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## Summary:
# Greenfield, Massachusetts; General Obligation

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| Credit Profile | | |
|---|---|---|
| US$16.715 mil GO mun purp loan of 2019 bnds ser 2019 dtd 08/15/2019 due 08/15/2039 | | |
| *Long Term Rating* | AA-/Stable | New |
| Greenfield GO mun purp ln bnds | | |
| *Long Term Rating* | AA-/Stable | Affirmed |
| Greenfield GO (AGM) | | |
| *Unenhanced Rating* | AA-(SPUR)/Stable | Affirmed |
| Greenfield GO | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| *Underlying Rating for Credit Program* | AA-/Stable | Affirmed |

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'AA-' long-term rating and stable outlook to the City of Greenfield, Mass.' general obligation (GO) municipal-purpose loan of 2019 bonds and affirmed its 'AA-' long-term and underlying ratings, with a stable outlook, on the city's GO debt outstanding.

Greenfield's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds and bond anticipation notes (BANs). We rate the limited-tax GO debt based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018. We rate the obligation at the same level as our view of Greenfield's general creditworthiness, as expressed in our rating on the city's unlimited-tax GO bonds. Certain debt issuances bonds outstanding are additionally secured by the Massachusetts state qualified bond program (AA/Stable).

Officials intend to use the bond proceeds, totaling about $16.715 million, for various municipal purposes including construction of a new parking garage, renovating the Green Rover School, and construction of a new high school, among other purposes.

We base our rating on Greenfield's stable economic base with conservative budgeting, which has allowed the city to maintain adequate-to-strong reserves and liquidity. Despite three years of nominal general fund deficits, we believe that the city maintains a stable operating profile with expectations of returning to positive results in fiscal 2019. However, we also believe the size of the long-term liabilities, including future pension and other postemployment benefits (OPEB) costs, could strain future operations.

The long-term rating further reflects our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income at 97.2% of the national level and market value per capita of $84,587;

- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2018;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2018 of 5.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 10.1% of total governmental fund expenditures and 1.6x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 5.3% of expenditures and net direct debt that is 74.3% of total governmental fund revenue, as well as a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

### Adequate economy

We consider Greenfield's economy adequate. The city, with an estimated population of 17,460, is located in Franklin County. It has a projected per capita effective buying income of 97.2% of the national level and per capita market value of $84,587. Overall, the city's market value grew by 3.6% over the past year to $1.5 billion in 2019. The county unemployment rate was 3.0% in 2018.

Greenfield is a semi-rural and residential community located in western Massachusetts. While residential property makes up approximately 72.8% of the city's taxable base, commercial and industrial property constitutes about 21.1% of fiscal 2018 assessed value (AV). In addition, the city's location, approximately 36 miles north of Springfield and 99 miles northwest of Boston, provides convenient access, via Interstate 91 and State Route 2, to employment opportunities and other services in surrounding areas.

The city's economy, while somewhat limited relative to other areas in Massachusetts, features employers in education, medical services, and commercial retail. These leading employers include Franklin Medical Center (772 employees), Gentiva Health Services (300), Greenfield Community College (440), and Big Y Supermarket (250). After three consecutive years of increased new growth, Greenfield reported a decrease in new growth for fiscal 2019. This growth accounted for approximately $274,000 in new property tax revenue in fiscal 2019 compared with $835,733 in fiscal 2018. However, the city still has approximately $2.6 million in unused levy capacity. We consider the tax base very diverse, with the 10 leading taxpayers accounting for about 7.0% of AV.

At the same time, officials report that a significant amount of private development is under way, including manufacturing, health, and professional office development, and affordable housing projects. Officials also report that recent public infrastructure investments, including the implementation of a new high-speed wireless service that the city manages, which provides faster internet access to businesses and residents at competitive rates in its downtown area, continue to attract economic development. Furthermore, Greenfield was selected for participation in the Massachusetts Opportunity Zone Academy, an incentive program to help revitalize downtown areas and expand economic opportunity for local residents and businesses that could provide additional support to the local economy. Finally, the city has a $365,000 contract for its second cultivating and retail wholesale marijuana facility and has received nine applications for additional facilities with five host community agreements that could provide additional economic stability.

However, although we believe economic conditions will likely improve due to a stable real estate market and reported new growth in the area, we believe Greenfield's underlying wealth and income levels will remain adequate beyond the two-year outlook horizon.

### Strong management

We view the city'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 development of its annual budget, Greenfield performs a 10-year historical trend analysis to form its revenue and expenditure assumptions. Officials use a conservative trend analysis to measure the predictability of state aid and local property tax collections, and the city monitors trends related to employee salaries and benefits, debt service, and capital needs. During each fiscal year, management closely monitors revenue and expenditures and provides a monthly budget-to-actual report to the city council. Management and the city council have shown the capacity to make intra-year budget adjustments in response to revenue and expenditures changes.

Furthermore, Greenfield has a rolling five-year capital improvement plan (CIP) that is reviewed and incorporated into budget deliberations annually. The CIP presents the cost of projects by department and identifies internal and external funding sources. The city does not conduct formal long-term financial forecasting, but it does maintain a formal debt management policy and investment policy, with annual reporting on investment holdings and earnings to the council. Greenfield also has a formal reserve policy of maintaining stabilization funds and free cash at 3%-5% of budget, which it has historically met and sustained.

### Strong budgetary performance

Greenfield's budgetary performance is strong in our opinion. The city had slight deficit operating results in the general fund of 0.6% of expenditures, but a surplus result across all governmental funds of 9.4% in fiscal 2018.

We based our analysis on a draft 2018 audit that we believe to be substantially complete and will be finalized shortly. For analytical consistency, we adjusted fiscal 2018 operating results to reflect recurring transfers and one-time capital expenditures paid with bond and grant proceeds. For fiscal 2018, Greenfield had an adjusted general fund result on a generally accepted accounting principles basis of negative $341,000, a result we consider approximately breakeven on a percentage basis. Officials reported that of the notable variances, revenues, particularly motor vehicle excise tax receipts, were higher than budgeted. On the expense side, departmental turnbacks and assessments were under budget. For fiscal 2019, officials indicate that preliminary results indicate that revenues are on target and officials expect to receive more than $1.1 million in departmental turnbacks. As a result, management expects to realize a surplus or break-even results. The city recently adopted a $52.7 million fiscal 2020 budget. According to finance officials, this budget includes a sludge removal line item for the city to build a regional disposal site. Outside of this addition there are no significant changes relative to previous years, although we note that management expects to continue making transfers from free cash to stabilization funds. Recent transfers totaled $1.921 million in fiscal 2018.

Greenfield derives a majority of its general fund revenue from historically stable sources, the largest of which is property tax. For fiscal 2018, property taxes generated 54.8% of the city's general fund revenue, followed by intergovernmental revenue (36.8%), excise taxes (3.3%), and charges for services (2.1%). Over the past five years, the city's property tax collection rate has averaged approximately 99%. Greenfield is more dependent on intergovernmental aid than its peers in the state; while this revenue source has been stable in Massachusetts, it is generally not keeping pace with overall budgetary growth. We still expect the city to maintain an overall predictable revenue profile that will support, at least, adequate budgetary performance over the two-year outlook period.

### Adequate budgetary flexibility

Greenfield's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2018 of 5.8% of operating expenditures, or $3.4 million.

The city has consistently maintained adequate-to-strong reserves over the past three fiscal years. We understand Greenfield expects to reassign a significant portion of its general fund balance and free cash to committed stabilization funds to support future capital improvements, or to fund its OPEB trust. While we believe the transfer of the general fund balance reflects management's broader strategy to reduce future bonding costs and pay down retirement liabilities, the reclassification of fund balance could also limit the fund balance we consider available to safeguard against budgetary pressure, to levels we view as adequate from strong during the outlook period. The city has a formal reserve policy of maintaining stabilization funds and free cash each at 3%-5% of budget, which we expect it will continue to maintain.

### Very strong liquidity

In our opinion, Greenfield's liquidity is very strong, with total government available cash at 10.1% of total governmental fund expenditures and 1.6x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

In our view, the city has strong access to external liquidity and has issued GO bonds and BANs over the past 20 years. We understand that the city has not entered into any bank loans or direct-purchase debt and that it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Furthermore, we do not consider the city's investments aggressive. It holds available cash in short-term investments with original maturities of three years or less from date of acquisition. For these reasons, we expect available cash to remain stable, and overall liquidity to remain very strong over the next two fiscal years.

### Very weak debt and contingent liability profile

In our view, Greenfield's debt and contingent liability profile is very weak. Total governmental fund debt service is 5.3% of total governmental fund expenditures, and net direct debt is 74.3% of total governmental fund revenue.

Following this note issuance, Greenfield has nearly $53.5 million of total direct debt outstanding, of which, approximately $5 million are notes outstanding. As outlined in its capital plan, the city has no specific plans to issue debt over the next two years, but management indicates that it could alter its expectation for future borrowing based on Greenfield's capacity to finance routine maintenance and capital projects on a pay-as-you-go basis, or receipt of state matching grants.

In our opinion, a credit weakness is Greenfield's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. The city's combined required pension and actual OPEB contributions totaled 8.7% of total governmental fund expenditures in 2018. Of that amount, 5.2% represented required contributions to pension obligations, and 3.5% represented OPEB payments. The city made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 60.7%.

Greenfield participates in a cost-sharing, multiple-employer, defined benefit pension plan administered by the Greenfield Contributory Retirement System. The city's proportionate share of the net pension liability is nearly 90% of the total system liability and totaled $41.3 million as of June 30, 2018. The pension plan uses a 7.4% discount rate which we consider somewhat higher than average. The adopted funding schedule calls for 7%-10% annual cost increases through 2036 at which point the system should be fully funded, if all assumptions are met. We note that costs could further escalate if assumptions are not met and/or if increasingly conservative assumptions are adopted. In addition, Greenfield's net OPEB liability totaled $84.5 million as of June 30, 2018. The city has set up an OPEB trust with a current balance of about $1.31 million. Management indicated that it plans to use revenues generated from marijuana facilities to fund the OPEB trust fund. While the city is currently managing these costs, we believe that the size of these retirement liabilities along with the underlying assumptions will lead to increasing costs relative to the city's budget.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

## Outlook

The stable outlook reflects our opinion of Greenfield's historically strong financial policies and practices, highlighted by the city's embedded budget development and monitoring framework, which we believe allows management to make timely revenue and expenditure adjustments to sustain at least adequate budgetary performance. The outlook also reflects our expectation that Greenfield's liquidity will remain very strong, which will likely support the city's overall rating stability. For these reasons, we do not expect to change the rating within the two-year outlook horizon.

### Upside scenario

All other rating factors remaining equal or improving, if the city's wealth and income indicators improve to levels we consider commensurate with those of higher-rated peers, coupled with a substantial reduction of its retirement costs and liabilities, we could raise the rating.

### Downside scenario

If Greenfield's economic profile were to weaken materially or if its finances were to deteriorate, leading to decreased available reserves or liquidity, we could lower the rating.

## Related Criteria 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

- 2018 Update Of Institutional Framework For U.S. Local Governments