S&P Global Ratings

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Summary:

West Newbury, Massachusetts; General Obligation

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Summary:

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Credit Profile		
West Newbury GO		
Long Term Rating	AAA/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating on West Newbury, Mass.' existing general obligation (GO) debt by one notch to 'AAA' from 'AA+'. The outlook is stable.

The one-notch upgrade reflects the town's improved reserve levels from 28% of expenditures, or $4.1 million, at fiscal year-end 2018 to 34% of expenditures ($5.4 million) at FYE 2021. In addition, surplus operating performance over the last three fiscal years has resulted in reserves significantly higher than state-peers, which we expect it will maintain.

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

Credit overview

West Newbury's strong residential economy and consecutive budgetary surpluses support its credit profile. We expect the town will maintain the budgetary flexibility to address rising and fixed costs among ongoing economic uncertainty, and that the strong financial management environment will continue to adhere to the financial practices that have been implemented over the course of four years. We do not expect to revise the rating during the outlook period.

West Newbury is eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", published Nov. 19, 2013, the town has a predominately locally derived revenue source that supports our view that debt repayment is at limited risk of negative sovereign intervention.

The rating reflects our opinion of the town's:

- Affluent residential economic base that benefits from participation in the broad and diverse Boston metropolitan statistical area (MSA);
- Implementation of additional financial policies and practices and a strong institutional framework score;
- Stable financial performance with five consecutive years of surpluses, bolstering very strong reserve levels; and

- Very manageable debt profile with potential medium-term debt plans, and pension and other postemployment benefits (OPEB) liabilities do not present a credit pressure.

Environmental, social, and governance

We assessed West Newbury's environmental, social, and governance (ESG) factors relative to its economy, management, financial measures, and debt and liability profile and determined they are neutral within our credit analysis. The town's location along the Merrimack River could expose it to potential flooding risks, however it maintains a climate change resiliency committee to evaluate potential impacts of sea level rise to the river. In addition, the town is a participant in the Municipal Vulnerability Preparedness (MVP) program which allows it to leverage grant funds to address environmental needs.

Stable Outlook

Downside scenario

We could consider a negative rating action if financial performance deteriorates, if reserves are significantly drawn down, or if additional debt issuances pressure the town's financial profile.

Credit Opinion

Stable residential economy with consistent growth

West Newbury is a small, affluent community 40 miles north of Boston in Essex County. Residents benefit from access to employment opportunities in and around the Boston MSA due to their proximity to a commuter rail line and Interstate 95. The community is predominantly residential, as residential properties make up 98% of its tax base. Tax base growth has been steady, with most recent new growth attributed to renovations and additions to existing structures. This trend is also demonstrated by the growth in assessed valuation (AV) of approximately 5% over the past three years. Overall, we expect the town's economy will remain at very strong levels.

Strong financial management environment with implementation of additional formal policies

The town began updating its policies in 2018 and has adopted additional financial policies over the past four years. The policies are well-embedded in its practices and the town adhered to them since implementation. Highlights of the financial policies and practices include:

- Strong revenue and expenditure assumptions when budgeting;
- Regular budget monitoring with monthly reporting to the board, as well as willingness to make adjustments as needed;
- Annual updates to a formal 10-year capital plan that identifies projects and funding sources;
- A formal investment policy with reporting provisions; and
- Debt management and reserve policies outlining minimum thresholds and targets.

The multiyear budget and capital plans provide a framework to discuss future capital expenditures and their overall effect on operations throughout the town's concurrent annual budget and capital planning process. The adopted debt management policy limits debt service to a maximum of 10% of general fund revenue, which the town is well below. In addition, the adopted reserve policy targets maintaining overall reserves at 10% to 15% of annual budget, inclusive of 5% for free cash balances and 5% for general stabilization. Lastly, the town has measures in place to mitigate cybersecurity risks.

Stable financial performance bolstering very strong reserve levels

Since our last review, the town has demonstrated strong financial performance and has generated surpluses in each of the past five years. We attribute the surpluses to robust revenue performance and budgeting assumptions that have resulted in departments not expending their full budget appropriations. The town's revenue profile is consistent, with property tax at 88% and state aid at 3%, and collections of the tax levy have been stable. Despite rising health and pension costs, we do not expect material pressure to the town's budgetary performance.

In fiscal 2021, the town generated a surplus of $923,000 primarily due to robust revenue collections coupled with expenditure returns. For fiscal 2022, West Newbury anticipates a surplus as a result of revenues outperforming the budget and the expectation that expenditures will remain relatively flat. The fiscal 2023 budget totals $17.3 million and is an approximate 4% increase over the previous year; we expect that the town will generate at least breakeven results based on its past budgetary performance. The budget also appropriates approximately $397,000 from fund balance for a portion of the Pentucket school project debt service.

The town has been allocated $1.4 million in American Rescue Plan Act (ARPA) funds; the funds have not been appropriated, but management expects it will go toward infrastructure or other one-time capital needs.

West Newbury has consistently maintained available reserve balances above 30% for the past three fiscal years, which we expect will continue and adds significant budgetary flexibility relative to state peers. While it finances ongoing capital projects from the capital stabilization fund, which is accounted for in general reserves, and its community preservation trust fund outside the general fund, we do not expect the town will materially drawdown its balance due to its history of budgeting a line-item appropriation to reserves. The town also expects to appropriate about $400,000 from its school stabilization fund, also housed in the general fund, each fiscal year through 2025, with a lesser amount projected in 2026, to support the high school construction project debt service. West Newbury also maintains roughly $1.6 million in unused levy capacity, which is equivalent to about 10% of the fiscal 2022 general fund budget. We believe this additional tax levy capacity allows the town to incorporate rising costs without needing to seek a voter-approved override of Proposition 2 1/2. We also believe that the town's property tax rate of $13.01 per $1,000 of AV is somewhat lower than the state average. Overall, we believe budgetary flexibility will remain stable over the next several years given its consistent financial performance and maintenance of very strong reserve levels.

Lastly, West Newbury does not have any contingent liquidity risk from financial instruments with payment provisions that change on certain circumstances, nor does it use investment vehicles that we consider permissive.

Manageable debt profile, but potential for additional debt plans over the outlook period

West Newbury has $3.3 million in direct debt outstanding, of which $1.6 million is self-supported by user fees in the water fund. We understand the town has capital needs over the medium-term that could be bond-funded if other financing sources are not available. These plans include approximately $1 million to complete the Middle Street bridge project in coordination with Newburyport, as well as a potential land acquisition to serve as a future water source. The town is considering use of its community preservation fund and obtaining grants to fund the projects but could seek financing to complete the projects. These potential debt issuances could weaken debt ratios, but we do not expect it would materially pressure the rating.

Also of note is Pentucket Regional School District's outstanding debt of $100 million, of which West Newbury's share is approximately 28%. The town has previously voted to exclude the debt service from Proposition 2 1/2 limitations and maintains a School Stabilization Fund to pay for a portion of the debt service.

Pension liabilities likely to increase, but maintenance of a well-funded OPEB plan

- We believe West Newbury's pension liabilities are manageable, but costs could rise as the retirement system has below-average funded ratios and somewhat optimistic assumptions.
- We also view the town's overfunded OPEB liability as a credit positive.

West Newbury participates in the following as of June 30, 2021:

- Essex Regional Retirement System: 59.7% funded using a 7.3% discount rate, with a net pension liability of $7.5 million.
- A defined-benefit OPEB health care for retirees: 105% funded, with a $125,000 net OPEB asset.

West Newbury has historically made its full actuarially determined contribution to its pension plan and has made its full contribution for fiscal 2022. Because of the county retirement system's low-funded ratios, we believe pension costs will likely increase over the next few years as the plan works to achieve full funding by 2035. However, the town's OPEB liability is minimal which we view as a credit positive. The OPEB trust fund was overfunded by $125,000 as of the last actuarial valuation.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

West Newbury Town, Massachusetts Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	182			
Market value per capita ($)	212,952			
Population			4,704	4,665
County unemployment rate(%)		6.4		
Market value ($000)	1,001,724	1,001,724	977,745	
Ten largest taxpayers % of taxable value	3.7			
Strong budgetary performance				
Operating fund result % of expenditures		4.2	6.2	6.1
Total governmental fund result % of expenditures		6.9	7.3	9.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		38.8	37.8	38.4

West Newbury Town, Massachusetts Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Total available reserves ($000)		6,222	5,672	5,677
Very strong liquidity				
Total government cash % of governmental fund expenditures		38	31	47
Total government cash % of governmental fund debt service		1718	1012	1451
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.2	3.0	3.2
Net direct debt % of governmental fund revenue	10			
Overall net debt % of market value	0.2			
Direct debt 10-year amortization (%)	32			
Required pension contribution % of governmental fund expenditures		4.3		
OPEB actual contribution % of governmental fund expenditures		0.5		
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