S&P Global Ratings

RatingsDirect®

Summary:

Plymouth. Massachusetts; General Obligation; Note

Primary Credit Analyst:
Lauren B Carter, Boston + 1 (212) 438 0376; lauren.carter@spglobal.com

Secondary Contact:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

Table Of Contents

Summary:

Plymouth. Massachusetts; General Obligation; Note

Credit Profile		
US$17.451 mil GO BANs due 06/10/2021		
Short Term Rating	SP-1+	New
Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Town of Plymouth, Mass.' series 2020 general obligation (GO) bond anticipation notes (BANs), due June 10, 2021, totaling $17.5 million. At the same time, S&P Global Ratings affirmed its 'SP-1+' rating on the town's existing BANs and 'AA+' long-term rating, with a stable outlook, on the town's existing GO debt.

The short-term note 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 notes come due. In our view, and in accordance with our criteria, "Bond Anticipation Note Rating Methodology" (published Aug. 31, 2011), the town maintains a low market risk profile, because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full faith and credit pledge, subject to the limitations of Proposition 2 1/2, secures the BANs and outstanding GO debt. Despite commonwealth levy limit laws, we did not make a rating distinction between Plymouth's limited-tax debt and its general creditworthiness because our analysis of the town's financial and economic conditions already includes the statutory limitation imposed on its revenue-raising ability.

Officials intend to use proceeds from the 2020 BANs for various capital projects.

Credit overview

The rating reflects our opinion of Plymouth's strong and growing property tax base that continues to expand within the Boston metropolitan statistical area (MSA). We believe strong management practices and the town's diverse and growing economy help support financial performance, providing additional rating stability. Although the scope of the economic and financial challenges posed by the COVID-19 pandemic remains unknown, we believe a prolonged disruption could weaken the town's local economy and potentially impact revenues received from the commonwealth. (For more information, see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect.) At the same time, we believe retirement costs will likely continue to increase, potentially pressuring the long-term budget due to large unfunded pension and other postemployment benefits (OPEB) liabilities and low funded ratios. We do not expect to change the rating within the outlook period.

The rating further 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;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.9% of total governmental fund expenditures and 3.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 6.2% of expenditures and net direct debt that is 72.9% of total governmental fund revenue, and a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3.0% of market value; 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, which we consider social risk factors. However, due to strong management conditions and historically consistent positive results, we expect management to make the necessary budgetary adjustments to maintain balanced operations. Furthermore, management doesn't expect any cash flow pressures in the near term as a result of tax collection delays. Absent the implications of COVID-19, we consider Massachusetts' social risks in line with that of the sector. We also view governance and environmental risks as being in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

If the town were to experience budgetary deterioration leading to steep reductions in reserves, we could lower the rating.

Upside scenario

Over time, should the town experience increases in its reserve levels through consistent positive financial performance while managing its debt burden and reducing its retirement liabilities, we could raise the rating.

Credit Opinion

Very strong economy

We consider Plymouth's economy very strong. The town, with an estimated population of 60,946, is located in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 126% of the national level and per capita market value of $177,998. Overall, the town's market value grew by 2.7% over the past year to $10.8 billion in 2020. The county unemployment rate was 3.0% in 2019.

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 is currently celebrating its 400th anniversary. Due to its favorable mixture of cultural, historical, and recreational attractions, the town 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 nonresidential construction and renovation, which have surpassed 2,400 annually over the past four calendar years.

In our view, the global spread of COVID-19 (referred to as the coronavirus) presents an evolving credit risk that could continue to give rise to volatility particularly in Plymouth's tourism industry. 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 the overall effects of COVID-19, we expect tourism activity to decline in the short term. However, we note that new construction has not faltered during the height of the pandemic. According to management, over the past few months there have been $15 million worth of new construction. We understand that the situation will remain fluid in the short term, and we will continue to watch for latent credit stressors for the town, including deterioration in economic and financial performance.

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 FMA 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. Plymouth'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 five-year plan. Plymouth maintains debt guidelines limiting annually debt service to 10% of expenditures with level debt service throughout the life of the bonds. 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%-10.0% of the operating budget and a stabilization account of at least 5% of the operating budget.

The town has also taken steps to mitigate exposure to cyber-related risks and has been active in addressing concerns related to rising sea levels that could directly affect taxable properties. In particular, Plymouth has become a member of the municipal vulnerability preparedness grant program, providing support to begin the process of planning for climate change and resilience and implementing priority projects.

Adequate budgetary performance

While we expect positive budgetary performance in fiscal 2020, we believe over the next six-to-12 months, significant uncertainty exists and that Plymouth's budgetary performance will remain challenged, particularly for fiscal 2021. Therefore, Plymouth's budgetary performance is adequate in our opinion. The town had operating surpluses of 2.4% of expenditures in the general fund and of 2.4% across all governmental funds in fiscal 2019.

Fiscal 2019 results include adjustments for one-time capital expenditures paid for with bond proceeds. Management attributes the positive performance to higher-than-budgeted revenue, including meals and hotel taxes, motor vehicle excise taxes, building permit fees, and other local receipts.

The fiscal 2020 general fund budget totals $229.6 million, which reflects a 4.2% increase over the previous fiscal year. Officials indicate budget-to-actuals are tracking favorably and they do not expect any major revenue and expenditure changes for the remainder of fiscal 2020 related to COVID-19. Officials indicate they do not expect any major delinquencies from the last set of property tax revenue. We believe potential revenue and expenditure volatility is likely due to the current economic and health environment beginning in fiscal 2021, which could pressure the town's financial performance.

Recurring revenues and expenditures have generally come in on budget, at year-end. Property taxes are the largest general fund revenue source, accounting for 69% of audited revenues in 2019. State aid was 23% and excise taxes 4%. Along with local excise taxes, we believe that school and unrestricted aid from the state is likely to be the largest revenue pressure over the next few years, although the commonwealth has not yet released fiscal 2021 aid figures. We understand management is adjusting its fiscal 2021 budget to account for revenue reductions in these areas, but we believe significant uncertainty remains in projecting actual receipts. Looking ahead, while Plymouth has not yet completed its fiscal 2021 budget, which it is in the process of doing, we do not anticipate a significant change in its revenue or expense profile. Officials indicate that they are adjusting their originally proposed budget to account for potential COVID-19-related impacts. If the town is able to manage revenue reductions while producing approximately balanced results, we could revise our view of budgetary performance to strong.

Another potential source of budgetary pressure includes elevated pension and 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 in fiscal 2019 of 15% of operating expenditures, or $38.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 15% of expenditures in 2018 and 15% in 2017.

The town has adopted a fund balance policy to maintain available reserves of 2.5%-10.0% of general fund expenditures. While Plymouth recognizes that the effects of the COVID-19 pandemic and the current recession are uncertain, it is modifying its fiscal 2021 budget accordingly and therefore does not anticipate drawing down on its fund balance materially over the next year. However, if available reserves were to decline materially and management was unable to replenish them, we could revise our view of budgetary flexibility to strong and, should reserves decline significantly, this could pressure the rating.

Very strong liquidity

In our opinion, Plymouth's liquidity is very strong, with total government available cash at 21.9% of total governmental fund expenditures and 3.5x governmental debt service in 2019. 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 6.2% of total governmental fund expenditures, and net direct debt is 72.9% 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 $220.7 million in debt outstanding, $14.5 million of which is self-supporting through the town's enterprise funds. Plymouth plans to issue an additional $10.9 million over the next two years to fund various townwide 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.

Pension and other postemployment benefits

- 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, particularly given the pension systems and OPEB trust low funded ratios.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies that we believe increase the risk of unexpected contribution escalations.

- Although OPEB liabilities are funded on a pay-as-you-go basis, costs remain low despite the large liability and exposure to medical cost trends, and we expect the town will continue adding to its OPEB trust fund.

As of June 30, 2019, the town participates in the following pension plan:

- Plymouth Contributory Retirement System (PCRS): 48.1% funded with a $178.9 million proportionate share of the net pension liability.

Plymouth's combined required pension and actual OPEB contributions totaled 11.9% of total governmental fund expenditures in 2019. Of that amount, 4.9% represented required contributions to pension obligations, and 7.0% represented OPEB payments. The town made 100% of its annual required pension contribution in 2019. While the system revised its discount rate downward from 7.25% to a 7.00% discount rate, we believe this discount rate is high for municipal systems and could lead to volatile contributions should market performance not meet expectations. While Massachusetts requires all pension systems to achieve full funding no later than 2040, PCRS has planned to achieve full finding by 2035. We generally view closed, short amortization schedules as positive, but for PCRS to meet its adopted funding schedule to achieve full funding in 2035 costs must rise, given the low funded ratio. Furthermore, the system did not meet our static funding metric in the most recent year and our minimum funding progress calculation indicating that the system is not fully addressing current costs and is not making headway addressing its unfunded liabilities. Plymouth is also a member of Massachusetts Teachers' Retirement System, a cost-sharing, multiple-employer, defined-benefit plan. The town does not make an annual plan contribution because the commonwealth is responsible for contributions and future benefit payments to the system.

The OPEB unfunded actuarial accrued liability for the town was 768.2 million, as of June 30, 2019, which is among the highest of similarly rated peers. The town established an OPEB trust fund, which has a $6.5 million balance. 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.

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
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 19, 2020)		
Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of May 19, 2020) (cont.)		
Town of Plymouth GO BANs		
Short Term Rating	SP-1+	Affirmed
Town of Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed