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Summary:

Topsfield, Massachusetts; General Obligation; Note

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Credit Profile

US\$14.338 mil GO BANs ser 2018 dtd 05/11/2018 due 05/10/2019

Short Term Rating

SP-1+

New

Topsfield GO muni purp loan bnds ser 2017 due 10/15/2042

Long Term Rating

AA+/Stable

Affirmed

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Town of Topsfield, Mass.' 2018 general obligation (GO) bond anticipation notes. At the same time, we affirmed our 'AA+' long-term rating on the town's 2017 GO bonds. The outlook on the long-term rating is stable.

The town's full faith and credit pledge secures the notes and the bonds. Topsfield voted to exclude debt service related to the town hall renovation and addition project and school roof projects from the provisions of Massachusetts Proposition 2-1/2. The remaining bonds are subject to Proposition 2-1/2 and are therefore a limited GO. However, due to the town's revenue-raising ability, we have not made a rating distinction between the limited and unlimited nature of pledge.

Bond proceeds will be used for a number of capital projects, including a school envelope project and roof replacements project, water treatment facility, and town hall renovation and addition. While the bonds are GOs of the town, the community intends to raise the necessary water user charges and fund the debt service related to the water treatment facility project through its water enterprise fund.

The short-term rating reflects our assessment of the town's long-term creditworthiness; low market risk, indicating strong legal authority to take out the notes with bonds before maturity; strong market access; and strong information availability, evidenced by regular debt issuance with notices and financials posted to public websites in a timely manner.

The long-term rating reflects our view of the town's:

- 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 a surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 17% of operating expenditures;

- Very strong liquidity, with total government available cash at 58.7% of total governmental fund expenditures and 31.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 1.9% of expenditures and net direct debt that is 20.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Topsfield's economy very strong. The town, with an estimated population of 6,356, is located in Essex County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 190% of the national level and per capita market value of \$214,329. Overall, the town's market value grew by 4.9% over the past year to \$1.4 billion in 2018. The county unemployment rate was 3.8% in 2016.

The town is mainly residential and serves as a commuter suburb to Boston; however, it maintains a small commercial and industrial base, representing approximately 4.5% and 1.4% of total assessed value, respectively. The largest employers within its borders are Masconomet Health Care, Fairview Machine Co., and Harmony Health. Unemployment rates have traditionally been lower than state and national trends.

Additionally, the town is known for its annual Topsfield Fair, a 200-year-old, week-plus-long agricultural fair that is the oldest in the country. The fair swells local employment each fall. Despite its mature nature, the town has experienced some recent development including a new, 30-unit, age 55-plus housing project. Town management also notes that there is interest in redeveloping several existing commercial properties.

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.

Topsfield's management strives to produce accurate financial and budgetary projections, resulting in predictable and stable year-end financial results. To this end, management partnered with the Collins Center at the University of Massachusetts, Boston to enhance existing financial management policies. This partnership has produced a detailed five-year financial plan, which expands in both detail and scope the five-year plan the town has used in years past. Additionally, Topsfield enhanced its five-year capital improvement plan, which includes five years of funding sources for all identified capital projects.

These documents, along with multiyear revenue and expenditure analysis, are the basis for the budgeting process. Monthly updates on year-to-date performance are reviewed by the finance committee. If a department identifies a deficit in an expenditure category, it can request a reserve fund transfer from the finance committee. Should a transfer be required from another budgeted source, voters can approve the transfer at the annual town meeting. Topsfield follows state law on investments, and formally presents performance updates at year-end. It has a draft debt management policy, which management anticipates being formally adopted as part of the fiscal 2019 budget process.

Finally, while the town does not have a target for general fund reserves, it does maintain targets for annual certified free cash (\$750,000) and the stabilization reserve fund (\$1,000,000), as well as targets for various other reserve funds, such as compensated absences. Topsfield is considering adopting these policies and increasing its targets for certain items or adding additional reserves over the next year.

Strong budgetary performance

Topsfield's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 0.6% of expenditures and a surplus across all governmental funds of 3.2% in fiscal 2017. General fund operating results of the town have been stable over the last three years, with a result of 0.6% in 2016 and a result of 1.2% in 2015. Our assessment of 2017 total governmental funds results include an adjustment for the use of bond proceeds.

Topsfield's 2017 results are a continuation of a recent trend of operating surpluses, supported by conservative revenue projections and minimal variance among expense line items, including education. Management has also taken proactive measures to work with its employees to find recurring health care savings between \$100,000-\$150,000 annually and has reviewed pay classifications. Local property taxes accounted for approximately 77% of general fund revenues in fiscal 2017, while intergovernmental revenues were approximately 13%. We adjust general fund results to account for annual operating transfers from the water enterprise fund and nonmajor governmental funds. We also accounted for the enterprise transfer in and the expenditure in the total governmental funds net result.

The town expects another surplus in fiscal 2018, driven by a continuation of conservative revenue assumptions and stability among expense line items. Management reports non-property tax locally derived revenues already exceed 2018 budget projections. Given the prevalence of locally derived revenues and management's record of producing balanced operating results, we expect that Topsfield's as-yet unadopted 2019 budget will remain balanced with additional funds for reserves and the town's OPEB trust, and we do not believe performance will weaken over the near term.

Very strong budgetary flexibility

Topsfield's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 17% of operating expenditures, or \$4.6 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 16% of expenditures in 2016 and 16% in 2015.

The town has shown an ability to conservatively manage to sustain operating surpluses and plans to provide set-asides for pay-as-you-go capital in its financial plan, which provides additional spending flexibility. These management actions support our belief Topsfield will maintain reserves of more than 15%, which we consider very strong, over the near term. The town has also reviewed its policies and is considering raising its informal target for free cash based on year-end levels in recent years. All labor contracts were recently settled and run through fiscal 2020.

Very strong liquidity

In our opinion, Topsfield's liquidity is very strong, with total government available cash at 58.7% of total governmental fund expenditures and 31.2x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Topsfield is a regular market participant that has issued bonds and notes frequently over the past several years. It does not have any variable-rate or 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. We expect Topsfield's liquidity to remain very strong over the next two years.

Very strong debt and contingent liability profile

In our view, Topsfield's debt and contingent liability profile is very strong. Total governmental fund debt service is 1.9% of total governmental fund expenditures, and net direct debt is 20.1% of total governmental fund revenue. Overall net debt is low at 0.7% of market value, which is in our view a positive credit factor.

After the current issuance, nearly 80% of the town's debt outstanding will be in the form of bond anticipation notes. Based on our discussions with management, our analysis assumes the notes will be permanently financed over the next two fiscal years with a 25-year amortization period for \$6 million associated with the town hall reconstruction and a 20-year takeout for the remainder. These assumptions result in a 10-year amortization of just under 50%, which we consider average. The town's water enterprise debt is fully self-supporting and we anticipate that \$3.5 million in future issuance to permanently finance notes will also be self-supporting.

Topsfield's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.3% of total governmental fund expenditures in 2017. Of that amount, 3.4% represented required contributions to pension obligations, and 1.9% represented OPEB payments. The town made 100% of its annual required pension contribution in 2017.

The town provides pension benefits to eligible employees through the Essex Regional Retirement System, a cost-sharing, multiemployer, defined-benefit pension system. For the Jan. 1, 2016 valuation, using a 7.75% discount rate, down from 8% in the 2014 valuation, it had a proportionate net pension liability of \$13.6 million. Topsfield has paid its actuarially determined contribution (ADC) each of the past three fiscal years and anticipates continuing to do so.

Topsfield also provides OPEB in the form of partially town-paid health care for eligible employees. It established an OPEB trust, to begin pre-funding benefits, and as of the June 30, 2017 valuation, the trust had an actuarial value of approximately \$599,000. The unfunded actuarial accrued liability is \$14.6 million. While the town does not have a funding schedule for the unfunded liability, management has budgeted for a \$100,000 transfer into the trust annually in the past and expects to increase this number to \$300,000-\$500,000 in future.

While the town expects to add debt within the next two years, we do not anticipate significant budgetary pressure from the additional debt burden. Furthermore, although the reduction in the discount rate increased the net pension liability and increased the ADC, we expect that Topsfield will continue to budget for and fully fund any increased pension costs. If the town is able to contribute to its OPEB trust, as planned over the next few years, it may begin to meaningfully reduce the OPEB liability in the next several years; however, we believe pay-as-you-go OPEB and trust contributions remain a potential area of pressure on the budget.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Topsfield's management team, supported by very strong wealth and income levels, will continue to produce balanced operating results. We do not expect to change the rating within our two-year outlook horizon.

Upside scenario

We could raise the rating if Topsfield's management continues to update the documents produced in conjunction with the Collins Center, leading to increased budgetary performance and reserves, while managing expense growth and budgetary pressure associated with its long-term liabilities.

Downside scenario

We could lower the rating if budgetary performance were to weaken, straining reserves.

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
- 2017 Update Of Institutional Framework For U.S. Local Governments

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.

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