
| US$39.31 mil GO mun purp loan of 2019 bnds due 12/01/2049 | | |
| *Long Term Rating* | AA+/Stable | New |
| US$6.1 mil GO BANs ser 2019 dtd 06/14/2019 due 06/12/2020 | | |
| *Short Term Rating* | SP-1+ | New |
| **Plymouth GO** | | |
| *Long Term Rating* | AA+/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Plymouth, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AA+' long-term rating, with a stable outlook, on the town's existing GO debt.

At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the town's series 2019 GO bond anticipation notes (BANs) and affirmed its 'SP-1+' short-term rating on the town's existing BANs. The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Plymouth maintains a very strong capacity to pay principal and interest when the BANs come due. The town has, what we view as, a low market-risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer that regularly provides ongoing disclosure to market participants.

Plymouth's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds and BANs. We rate the limited-tax GO debt based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect. We rate the obligation at the same level as our view of Plymouth's general creditworthiness, as expressed in our rating on the town's unlimited-tax GO bonds.

Officials intend to use series 2019 bond and BANs proceeds, totaling roughly $39.3 million and $6 million, respectively, to fund existing BANs permanently and finance various capital projects townwide.

The rating reflects our opinion of Plymouth's strong and growing property tax base that continues to grow within the Boston metropolitan statistical area (MSA) while benefiting from increased tourism, supporting continued positive budgetary performance. The rating also factors in the possibility of the town issuing $16 million of additional debt for continued townwide improvements.

The rating also reflects our opinion of Plymouth's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.8% of total governmental-fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 6.4% of expenditures and net direct debt that is 77.4% of total governmental-fund revenue, and a large pension and other-postemployment-benefits (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 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 $175,671. Overall, market value has grown by 4.5% during the past year to $10.6 billion in fiscal 2019. County unemployment was 3.9% in 2017.

Plymouth is a predominantly residential community on the southeastern coast of Massachusetts, about 38 miles from Boston. It is also the commonwealth's largest municipality, encompassing about 103 square miles. Notably, as one of the nation's oldest municipalities, 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 a favorable mixture of cultural, historical, and recreational attractions, Plymouth continues to undergo substantial reinvestment in its downtown area and harbor districts, supporting its tourism-based economy. Sustained residential and nonresidential construction and renovation building permits, which have surpassed 2,400 annually during the past four calendar years, reflect this. Therefore, assessed value has grown to roughly $10.9 billion in fiscal 2019 from $9.1 billion in fiscal 2016. Officials report several local hotels have undergone renovations and new hotel construction is underway, which could continue to support increasing hotel tax revenue during the next few years.

Plymouth is planning for Pilgrim Nuclear Station's (Entergy Nuclear) closure, scheduled for no later than June 2019. Although the plant is the town's leading taxpayer, accounting for 6% of the tax base, we do not expect the closing will have a significant effect on the local economy because the town is negotiating with Entergy to develop a successor payments-in-lieu-of-taxes (PILOTs) agreement to sunset these payments steadily during the next three years to five years. Currently, PILOTs include $9 million for fiscal 2018 and $8.5 million for fiscal 2019. At the same time, in our opinion, new revenue growth and additional taxing capacity under the levy limit will mitigate the effect of the plant's closure on finances. New growth includes a projected 1,120 new housing units to be complete during the next two years.

Due to recent and prospective commercial and residential development, which continues to support healthy tax base growth, we expect our evaluation of Plymouth's economy will likely remain very strong.

### Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

In development of its annual budget, Plymouth performs a three- to five-year historical trend analysis when formulating revenue and expenditure assumptions. Finance officials use conservative growth projections to measure the effect of economic activity on local revenue; the town monitors 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 reports on budget-to-actual results to the town board.

In addition, management and the town board have shown the capacity to make intrayear budget adjustments in response to revenue and expenditure changes. The town's formal investment policy mirrors commonwealth statutes, and management reports investment earnings and holdings to the board quarterly.

Furthermore, Plymouth has a rolling five-year capital improvement plan (CIP) 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, while the town does not conduct formal long-term financial forecasting, it has explored developing a formal five-year plan.

Plymouth maintains debt guidelines that limit annual debt service to 10% of expenditures with level debt service throughout the bonds' life. Management informally maintains debt service within 6%-10% of the operating budget. The town's formal adopted policy calls for sustaining unassigned fund balance between 2.5% and 10% of the operating budget, coupled with 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 balanced operating results in the general fund of 0.1% of expenditures and slight surplus results across all governmental funds of 1.1% of expenditures in fiscal 2018. General fund operating results have been stable during the past three fiscal years with 1.1% of expenditures in fiscal 2017 and 1% in fiscal 2016.

In our opinion, management's conservative revenue projections and intrayear budget monitoring have yielded historically positive financial operations. In addition, stable and predictable revenue sources, the largest of which is property taxes, generate a majority of general fund revenue. Real estate and personal property taxes generated 68.8% of general fund revenue, and property tax collections have averaged about 98% during the past three years. State intergovernmental aid accounted for 23% of revenue, and we note commonwealth funding has been stable recently.

Management attributes the fiscal 2018 surplus to a combination of better-than-budgeted revenue from local receipts and state aid and the turn back of unexpended departmental appropriations. Officials are projecting another surplus for fiscal 2019, in-line with previous fiscal years, based on positive budget variances due to a prospering economy.

Officials approved a $229.6 million general fund budget for fiscal 2020, a 4.2% increase over fiscal 2019. Due to its history of balanced operations and no immediate plans to draw on reserves, we expect budgetary performance will likely remain strong during our two-year outlook period.

However, beyond the current fiscal year, one potential budgetary pressure source includes elevated pension and OPEB costs, coupled with paying down high unfunded liabilities. While we believe Plymouth has made some recent efforts to plan for, and absorb, budget increases, it does not generally expect a material change in these costs during the two-year outlook period. We will continue to monitor how the town incorporates long-term liability assumption changes. 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 available fund balance in fiscal 2018 of 15% of operating expenditures, or $37 million.

Due to strong and positive budgetary performance during the past three fiscal years, Plymouth improved reserves to roughly $36.9 million, including committed fund balance, in fiscal 2018 from $23.8 million in fiscal 2015. While the town has adopted a fund-balance policy of maintaining available reserves between 2.5% and 10% of general fund expenditures, officials do not currently plan to draw down reserves during the next two fiscal years.

Furthermore, Plymouth maintains roughly $3.8 million of unused levy capacity in fiscal 2019; the current amount represents about 1.5% 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. Plymouth has shown a willingness to use excess taxing capacity when needed in the past, but management does not currently plan to use unused levy capacity during the next two fiscal years.

Based on Plymouth's expectation of a surplus in fiscal 2019, coupled with budgeting for, at least, balanced operations for fiscal 2020, we do not believe Plymouth's very strong budgetary flexibility will likely deteriorate during the next two fiscal years. However, if retirement costs pressure operating performance, leading to a material weakening of reserves, we could modify our view of Plymouth's budgetary flexibility.

### Very strong liquidity

In our opinion, Plymouth's liquidity is very strong, with total government available cash at 18.8% of total governmental-fund expenditures and 2.9x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

In our view, Plymouth maintains strong access to external liquidity, if necessary, because it has issued GO bonds and BANs during the past 20 years. We understand that Plymouth 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 the date of acquisition. For these reasons, we expect available cash to remain stable and overall liquidity to stay very strong during 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 6.4% of total governmental-fund expenditures, and net direct debt is 77.4% of total governmental-fund revenue. Overall net debt is low at 2% of market value, which is, in our view, a positive credit factor.

Following this debt issue, Plymouth will have $242 million of debt outstanding: $29.5 million is self-supporting through the town's enterprise funds and the commonwealth will reimburse $3.9 million for school building projects. Plymouth currently plans to issue $16 million of additional debt during the next two years to fund various townwide CIP projects. We do not expect this additional debt to have a material effect on the debt profile due to low carrying costs and overall net debt compared to market value.

In our opinion, Plymouth's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. Plymouth's combined required pension and actual OPEB contribution totaled 11.3% of total governmental-fund expenditures in fiscal 2018: 4.6% represented required contributions to pension obligations and 6.7% represented OPEB payments. The town made 100% of its annual required pension contribution in fiscal 2018. The largest pension plan is 54.2% funded.

Plymouth participates in Plymouth Contributory Retirement System, a cost-sharing, multiple employer, defined-benefit pension plan. At June 30, 2018, the most recent actuarial valuation, the net pension liability was roughly $146.9 million, assuming a 7.25% discount rate. Plymouth expects to amortize the unfunded actuarial accrued liability fully by 2035, if it meets all assumptions. It will focus on funding its OPEB liability further after addressing the pension liability fully.

The unfunded actuarial accrued OPEB liability was $596.8 million at June 30, 2018, which is among the highest of similar-rated peers. The town established an OPEB trust fund, which had a $5 million balance at March 31, 2019. It expects to add, at least, $1 million toward the trust in fiscal 2020. 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. It also plans to update the trust for cost-of-living adjustments. At the same time, the town is considering changing benefits to reduce the overall liability. We think Plymouth's retirement costs will likely 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 S&P Global Ratings' opinion Plymouth will likely maintain strong budgetary performance and, at least, strong budgetary flexibility. We believe strong management practices and the town's diverse and growing economy help support financial performance, providing additional rating stability. Therefore, we do not expect to change the rating within our two-year outlook period.

### Upside scenario

If reserves were to increase through consistent positive financial performance to levels we consider commensurate with higher-rated peers while Plymouth manages elevated debt and substantially reduce pension and OPEB liabilities, we could raise the rating.

### Downside scenario

We could lower the rating if combined OPEB and pension liability costs, which are among the highest of its peers, were to continue to grow and contribute to, what we consider, sustained budgetary pressure, or if budgetary performance were to weaken substantially, leading to deteriorated reserves and liquidity to levels we no longer consider commensurate with higher-rated peers.

## 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
- 2018 Update Of Institutional Framework For U.S. Local Governments

| Ratings Detail (As Of May 9, 2019) | | |
|---|---|---|
| Town of Plymouth GO BAN | | |
| *Short Term Rating* | SP-1+ | Affirmed |
| Town of Plymouth GO | | |
| *Long Term Rating* | AA+/Stable | Affirmed |
| **Plymouth GO** | | |
| *Long Term Rating* | AA+/Stable | Affirmed |