

# RatingsDirect®

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## Summary:

# Holden, Massachusetts; General Obligation; Note

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### Credit Profile

US\$22.0 mil GO BANs dtd 06/19/2015 due 06/17/2016

*Short Term Rating*

SP-1+

New

Holden GO

*Long Term Rating*

AA+/Stable

Upgraded

Holden GO BANs dtd 06/20/2014 due 06/19/2015

*Short Term Rating*

SP-1+

Affirmed

## Rationale

Standard & Poor's Ratings Services raised its long-term rating on Holden, Mass.' general obligation (GO) debt one notch to 'AA+' from 'AA'. The outlook is stable.

The upgrade reflects our opinion of the town's strong management and consistently strong budgetary performance.

At the same time, Standard & Poor's assigned its 'SP-1+' short-term rating to the town's GO bond anticipation notes (BANs), dated June 19, 2015, and maturing on June 17, 2016.

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 come due. The town has the legal authorization to take out the BANs with long-term GO bonds, coupled with demonstrated access to capital markets.

The town's full-faith-and-credit pledge secures the bonds and BANs. We understand officials intend to use BAN proceeds to fund an ongoing project at Mountview Middle School. In addition, we recognize the town has voted this BANs issue exempt from Proposition 2 1/2 limitations.

The long-term rating reflects our opinion of the following factors for the town, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial management policies under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash of 28.2% of total governmental fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 10% of expenditures and net direct debt that is 49.6% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 97.1% 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 17,631, 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 137% of the national level and per capita market value of \$106,807. Overall, the town's market value grew by 1.5% over the past year to \$1.9 billion in 2015. The county unemployment rate was 6.2% in 2014.

Holden is primarily a residential community in central Massachusetts, northwest of Worcester. The town's economy benefits from easy access to Worcester's business community. The town, however, has a strong local economy that includes leading employers such as the regional school system, a health care facility, and a handful of manufacturing and distribution centers.

### **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.

Holden has generally conservative budgeting practices, and it looks back five years to inform revenue and expenditure assumptions. Management presents monthly reports on budget-to-actual results to the board of finance. Holden has adopted a formal investment management policy that includes at least quarterly reporting. The town has five-year financial and capital improvement plans; management uses both plans during the budgeting process and updates them both annually. While the town does not currently have a formal reserve policy, it targets the maintenance of 10%-15% of expenditures, which it has maintained historically. Currently, Holden does not have any formal debt management plans.

### **Strong budgetary performance**

Holden's budgetary performance is strong, in our opinion, with operating surpluses of 5.6% of expenditures in the general fund and 5.7% of expenditures across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

Officials attribute consecutive operating surpluses to conservative budgeting practices and better-than-budgeted new growth. The town expects to end fiscal 2015 with a general fund surplus between \$800,000 and \$1 million, which, while less than fiscal 2014 results, will, in our view, remain strong. The adopted fiscal 2016 budget totals \$41.8 million, a 1.8% increase over the fiscal 2015 budget.

### **Very strong budgetary flexibility**

Holden's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 21% of operating expenditures, or \$8.4 million.

Officials expect to add to fund balance at fiscal year-end 2015 due to a projected operating surplus in the general fund. We understand the town does not currently plan to spend down reserves significantly, and we believe reserves will likely remain very strong.

### **Very strong liquidity**

In our opinion, Holden's liquidity is very strong, with total government available cash of 28.2% of total governmental fund expenditures and 2.8x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

We do not currently expect any deterioration in cash levels. The town does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

### **Very strong debt and contingent liability profile**

In our view, Holden's debt and contingent liability profile is very strong. Total governmental fund debt service is 10% of total governmental fund expenditures, and net direct debt is 98.2% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, which is, in our view, a positive credit factor.

Officials indicate they currently intend to issue roughly \$8.6 million in additional debt within the next two years for additional school construction costs and sewer system projects. We, however, do not expect this to change the town's debt profile materially.

Holden participates in the Worcester Regional Retirement System. At Jan. 1, 2014, the last actuarial valuation, the plan was 44.8% funded with an unfunded actuarial accrued liability (UAAL) estimate of \$599.4 million. The town also offers other postemployment benefits (OPEB) to retirees. At July 1, 2014, the OPEB UAAL estimate was \$11.2 million, which was entirely unfunded. The town recently established a trust to address this OPEB liability; the trust currently has a balance of approximately \$871,000.

Holden's combined pension and OPEB contribution was 4.1% of total governmental fund expenditures in fiscal 2015. Of that amount, 3.3% represented contributions to pension obligations and 0.8% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2015.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion that Holden will likely maintain its very strong reserves, supported by good management practices. We believe the town's participation in the broad and diverse Worcester MSA provides additional rating stability. While currently unlikely to occur, if budgetary performance were to deteriorate significantly, leading to diminished reserves, we could lower the rating. Over time, we could raise the rating if wealth and income were to increase and if management were to maintain reserves at levels we consider very strong. We, however, do not expect to change the rating within the outlook's two-year period.

## **Related Criteria And Research**

**Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

**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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