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Summary:

Lunenburg, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$3.295 mil GO sch bnds ser B dtd 02/09/2016 due 05/15/2045		
Long Term Rating	AA+/Stable	New
US$2.35 mil GO mun purp loan bnds ser 2016 A dtd 02/09/2016 due 09/01/2024		
Long Term Rating	AA+/Stable	New
Lunenburg GO bnds		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to Lunenburg, Mass.' series 2016A and 2016B general obligation (GO) municipal-purpose bonds and affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge, subject to the limitations of Proposition 2 1/2, secures the bonds. Officials plan to use series 2016A and 2016B bond proceeds to refund the town's series 2004 GO bonds for a present value savings and provide funding for a new middle school project.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial management 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 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 7.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.3% of total governmental fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 6.1% of expenditures and net direct debt that is 137.8% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Lunenburg's economy very strong. The town, with an estimated population of 10,290, is located in Worcester County in the Worcester MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 131% of the national level and per capita market value of $116,580. Overall, the town's market value grew by 4.6% over the past year to $1.2 billion in 2016. The county unemployment rate was 6.2% in 2014.

Lunenburg is 43 miles northwest of Boston and 29 miles north of Worcester. The town is primarily a residential community with some commercial activity. Leading town employers include Wal-Mart Stores Inc., Hannaford Supermarket, and Maki Corp. Property values have been stable; they continue to experience increases, evidenced by an average 3% increase within the past three fiscal years. Management expects further growth because it believes future road improvement projects will help attract and improve the commercial base. In addition, officials report an electric company is moving its headquarters into the town, which will improve the employment base and add to assessed value (Av). There is no taxpayer concentration with the 10 leading taxpayers accounting for a very diverse 8.6% of assessed value.

Strong management

We view the town's management as strong, with "good" financial management 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.

Highlights include management's conservative assumptions when budgeting for revenue and expenditures, coupled with a multiyear historical trend analysis and quarterly reports on budget-to-actual results to the town board. Management also maintains a five-year capital improvement plan that it updates annually and that identifies funding sources, and it maintains a five-year budget forecast. Lunenburg maintains an investment policy that follows commonwealth guidelines on investments and reports the results to the board annually. The town also has a debt management policy that limits debt service to 3% of expenditures, but it is currently exceeding that level. In addition, management maintains a formal reserve policy that targets the stabilization of reserves at 5% of general fund expenditures.

Strong budgetary performance

Lunenburg's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of 0.2% of expenditures, and slight surplus results across all governmental funds of 1.1% of expenditures in fiscal 2015. General fund operating results of the town have been stable over the past three years, with a result of 0.3% of expenditures in 2014 and a result of 0% in 2013.

We adjusted fiscal 2015 audited general fund and total governmental funds operating results for recurring transfers, as well as one-time capital expenditures paid for with bond and grant proceeds. Lunenburg has maintained stable financial operations over the past few fiscal years. Management attributes the fiscal 2015 surplus to increased local receipts, savings in budgeted expenditures, and overall conservative budgeting. The town adopted a $32 million budget for fiscal 2016 that includes a $233,000 fund balance appropriation.

Management indicates that budget-to-actual results are coming in on budget and that it expects to see an increase in fund balance by fiscal year-end 2016 due to higher-than-budgeted new growth of property tax revenue. Therefore, we expect general fund and total governmental funds budgetary performance to remain strong because the town does not expect any fiscal imbalances in fiscal years 2016 and 2017. Therefore, we expect budgetary performance to remain strong. The town's revenue profile is stable; property taxes generate 63% of general fund revenue and intergovernmental revenue accounts for 29%.

Adequate budgetary flexibility

Lunenburg's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 7.8% of operating expenditures, or $2.5 million.

Available reserves include committed fund balance of about $234,000 that management could make available for operations. Management also maintains a receivable that totaled $3.5 million in fiscal 2015, including intergovernmental revenue the town has been receiving consistently over the past few fiscal years.

While the town appropriated about $233,000 in the fiscal 2016 budget, management does not expect to realize this because it is currently projecting an increase in fund balance by fiscal year-end 2016. The town also maintains a formal reserve policy of maintaining stabilization reserves, which it reports within unassigned fund balance, at a minimum of 5% of expenditures. The town currently adheres to this policy. Therefore, we expect available reserves to remain, at least, adequate over the next two fiscal years.

Very strong liquidity

In our opinion, Lunenburg's liquidity is very strong, with total government available cash at 15.3% of total governmental fund expenditures and 2.5x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Lunenburg has issued GO bonds within the past 15 years, supporting its strong access to external liquidity. In addition, it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, we do not expect deterioration in the town's liquidity metrics over the next two fiscal years. Therefore, we expect the town to maintain its very strong liquidity profile.

Weak debt and contingent liability profile

In our view, Lunenburg's debt and contingent liability profile is weak. Total governmental fund debt service is 6.1% of total governmental fund expenditures, and net direct debt is 137.8% of total governmental fund revenue.

Following this issuance, Lunenburg will have about $53.2 million in total direct debt outstanding. The town is currently considering issuing about $3.2 million of additional debt within the next two years to three years for the middle school project, as well as general road improvements.

Lunenburg's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 5.4% of total governmental fund expenditures in fiscal 2015. Of that amount, 2.3% represented required contributions to pension obligations, and 3.1% represented OPEB payments.

The town's large unfunded pension and OPEB liabilities are a long-term credit consideration due to the pension system's low funded ratio. Lunenburg participates in Worcester County's contributory retirement system, and it makes 100% of the annual required contribution. The system is 44.9% funded with the town's portion of the unfunded actuarial accrued liability (UAAL) at about $15 million. The town's OPEB UAAL, which it funds through pay-as-you-go financing, totaled $40 million at July 1, 2012, the most recent actuarial valuation. We, however, expect retirement costs to remain manageable over the next two fiscal years.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Lunenburg's strong budgetary performance and very strong underlying economy, supported by its access to the Worcester MSA. We believe Lunenburg's very strong liquidity; planned maintenance of, at least, adequate budgetary flexibility; and good financial management policies and practices further support the rating. The town's weak debt and contingent liability profile currently pressures the rating. Due to the town's limited debt plans and our expectation that finances will likely remain stable, coupled with a very strong economy, however, we do not expect to change the rating within the two-year outlook period.

Upside scenario

Over time, if management were to maintain strong budgetary flexibility through consistent positive financial performance, while reducing long-term retirement liabilities and debt, we could raise the rating.

Downside scenario

Conversely, if budgetary performance were to deteriorate; if reserves were to decrease to levels we consider weak; or if its debt and contingent liability profile were to weaken due to additional debt issuance or increased retirement costs, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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