

RatingsDirect®

Summary:

Holden, Massachusetts; General Obligation; Note

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Credit Profile

US\$17.09 mil GO muni purp loan of 2016 bnds ser 2016 due 06/15/2036		
<i>Long Term Rating</i>	AA+/Stable	New
US\$7.0 mil GO BANs ser 2016 due 06/16/2017		
<i>Short Term Rating</i>	SP-1+	New
Holden GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Holden, Mass.' series 2016 general obligation (GO) municipal-purpose loan bonds. At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs), dated June 17, 2016, and maturing on June 16, 2017.

The rating service also affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Holden maintains a very strong capacity to pay principal and interest when the BANs are due. The town has the legal authorization to issue the BANs and the long-term GO bonds, and has demonstrated its access to capital markets.

The town's full faith and credit pledge secures the bonds and BANs. We understand officials intend to use bond proceeds to retire \$15 million of outstanding BANs and \$2 million for water department projects. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. In addition, we understand the town approved the BANs to be exempt from Proposition 2 1/2 limitations.

The long-term 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 policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 61.9% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.5% of expenditures and net direct debt that is 61% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.7% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Very strong economy

We consider Holden's economy very strong. The town, with an estimated population of 18,008, is located in Worcester County in the Worcester MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 145% of the national level and per capita market value of \$109,753. Overall, the town's market value grew by 5% over the past year to \$2 billion in 2016. The county unemployment rate was 5.3% in 2015.

Holden is primarily a residential community in central Massachusetts, located northwest of Worcester. The town's economy benefits from easy access to Worcester's business community, but also has a strong local economic base, which includes leading employers such as the regional school system, a health care facility, and a handful of manufacturing and distribution centers. The 10 leading taxpayers accounted for just 3.6% of fiscal 2016 assessed value.

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.

The town has generally conservative budgeting practices, and reviews the past five years to inform revenue and expenditure assumptions. Monthly budget-to-actual reports are presented to the finance board monthly. Holden has adopted a formalized investment management policy, which includes at least quarterly reporting. The town also has a five-year financial plan and a five-year capital improvement plan, both of which is used during the budgeting process and updated annually. Currently the town has a policy with a goal to maintain reserves at approximately 15% of the current period's budgeted expenses, which the town has maintained. Currently, Holden has no formalized debt management plans.

Strong budgetary performance

Holden's budgetary performance is strong in our opinion. The town had operating surpluses of 7.9% of expenditures in the general fund and of 6% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term. We made adjustments to data due to one-time revenues and expenditures associated with the Mt. View school project.

Officials attribute consecutive years of operating surpluses to conservative budgeting practices and better-than-budgeted new growth. The town expects to end fiscal 2016 with a general fund surplus, and as such, we believe budgetary performance will remain, at least, strong. The adopted fiscal 2017 budget totals \$46.5 million, a 8.6% increase over 2016. Property taxes generated about 77% of fiscal 2015 general fund revenue and intergovernmental aid accounted for 8.5%. Holden's collections have been sound, in our view; Collections averaged 99% of the current levy during the past four fiscal years.

Very strong budgetary flexibility

Holden's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 27% of operating expenditures, or \$11.1 million. Officials expect to add to the fund balance at the close of the current fiscal year due to a projected operating surplus in the general fund. We understand that the town currently has no plans to

significantly spend down reserves, and we believe they will likely remain very strong.

Very strong liquidity

In our opinion, Holden's liquidity is very strong, with total government available cash at 61.9% of total governmental fund expenditures and 6.5x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary. We do not currently expect any deterioration in the town's cash levels; therefore, we expect liquidity to remain very strong. The town confirmed it does not currently have any contingent liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events.

Strong debt and contingent liability profile

In our view, Holden's debt and contingent liability profile is strong. Total governmental fund debt service is 9.5% of total governmental fund expenditures, and net direct debt is 61% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, and approximately 65.7% of the direct debt is scheduled to be repaid within 10 years, which are positive credit factors in our view.

Total direct debt is \$54 million which include the \$7 million in BANs. The town is currently in the planning stage of a new public works facility for which it may issue additional debt within the next two to three years. There are currently no projected figures or start date for the project. We, however, do not expect this to change the town's debt profile materially.

Holden's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.7% of total governmental fund expenditures in 2015. Of that amount, 3.6% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The town made its full annual required pension contribution in 2015.

Holden participates in the Worcester Regional Retirement System. 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 \$24 million with 44.8% funded as of 2014. The town also offers OPEB to retirees. On July 1, 2014, the OPEB UAAL estimate was \$11.2 million, which was entirely unfunded. The town recently established a trust to address this liability, which currently has a balance of approximately \$1.44 million. The town will appropriate and transfer to the OPEB trust a minimum of \$250,000 or 10% of certified free cash, depending on whichever amount is higher.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion that Holden will continue to maintain very strong reserves supported by good management practices. The town's participation in the broad and diverse Worcester MSA lends additional stability to the rating; therefore, we do not expect to change the rating within the outlook's two-year period.

Upside scenario

Over time, we could raise the rating if wealth were to increase with sustainable improvements to the debt profile and in reserves to levels that we consider very strong.

Downside scenario

While currently unlikely, if the town's budgetary performance were to deteriorate significantly, leading to diminished reserves, 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: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- 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
- 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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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