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Ratings

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Summary:

Plymouth, Massachusetts; General Obligation; Note

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Credit Profile		
US$45.725 mil GO mun purp loan bnds ser 2021 due 05/01/2050		
Long Term Rating	AA+/Stable	New
Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Plymouth, Mass.' $45.725 million general obligation (GO) municipal-purpose loan of 2021 bonds. At the same time, S&P Global Ratings affirmed its 'SP-1+' rating on the town's existing bond anticipation notes (BANs) and its 'AA+' long-term rating on the town's existing GO debt. The outlook, where applicable, is stable.

The town's full faith and credit pledge, subject to the limitations of Proposition 2-1/2, secures the BANs and GO debt outstanding. 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.

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, on RatingsDirect, 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.

Officials intend to use $24.2 million of bond proceeds to refinance a portion of the town's 2011 GO bonds--a portion of which is exempt from the limits of Proposition 2-1/2--for net present savings. The remainder will be used to permanently finance 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). While the full effects of the pandemic on Plymouth's finances and economy are hard to predict, to date, the city has not observed any considerable disruption to its main revenues. We believe that upward of $9.7 million in pending funds from the American Rescue Plan (ARP) and conservative revenue estimates incorporated into the fiscal 2021 budget will provide credit stability over the outlook period. Furthermore, given the town's adoption of a long-term financial plan, we think its conservative management practices will likely continue to support its credit quality through this period of economic uncertainty. (For more information on S&P Global

Economics' view, see the article, titled "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021.)

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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.7% of total governmental fund expenditures and 4.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 6.3% 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 it, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

When analyzing the town's environmental, social, and governance (ESG) risks relative to its economy, budgetary outcomes, management, and debt-and-liability profile, we view them as consistent with the sector standard. With regard to environmental factors, we note that the town 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.

Stable Outlook

Upside scenario

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

Downside scenario

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

Credit Opinion

Very strong economy

We consider Plymouth's economy very strong. The town, with a population of 60,946, is on the southeastern coast of Massachusetts in Plymouth County, approximately 38 miles from Boston. It is also the largest municipality in the commonwealth, encompassing about 103 square miles. It is 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 122% of the national level and per capita market value of $192,104. Overall, market value grew by 5% over the past year to $11.8 billion in 2021. County unemployment peaked at 19% in June 2020 due to COVID-19, but subsequently recovered to 8% in January 2021. We will continue to monitor the pace of economic and labor market recovery and the effects on Plymouth's economy. (For more information on COVID-19's effects 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; "Within Reach: How Stimulus Proposals Lift U.S. GDP to Pre-Pandemic Levels," Feb. 1, 2021; "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021; and "State, Local Government, School District, And Charter School Sector Views Revised Back To Stable," March 24, 2021.)

Plymouth is a predominantly residential community. Notably, as one of the oldest municipalities in the nation, it is a historical landmark. 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 the last year, the town reports 350 new permits approved for new dwellings, and an additional 320 pending approval. 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. Despite the 14% decline in hotel and motel tax due to COVID-19, it reports that its occupancy rates are returning to 2019 levels.

Additionally, in 2019, the Pilgrim Nuclear power plant shut down and the process of decommissioning began. The plant's tax payment makes up 4% of the town's property tax revenue, so Plymouth is in the process of arranging a successor pilot agreement to soften the decrease in revenue over time. To this end, in addition to proactively seeking a favorable long-term solution, it has set aside $8.5 million to offset any sharp declines. While the outcome has not been finalized, the town expects that its total tax revenue will not be affected by the decrease in tax payment due to the Proposition 2-1/2 rule which can allow for the distribution of that loss to other tax properties through an additional tax levy revenue increase of 2.5%. At the same time, given the town's recent and prospective commercial and residential development, we expect that any losses will be further offset by healthy tax base growth, thereby continuing to support our view of a very strong economy.

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 three- to five-year historical trend analysis to form its revenue and expenditure assumptions. Finance officials use conservative growth projections to measure the effects 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 a monthly budget-to-actuals report to the town board. In addition, it and the board have shown the capacity to make intrayear 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. In 2020, the town adopted a long-term financial forecast model, which it is using to assess and plan through 2026. Plymouth maintains debt guidelines limiting annual 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.

Strong budgetary performance

Plymouth's budgetary performance is strong, in our opinion. The town had operating surpluses of 3.1% of expenditures in the general fund and 3.9% across all governmental funds in fiscal 2020.

The town's revenue base has shown resilience throughout the pandemic, in our opinion. Overall, property taxes constitute 68.8% of budgeted revenues and state aid about 13.6%. Tax collections have historically been very strong and stable, with the city typically receiving above 98%.

The city had positive results in fiscal 2020. Throughout the pandemic, Plymouth implemented several cost-saving initiatives, including operational savings from school bus contracts and furloughing of staff. The town's revenue exceeded budget expectations by approximately $1 million, but was still lower than anticipated in part due to the state allowing the deferral of tax payments without penalty or interest until June 30. The taxpayers that paid after this date were subject to penalty fees which contribute to fiscal 2021 performance to date. At the same time, the town received a CARES Act allocation totaling $9.4 million. It has also received reimbursement of $2.3 million through 2020 and requested an additional $4.2 million in 2021, which is pending.

For fiscal 2021, Plymouth budgeted a reduction in revenues of approximately $4.9 million, which were offset with savings from temporary layoffs and limited utility costs associated with mild weather. It expects to fully reinstate the positions by fiscal 2022. To date, management continues to see savings as a result of limited services in public venues which are only just starting to reopen. The town also reports more vulnerable revenue streams, such as licenses and permits and motor vehicle excise taxes, are coming in stronger than expected. In addition, it has benefited from a 3% excise tax charged to cannabis sold at two retail marijuana establishments, which thus far has generated approximately $350,000 in revenue, which the town expects to add to its fund balance. As a result, it expects positive results at the end of the year.

For fiscal 2022, the town is adopting a balanced budget, which includes a 3.5% increase in property tax revenues and level state aid, as well as cannabis excise taxes, which they were previously prohibited to include until there was a sufficient track record of three years, as mandated by the state. That revenue source is expected to make up 1% of budgeted revenues. The town is currently in union negotiations for all contracts that expire in 2021 and the associated costs are expected to increase by 1.9%, which the town has factored into its future budget planning through its financial forecasting model. Moreover, Plymouth is eligible to receive upward of $9.7 million in ARP funds, which it intends to use to replace any lost revenue and counterbalance the increases in union contracts. The school district is also benefiting from Elementary and Secondary School Emergency Relief (ESSER) stimulus funds, which we believe will support steady operating performance across all its major departments in the near term. In the longer term, risks for budgetary performance remain, mostly from rising fixed costs, especially from pension and OPEB contributions. We note that management is proactively managing its pension and OPEB plans to help prevent costs from weakening budgetary future operations.

Very strong budgetary flexibility

Plymouth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 18% of operating expenditures, or $46.7 million.

The town has been growing its fund balance consecutively over the last three years in adherence to its fund balance policy. As of fiscal 2020, its unassigned fund balance included a stabilization fund balance of $21.6 million, which includes the general stabilization fund of $11.4 million, the Nuclear Plant Mitigation stabilization fund of $7 million, and the Pavement Management Stabilization fund of $3.1 million. It has also established an additional Facility Maintenance Fund with an initial balance of approximately $2.5 million. The Nuclear Plan Mitigation stabilization fund is expected to be $8.5 million by the end of fiscal 2021 and is available to moderate any sudden losses from the decommissioned nuclear power plant and the associated tax payment decrease. While the town considers a sudden decrease unlikely, it is prepared to use the fund balance if needed. It does not otherwise anticipate drawing down on its fund balance materially over the next year. While unlikely, 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 28.7% of total governmental fund expenditures and 4.6x governmental debt service in 2020.

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 it 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 on 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 6.3% of total governmental fund expenditures, and net direct debt is 66.6% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is, in our view, a positive credit factor.

Following this debt issue, Plymouth will have $246 million in debt outstanding, of which $35.5 million is self-supporting through the town's enterprise funds. Over the next few years, it plans to issue $24 million to fund various capital improvement projects. The town also intends to borrow an additional $13.1 million to offset costs related to emergency repairs of sewer main breaks from 2015. We do not expect this additional debt to have a material effect 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 it, particularly given the pension system's and OPEB trust's 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, 2020, the town participated in the following pension plan:

- Plymouth Contributory Retirement System (PCRS): 61.6% funded with a $666.6 million proportionate share of the net pension liability.

Plymouth's combined required pension and actual OPEB contributions totaled 12.1% of total governmental fund expenditures in 2020. Of that amount, 5.1% represented required contributions to pension obligations, and 7.0% represented OPEB payments. The town made 100% of its annual required pension contribution in 2020. 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 do so 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 indicates 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 $987.6 million, as of June 30, 2020, which is among the highest of similarly rated peers. The town established an OPEB trust fund, which has a $6.6 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

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of May 13, 2021)		
Town of Plymouth GO BANs		
Short Term Rating	SP-1+	Affirmed
Town of Plymouth GO		
Long Term Rating	AA+/Stable	Affirmed