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Summary:

Belmont, Massachusetts; General Obligation

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Credit Profile		
US$108.1 mil GO mun purp loan of 2019 bnds ser 2019A due 03/15/2049		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Belmont, Mass.' series 2019A general obligation (GO) bonds. The outlook is stable.

Officials intend to use series 2019 bond proceeds, totaling approximately $108 million, to finance the construction a new high school ($100 million) as well as provide funds toward construction of a Department of Public Works and police station ($7.4 million) and fund water improvements ($700,000).

The town's debt will significantly increase with this bond issue. The town is embarking on a sizable school project with a total authorization of $293.4 million. Belmont is eligible to receive a reimbursement of about $80.6 million from the Massachusetts School Building Authority that will reduce the town's share of project costs. We estimate the town will issue an additional $100 million in 2020 related to the project. Notably, it voted to exempt the debt service on the bonds from the limitations of Proposition 2-1/2.

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

Supporting the 'AAA' rating are Belmont's very high wealth and incomes, and its strong operating results and reserves that have been sustained over several years. Underpinning this has been prudent financial management and adherence to long-established reserve policies and planning procedures. Debt service costs will likely increase as part of this bond issue, but remain manageable, in our view, given the town's very strong socioeconomic demographics and its growing tax base. Pension and other postemployment benefit (OPEB) costs continue to grow as a percentage of budget, but we anticipate the town will continue to manage these higher costs while sustaining its operating flexibility at the same time, as has been the case historically. For fiscal 2018, it is reporting its eighth consecutive surplus. The financial profile will remain stable, in our view, as the town will remain proactive in ensuring budgetary alignment.

We rate Belmont higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2018, local property taxes generated 74% of general fund revenue, with other local sources contributing approximately 8% and intergovernmental aid accounting for the remainder. This shows a lack of dependence on central government revenue.

(See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

Additional rating factors include our opinion of Belmont'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 an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 47.3% of total governmental fund expenditures and 13.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges projected to grow as a percent of expenditures and net direct debt that is 107.6% of total governmental fund revenue, and our assessment factors in the additional $100 million the town will likely issue in 2020, and accounts for higher costs related to its large pension and OPEB obligation, although favorably, it maintains a low overall net debt burden at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Belmont's economy very strong. The town with an estimated population of 25,500, occupies 4.7 square miles is in Middlesex County. It is an affluent suburb bordered by Cambridge and less than four miles from Boston 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 204% of the national level and per capita market value of $311,634, which are both extremely strong and among the highest in the commonwealth. Overall, market value grew by 9.0% over the past year to $7.9 billion in 2019. The county unemployment rate was 3.0% in 2017 well below state and national levels.

Belmont is predominantly residential, which accounts for roughly 95% of the town's total market value. The town also maintains three commercial areas, Belmont Center, Cushing Square, and Waverly Square. Leading employers in the town include McLean Hospital, a psychiatric hospital, and the town itself.

The town's economic profile benefits from its location, which has given way to extremely strong and stable wealth and income levels. It is served by the Massachusetts Bay Transit Authority's commuter rail, buses, and trackless trolley lines, in addition to several roads and exits along Route 2 which connect it directly to the area's deep and robust economy.

Economic expansion continues, particularly in the way of residential renovation and development; this has contributed to stable new tax revenue growth. The total value of building permits issued has consistently remained near $50 million, and the tax base has grown accordingly, averaging 7% growth annually since 2015.

In our opinion, the town maintains an affordable tax rate, even when factoring in the projected tax levy increases that will support the bonds related to the school construction project. The 10 leading taxpayers account for 4.8% of the tax base, indicating a diverse tax base. In our opinion, we believe Belmont will continue to see modest growth in the tax base over time, and this, combined with a low tax rate and very strong tax collection rates at 99%, will contribute to ongoing revenue stability for the town, particularly as it absorbs higher debt, pension and OPEB costs.

Strong management

We view the Belmont's management environment 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.

The town operates under a representative Town Meeting form of government consisting of a 288-member elected representative town meeting and a three-member board of selectmen. The board appoints a town administrator who serves as the chief administrative officer responsible for the day-to-day operations.

The town maintains several policies and practices we believe contribute to its stable and consistent revenue performance.

In developing the budget, the town references two years of historical data, as well as projections in the long-term financial plan. Assumptions have generally been conservative, leading to a track record of balanced budgets. Management performs budgetary surveillance with budget-to-actuals reported monthly. Belmont maintains an extensive, annually updated five-year financial plan and uses a forecasting tool to help size up potential issues and enable management to produce balanced operations. The town also maintains a five-year capital plan that is comprehensive but does not delineate funding sources for all projects in the plan.

The town does not have a formal debt management policy aside from statutory limitations, but it carefully plans for new debt by reviewing its affordability and often seeking a debt exclusion vote from the limitations of Proposition 2-1/2.

The town has a formal investment policy that restricts investments to U.S. government agency obligations, certificates of deposits, and money market accounts and investments are reported annually. Finally, Belmont has reserve and free cash policies that include target limits as well as a replenishment provision. The town's policy limits reserves--defined as undesignated general fund balance, general stabilization, and the capital endowment fund balance--as a percentage of general fund revenues to 5%. It has historically operated well above its policy.

Strong budgetary performance

Belmont's budgetary performance is strong, in our opinion. Belmont reported operating results in the general fund of 0.7% of expenditures, and surplus results across all governmental funds of 1.9% in fiscal 2018.

Our calculation of the town's performance includes adjustments for recurring transfers and capital spending paid for with bond proceeds.

The 2018 operating result marks the town's eighth consecutive general fund surplus, which we attribute to prudent budgeting and planning. On a budgetary basis, Belmont saw a favorable revenue variance of $2.0 million from various revenue sources, accounting for 1.9% of general fund revenues. Similarly, it saw a positive expenditure variance of $2.5

million (2.4% of general fund expenditures).

Supporting the town's budgetary performance has been the community's willingness to approve operating and debt exclusion overrides from the limitations of Proposition 2-1/2. In 2015, the town received approval of a $4.5 million operating override, which allowed it to keep revenues at pace with growing expenditures and grow reserves since that time.

The town regularly seeks, and receives approvals for, operating and debt exclusion overrides as a tool to maintain operational balance. We believe given its affordable tax rates, wealthy tax base, and record of accomplishment of receiving strong community support, it is likely the town will continue to receive approvals necessary to maintain budgetary alignment while maintaining base-line services. Currently, the town is intending on seeking an additional operating override for the 2020 fiscal year that will likely underpin continued strong budgetary performance through 2025.

The 2019 budget totals $132.5 million. The town is projecting a budgetary surplus in fiscal 2019, in line with years past. Locally derived revenues are the predominant general fund revenue sources; property taxes alone represent nearly three-quarters of general fund revenue, limiting exposure to potentially volatile state and federal revenue sources. Property tax collections have historically exceeded 99.0% on a current-year basis. State aid was about 17% of revenue in fiscal 2018.

Very strong budgetary flexibility

Belmont's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 19% of operating expenditures, or $22.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 19% of expenditures in 2017 and 19% in 2016.

The town has seen its reserves grow considerably over the last decade and currently has very high reserve balances when compared to peers. We note that our calculation of available reserves does not include the $3.5 million ash landfill stabilization fund reported as a committed balance in the general fund. The monies, while committed, could be made available for operations contingent on board of selectmen approval. These funds, however, are currently intended to be used over time to offset costs related to the landfill.

In our view, the town maintains very high reserves and strong budgetary flexibility. Given its strong operating profile, and management practices, we do not anticipate changing our view of its budgetary flexibility over the near term.

Very strong liquidity

In our opinion, Belmont's liquidity is very strong, with total government available cash at 47.3% of total governmental fund expenditures and 13.7x governmental debt service in 2018. In our view, the Belmont has strong access to external liquidity if necessary.

Belmont has issued GO debt regularly over the past 15 years, which supports our view of its strong access to external liquidity. The town does not have investments we view as aggressive as it holds funds in mutual funds and certificates of deposit. We do not anticipate changing our view of the liquidity profile over the near term.

Weak debt and contingent liability profile

In our view, Belmont's debt and contingent liability profile is weak, but we believe costs are manageable given the town's very strong demographic profile. Total governmental fund debt service is 3.5% of total governmental fund expenditures and projected to grow with this bond issue, and net direct debt is 107.6% of total governmental fund revenue. Our assessment of the town's debt profile factors in its medium-term debt plans. The town is intending on issuing an additional $100 million in 2020 as part of the school construction project. A positive factor, however, is its affordability. Overall net debt is, in our view, low at 1.8% of market value.

We calculate the town's total direct debt to be $178.3 million. Of that amount, roughly $35 million of the outstanding debt relates to its enterprise funds and is fully paid from user rates and charges. Including this debt offering, debt service carrying charges will likely grow as a percentage of the budget, but remain manageable at between 7% and 8% of general fund expenditures over the next several years. Higher debt service costs will be paid from tax levy increases. The majority of the town's debt is exempt from Proposition 2-1/2.

In our opinion, a credit weakness is Belmont's exposure to rising costs related to pension and OPEB obligations; however, we believe overall costs are affordable and the town has been active in managing the overall liability. Belmont's combined required pension and actual OPEB contributions totaled 9.7% of total governmental fund expenditures in 2018. Of that amount, 6.1% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 59.2%.

Belmont contributes to the Belmont Contributory Retirement System (BCRS), a cost-sharing, multiple-employer defined-benefit pension system. The town has a proportionate net pension liability of $74 million. We note that the retirement system maintains a reasonable discount rate of 7.4%, but we continue to view this as higher than the average. We also view the system's funded ratio of 59% as low funded, but note that the town is fairly aggressive in funding this obligation and it maintains tax rate flexibility through ongoing support of operating overrides. The pension plan is currently on target to achieve full funding by 2029, which is well ahead of the state-mandated 2040 timeframe. Costs, however, have grown at an average annual rate of 6.8% since 2015, and are projected to rise by an average annual rate of roughly 6% through 2029, assuming investment returns keep pace with underlying assumptions. The town has paid its full required contribution each of the last three fiscal years and expects to continue doing so.

The town also provides OPEB benefits and historically paid costs on a pay-as-you-go basis, but is committed to setting aside funds in an irrevocable trust. Guiding its funding of the liability is its OPEB annual appropriation policy, which calls for a minimum contribution of $50,000. The town has been appropriating well in excess of that amount, and in 2018, it appropriated $571,000. The balance of the OPEB trust fund was $4.1 million in December 2018. At June 30, 2017, the town reported a total liability of $92.8 million.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view that Belmont's strong underlying economy, strong management, and predictable operating profile should translate into strong budgetary performance and operating flexibility during our two-year outlook horizon. The outlook also reflects our expectation that Belmont will remain proactive in its management of its debt and liability profile as evidenced by its careful planning and prudent budget decisions. Debt service costs, as well as pension and OPEB costs, will likely continue to increase, but overall remain manageable and affordable within the current operating environment. For these reasons, we do not anticipate changing the rating during the next two years. While unlikely, if financial performance were to deteriorate significantly, leading to a draw on reserves, or if long-term liabilities increased at a faster pace, leading to budgetary pressures, we could lower the rating. In addition, if the town's tax rate flexibility were to diminish as evidenced by its electorate no longer willing to support operating overrides and debt exclusions, the rating would also be pressured, particularly given the expected rise in debt and other costs.

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