

RatingsDirect®

Summary:

Chelmsford, Massachusetts; General Obligation

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Credit Profile

US\$5.81 mil GO mun purp loan of 2022 bnds, series A dtd 07/01/2022 due 07/15/2033		
<i>Long Term Rating</i>	AA+/Stable	New
US\$1.245 mil GO recreational facility bnds, series B dtd 06/30/2022 due 06/15/2032		
<i>Long Term Rating</i>	AA+/Stable	New
Chelmsford Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Chelmsford Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Chelmsford, Mass.' approximately \$5.8 million 2022 tax-exempt series A and \$1.245 million 2022 taxable series B (recreational facility) general obligation bonds. At the same time, we affirmed our 'AA+' rating on the town's GO debt outstanding. The outlook is stable.

Chelmsford's full-faith-and-credit pledge, subject to limitations of Proposition 2 1/2, secures the bonds. We rate the limited-tax GO debt on par with our view of the town's general creditworthiness, given that we factor the town's revenue-raising flexibility and ability to pay debt service into our view of the town's general creditworthiness. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019, on RatingsDirect).

Series A bonds (\$5.8 million) will be used for various capital improvements, and series B bonds (\$1.245 million) will be used for the town's recreational facility.

Credit overview

Chelmsford is a primarily residential community in northeastern Massachusetts just south of New Hampshire. The 'AA+' rating reflects the town's very strong economy with access to regional labor markets, and proactive management practices which have contributed to positive results both during the pandemic and the resulting economic uncertainty. Our stable outlook reflects these strengths, and our expectation that the town's strong management and budgetary flexibility will continue. However, the pension and other postemployment benefits (OPEBs) liabilities present more of a pressure in comparison with higher-rated state and national peers. In addition, rising pension and OPEB costs could stress the town's finances if revenues from new economic growth were to stall.

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

- Strong residential economy supported by robust real estate growth;
- Very strong management, with well-embedded financial policies and practices and a strong institutional framework;

- Consistent budgetary performance leading to improving reserve levels; and
- Strong debt position, but a large pension and OPEB liability that is expected to grow.

Environmental, social, and governance

We evaluated Chelmsford's environmental, social, and governance risk relative to its economy, financial measures, management, and debt and long-term liability profile, and view them as neutral in our credit rating analysis. Additionally, the town has measures in place to mitigate cyber security risks.

Stable Outlook

Downside scenario

We could consider a negative rating action if the town's budgetary performance were to weaken, resulting in a deterioration of reserves and cash balances.

Upside scenario

We could consider a positive rating action if, all else being equal, the town demonstrates continued and significant progress in mitigating its pension and OPEB liabilities, coupled with increasing fund balances that are sustained at levels commensurate with those of 'AAA' rated peers, as well as improved economic metrics.

Credit Opinion

Local economy supported by strong growth in residential values

The town of Chelmsford is a predominantly residential community in Middlesex County with a population of 36,150, and benefits from its participation in the Boston-Cambridge-Newton MSA. The tax base has remained strong, bolstered by a robust real estate market, and is expected to increase further with the approval of additional market-rate luxury housing units. Total valuation is expected to increase by almost 10% for fiscal 2023, led by an increase in residential real estate values, but management is incorporating current macroeconomic trends in projecting future growth.

On the commercial side, residents are connected with regional employment centers in southern New Hampshire and throughout the Boston MSA by Interstate 495 and various state routes within the town. In addition to these labor markets, Chelmsford's employment base is diversified, with leading sectors of employment including education and health services, manufacturing, and professional and business services. Management reports that older commercial areas are currently being redeveloped into mixed-use facilities to attract new tenants. Given the town's general resilience over the past few years, we expect the local economy to remain stable among ongoing economic uncertainty.

Very strong management with well-embedded financial policies and practices

Chelmsford's very strong financial management policies and practices include the use of four-to-five years of revenue and expenditure information when developing the annual budget. According to management, it considers macroeconomic trends through the examination of motor vehicle excise taxes and monitoring commonwealth revenue

when examining intergovernmental revenue. Officials also use a five-year rolling average to estimate snow-and-ice expenditures for the public works department, and management identifies and prioritizes appropriations based on department and community needs at the annual town meeting. Management monitors revenue and expenditure performance on a monthly basis and provides monthly reporting to the governing body.

Management has a strong focus on financial and capital planning. Chelmsford maintains a comprehensive five-year capital needs budget and a 10-year plan for public facilities, which it updates annually; the plan identifies internal and external funding sources. When necessary, the town also hires consultants to perform assessments of current infrastructure conditions and community needs for large-scale projects. Furthermore, it performs a five-year financial forecast of the operating budget to identify future revenue and expenditure trends. Management updates the five-year forecast semiannually.

Chelmsford maintains a written investment policy to track investment earnings and holdings quarterly and report the results to the town manager for review. The town also has a formal debt policy that limits new debt to no more than 10% of revenue and 1.5% of assessed value, excluding the sewer betterment fund debt. It also maintains a written reserve policy that targets available fund balances at 5%-10% of budgeted expenditures, coupled with procedures for restoring fund balance if reserves fall below 5%.

Consistent budgetary performance leading to improving reserve levels

For analytical consistency, we adjusted Chelmsford's performance to include recurring transfers among the general fund, nonmajor government and enterprise funds, and to account for capital expenditures paid with bond proceeds. The town's revenue profile is stable, with local property taxes accounting for about 70% of general fund audited revenues and a 99.7% collection rate. Despite the pandemic and resulting economic uncertainty, the town has continued to produce surpluses through the adoption of balanced budgets, as well as strong revenue performance and expenditure controls.

Fiscal 2021 ended with a \$4 million surplus in the general fund, which can be attributed to local receipt revenues outperforming the budget and town departments not expending their full appropriated budget. Fiscal 2022 is on-track to budget, with strong revenue collections and anticipated expenditure savings, therefore management expects to end with positive results.

The fiscal 2023 budget is structurally balanced at \$153.5 million, which is a 6% increase over the fiscal 2022 budget. It includes increases for most town departments, but the largest increases are for the public school system and employee benefits and health insurance. We expect Chelmsford will continue to produce generally balanced results.

The town's allocation of American Rescue Plan (ARP) funding is \$10.6 million, of which it has received the first half, and the select board has approved \$7.9 million for various infrastructure projects and a fire rescue truck replacement. The remaining balance of ARP funds is uncommitted, and we expect the town will not use the funds for ongoing operations or to supplant the budget.

The town has maintained strong budgetary flexibility in the past several fiscal years, leading to maintenance of strong reserve levels. Given its estimated positive results in fiscal 2022, we expect reserves to be maintained at strong levels.

Lastly, Chelmsford is a regular market participant that has issued debt frequently over the past several years, including GO bonds and short-term bond anticipation notes, which we believe demonstrates strong market access.

Commonwealth laws do not allow municipalities to issue variable-rate debt. The town does not currently have any 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.

Strong debt profile with moderate medium-term debt plans

After this issuance, Chelmsford will have approximately \$66.3 million in total direct debt outstanding. Of this, we consider approximately \$2.9 million to be self-supported by enterprise rates. The town anticipates issuing approximately \$3.5 million annually in line with its capital improvement plan; however, given its rapid amortization, we do not anticipate a material change in its debt profile.

Pension and OPEB highlights

- In our opinion, a credit weakness is Chelmsford's large pension and OPEB obligation, with costs expected to rise.
- While the pension plan uses an actuarially determined contribution, we believe some of the assumptions may lead to contribution volatility and escalation.
- While the town is prefunding its OPEB liability, which we view as a credit positive, we also expect these costs to rise.

The town participates in the following plans:

- Middlesex County Public Employees' Retirement System: 53.4% funded, \$111 million net liability.
- A single-employer defined-benefit health care plan: 25% funded, \$51 million net liability.

The town made 100% of its annual required pension contribution in 2021; it makes at least the required payment annually. We believe funding progress will be slow, as the pension plan did not meet our minimum funding progress metrics in the most recent year and the 7.3% discount rate exceeds our 6% guideline, which could lead to contribution volatility. We also expect costs will escalate as the pension plan works toward full funding.

Management has taken steps to reduce its long-term unfunded OPEB liability. The town contributes to an OPEB trust fund in excess of the pay-as-you-go contribution, which has a balance of \$17.3 million as of June 30, 2021. Although it does not follow a formal policy, the town has increased its contributions to the trust and plans for 3% increases annually. Should costs begin to pressure the budget, we could revise our view of the town's plan to address its retirement liabilities.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Chelmsford, Massachusetts Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	167			

Chelmsford, Massachusetts Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Market value per capita (\$)	188,211			
Population			36,158	36,042
County unemployment rate(%)		4.6		
Market value (\$000)	6,805,336	6,470,953	6,135,185	
Ten largest taxpayers % of taxable value	3.7			
Strong budgetary performance				
Operating fund result % of expenditures		2.6	0.5	1.2
Total governmental fund result % of expenditures		1.4	2.2	0.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		15.0	12.5	12.5
Total available reserves (\$000)		22,999	18,927	18,004
Very strong liquidity				
Total government cash % of governmental fund expenditures		26	22	21
Total government cash % of governmental fund debt service		217	206	221
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.9	10.9	9.5
Net direct debt % of governmental fund revenue	37			
Overall net debt % of market value	1.0			
Direct debt 10-year amortization (%)	96			
Required pension contribution % of governmental fund expenditures		5.4		
OPEB actual contribution % of governmental fund expenditures		2.9		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 13, 2022)

Chelmsford Twn GO muni purp loan ser 2021 B due 02/15/2032		
Long Term Rating	AA+/Stable	Affirmed
Chelmsford Twn GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed

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