



TOWN OF SHREWSBURY

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PRESS RELEASE

July 1, 2019

FOR IMMEDIATE RELEASE

SHREWSBURY ATTAINS 'AAA' BOND RATING

TOWN OF SHREWSBURY, MA - S&P Global Ratings assigned its 'AAA' rating to the Town of Shrewsbury, the highest rating level that it assigns citing the town's very strong economy, strong budgetary performance and strong management among other key factors. The Town is poised to borrow just over \$52 million for the construction of the new Beal Elementary School, refinance \$2 million in bonds originally issued in 2008 for the construction of the Fire Headquarters building and borrow a little less than a \$1 million in previously issued short term notes used for the design of the Water Treatment Plan.

S&P rationale stated "We rate the town higher than the nation because we believe Shrewsbury can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue...". Shrewsbury Town Manager Kevin J. Mizikar noted that the Town has been working for years to put itself in this position and efforts include increasing its general stabilization account, executing a plan that will ensure pension obligations are fully funded by the end of fiscal year 2020 and thoroughly and transparently planning and forecasting for the towns overall financial needs.

This credit rating reflects an increase of two ratings levels over the Town's prior rating in June of 2017. The higher an entity's credit rating the lower interest it pays to service its debt. This credit rating means Shrewsbury taxpayers will pay less than originally projected when Town officials sought their approval in 2018. Maurice DePalo, Chairman of the Board of Selectmen, stated "The Board of Selectmen is proud of the strong financial position that the Town is in and that this rating will directly reduce the impact of this borrowing on taxpayers."

For more information please contact Kevin J. Mizikar, Town Manager at 508-841-8508.

Attached: *S&P Global Ratings, Shrewsbury, Massachusetts; General Obligation June 28, 2019*

Summary:

**Shrewsbury, Massachusetts; General
Obligation**

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US\$55.72 mil GO mun purp loan of 2019 bnds due 07/15/2039

Long Term Rating

AAA/Stable

New

Rationale

S&P Global Ratings assigned its 'AAA' rating to Shrewsbury, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds. The outlook is stable.

Supporting the long-term rating are the town's strong economic growth and steady operating results. We believe good financial management and collaboration throughout all government departments, which provides a robust budgeting and planning framework, underpin the strong credit profile. Pension and other postemployment benefit (OPEB) costs are contained and the town will likely begin meaningfully contributing toward its OPEB trust fund since the pension system is virtually fully funded. For fiscal years 2019 and 2020, Shrewsbury's general fund operating results are expected to be strong, and we anticipate its financial profile will remain stable with strong budgetary flexibility.

The long-term rating reflects the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018, on RatingsDirect). The town's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the series 2019 GO bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction between the limited-tax GO pledge and Shrewsbury's general creditworthiness because the tax limitation imposed on the town's ability to raise revenue is already embedded in our analysis of its financial and economic conditions.

We rate the town higher than the nation because we believe Shrewsbury can maintain better credit characteristics than the nation 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 fiscal 2018, local property taxes generated 76% of town revenue, which demonstrated a lack of dependence on central government revenue.

Proceeds from this issue will be used to fund costs related to a new grade K-4 elementary school, along with other capital projects. A portion of the proceeds will refund the town's outstanding 2008 bonds for interest savings.

The rating further reflects our opinion of the following factors for Shrewsbury, specifically its:

- 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 general fund balance decline but an operating surplus at the total

governmental fund level in fiscal 2018;

- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 13.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.9% of total governmental fund expenditures and 5.3x governmental debt service;
- Strong debt and contingent liability position, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 61.4% 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 Shrewsbury's economy very strong. The town, with an estimated population of 37,147, is located in Worcester County, directly east of Worcester, 19 miles west of Framingham, and 40 miles west of Boston. It is in the Worcester MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 156% of the national level and per capita market value of \$164,071. Overall, market value grew by 4.8% over the past year to \$6.1 billion in 2019. The county unemployment rate was 3.5% in 2018.

Shrewsbury benefits from access to nearby cities and surrounding employment centers along interstates 90 and 495, which provide residents with diverse jobs. Some of the leading employers include Mescaster Co. Inc. (1,275 employees), Charles River Laboratories (500), and the University of Massachusetts System (500).

The town is primarily residential and officials report several housing projects currently in various stages of development that should boost growth. According to officials, Shrewsbury issued an average of 980 building permits with an average value of \$67 million (annually) over the past five years. Recent projects include three permitted housing projects in development with a combined total of about 300 units. Two of these communities, with a total of about 50 units, are designated for residents over 55. In addition, the town has seen commercial development with offices, restaurants, and shopping centers being built. In particular, there are two retail and residential projects in development that are currently in permitting. Management indicated that on the residential side, 10% will be designated affordable housing. The town also has host community agreements with two medical and retail marijuana facilities that are expected to be finished with permitting by the end of this calendar year.

Due to many of these projects and a strong real estate market, assessed value (AV) remains strong and poised to see further growth. We anticipate that the town's economy assessment will remain very strong with low unemployment and growing household incomes.

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 preparation of its annual budget, officials employ conservative budgeting practices, including the use of three-to-five years of historical data to develop revenue and expenditure assumptions. The town estimates local tax receipts and intergovernmental revenue by reviewing local and regional economic growth forecasts, as well as the governor's

proposed budget. Officials determine budget appropriations by assessing fixed costs, such as debt service and contractual obligations from collective bargaining. They then prioritize appropriations based on municipal department and community needs. Throughout each fiscal year, Shrewsbury monitors its budget-to-actual performance internally, and management delivers a report to the Board of Selectman and Finance Committee monthly to address budget variances. Although it does not regularly amend the budget, the Board of Selectman may vote to approve adjustments to appropriations.

The town's investments comply with commonwealth guidelines for fund investments, and reporting is done regularly by the town treasurer.

Shrewsbury maintains a five-year capital improvement plan, which it updates on an annual basis. The plan identifies capital needs across all departments and various funding sources. It has an adopted debt management policy that has baseline qualitative restrictions for debt issuance, but also requires overall debt be maintained less than 3% of AV. The town also has a formal reserve policy, with a requirement to maintain undesignated reserves between 3% and 5% of general fund expenditures, and stabilization account balances in excess of 5% of expenditures. While the town is not currently in line with the stabilization fund target, management is on track to reach that threshold over the next two years—at which point they will likely maintain reserves at that level.

While the town includes a revenue projection in its budgetary documents, management does not maintain a comprehensive financial forecast that we view as widely implemented across all budget line items. Nevertheless, what the town prepares each budget cycle is sufficient so that financial decisions are made primarily from a long-term perspective, with structural balance as the clear goal.

Strong budgetary performance

Shrewsbury's budgetary performance is strong, in our opinion. The town had a slight general fund balance decline of negative 0.9% of expenditures, but a surplus result across all governmental funds of 2.9% in fiscal 2018.

Shrewsbury continues to experience new growth in its taxable base and corresponding demand on municipal services, and we believe management's use of conservative revenue projections and intrayear budget monitoring have yielded balanced financial operations over the last three fiscal years.

The town derives a majority of its general fund revenue from stable and predictable revenue sources, the largest of which is property tax. Real estate and personal property taxes made up 59% of general fund revenue, and its property tax collection rate has averaged 98% over the past five years. State intergovernmental aid accounted for 25.5% of revenue, and we note commonwealth funding has been stable recently.

Projections for 2019 suggest the town is poised to see steady operating results in line with years past. Shrewsbury approved a balanced \$142.6 million general fund budget for fiscal 2020, which reflects a slight decrease over the prior fiscal year. Given its recent history of steady operations and no plans to meaningfully appropriate reserves over the next few years, we anticipate budgetary performance will likely remain strong during our outlook horizon.

Strong budgetary flexibility

Shrewsbury's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 13.8% of operating expenditures, or \$17.9 million.

Available reserves have been stable with recent reductions in assigned funds attributed to a timing mismatch related to encumbrances and carry-forwards related to capital. Overall, unassigned general fund balances, which include the town's stabilization accounts, increased for three consecutive years. For fiscal 2019, we expect reserves to improve from previous years as the town is committed to increasing its stabilization account balances—which will be done over the next few years from pension costs savings realized once the pension system is fully funded in 2020.

Very strong liquidity

In our opinion, Shrewsbury's liquidity is very strong, with total government available cash at 30.9% of total governmental fund expenditures and 5.3x governmental debt service in 2018. In our view, the town has satisfactory access to external liquidity if necessary.

Shrewsbury is a frequent market participant with a demonstrated record of accessing capital markets over the past 20 years, including GO bonds and short-term bond anticipation notes.

Due to good budgetary performance over the last several years, overall cash balances have been very strong. Moreover, the town investments are subject to state guidelines, and Shrewsbury invests its cash in low-risk assets with original maturities of three months or less, including the Massachusetts Municipal Depository Trust, money markets, and short-term certificates of deposit. For these reasons, the town's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong over the next two years.

Strong debt and contingent liability profile

In our view, Shrewsbury's debt and contingent liability profile is strong. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 61.4% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, which is, in our view, a positive credit factor.

After the bond issue, Shrewsbury will have roughly \$99.8 million of total direct debt outstanding. Future debt obligations are limited, and the town is aggressive in its amortization, which should ensure debt metrics remain in line with current ratios.

Shrewsbury's combined required pension and actual OPEB contributions totaled 5.9% of total governmental fund expenditures in 2018. Of that amount, 3.8% represented required contributions to pension obligations, and 2.1% represented OPEB payments. The town made its full annual required pension contribution in 2018.

Shrewsbury participates in a cost-sharing, multiple-employer, defined-benefit pension plan administered by Shrewsbury Contributory Retirement Board. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about \$4.1 million with a 92% funded ratio at June 30, 2018, based on an assumed rate of return of 7.5%. Provided the town meets its return targets and required contributions, its pension system is on track to be fully funded by 2020.

We consider Shrewsbury's OPEB liability a long-term credit consideration; however, it will prevent these costs from escalating by showing greater funding discipline. As of June 30, 2018, the OPEB unfunded actuarial accrued liability totaled \$48.7 million. The town maintains an OPEB trust fund totaling \$3.8 million split between the town and its electric and cable departments. Management plans to appropriate additional monies toward the OPEB trust from savings associated with the pension plan.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of Shrewsbury's overall very strong economy, which benefits from its participation in broad and diverse economies. It also reflects our expectation that the town's overall strong financial practices and policies, which contribute to generally stable and predictable budgetary performance, which will likely support its strong budgetary flexibility and very strong liquidity. At the same time, we expect that it will maintain, at least, a stable debt and contingent liability profile, supported by low overall net debt and ongoing economic expansion. While unlikely over our two-year outlook period, we could lower the rating if there were significant downward pressure on the town's budgetary performance, leading to deterioration of its flexibility or weakened liquidity.

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

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.

Summary: Shrewsbury, Massachusetts; General Obligation

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