

CREDIT OPINION

23 August 2019

 Rate this Research

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Greenfield (Town of) MA

Update to credit analysis

Summary

The Town of Greenfield (A1) benefits from a moderately-sized tax base, solid wealth and income profile, manageable debt, and modest pension expenses. The rating is modestly challenged by reserve levels and liquidity that have declined over several year and an elevated unfunded OPEB liability. Additionally, new debt is expected over the next several years.

Credit strengths

- » Moderately-sized tax base
- » Solid and consistent wealth and income levels

Credit challenges

- » Reserve levels that have declined over the past few years
- » Debt and pension levels while manageable are somewhat elevated

Rating outlook

Moody's does not assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Improved General Fund Balance and liquidity
- » Significant tax base growth

Factors that could lead to a downgrade

- » Failure to maintain structurally balanced financial operations
- » Significant reduction of General Fund Balance and free cash
- » Deterioration of the town's tax base
- » Failure to address long term liabilities related to pension and OPEB

Key indicators

Exhibit I 1

Greenfield (Town of) MA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$1,423,513	\$1,361,746	\$1,361,746	\$1,421,721	\$1,421,721
Population	17,484	17,450	17,477	17,474	17,460
Full Value Per Capita	\$81,418	\$78,037	\$77,916	\$81,362	\$81,427
Median Family Income (% of US Median)	89.7%	89.7%	99.4%	99.8%	99.8%
Finances					
Operating Revenue (\$000)	\$53,636	\$51,108	\$52,222	\$55,828	\$58,074
Fund Balance (\$000)	\$6,025	\$6,201	\$5,785	\$4,327	\$4,101
Cash Balance (\$000)	\$7,440	\$8,102	\$6,914	\$6,148	\$5,951
Fund Balance as a % of Revenues	11.2%	12.1%	11.1%	7.7%	7.1%
Cash Balance as a % of Revenues	13.9%	15.9%	13.2%	11.0%	10.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$47,013	\$43,010	\$42,781	\$50,313	\$52,254
3-Year Average of Moody's ANPL (\$000)	\$84,476	\$81,352	\$74,535	\$69,670	\$83,395
Net Direct Debt / Full Value (%)	3.3%	3.2%	3.1%	3.5%	3.7%
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.8x	0.9x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	5.9%	6.0%	5.5%	4.9%	5.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.6x	1.6x	1.4x	1.2x	1.4x

Fiscal Year End June 30

Source: Issuer Financial Statements and Moody's Investor Service

Profile

The Town of Greenfield is located in Franklin County in northwestern Massachusetts, approximately 80 miles west of Boston at the intersection of Route 2 and Interstate 91. The town has a population of 17,474 (American Community Survey 2017). The largest industry sectors that drive the local economy are retail services, manufacturing, and local government. Generally, the town of Greenfield is weaker than the A1 median for Massachusetts towns.

Detailed credit consideration

Economy and Tax Base: Modestly large tax base and healthy wealth and income levels

The tax base continues to benefit from a diverse local economy and improving real estate markets. Equalized value for fiscal 2018 is estimated to be \$1.5 billion and has benefited from a 5 year average annual growth rate of 1.2%, including 5.7% in fiscal 2019. The tax base is diverse with the ten largest taxpayers account for a small 7% of 2018 assessed valuation and include housing, shopping centers, office space, manufacturing, and medical facilities. Of the top 5 employers in 2019, 3 are related to health care, 1 is a community college, and the last a supermarket

Greenfield's wealth and income levels are healthy though below-average relative to the median Massachusetts towns. The population is seeing a small multi-year decline having dropped 0.4% over the past 5 years. The equalized value per capita of \$86,060 is below the state median of \$141,022 and unemployment is low at 2.8% and below the state which is at 3.1%.

Financial Operations: Modest reserves and cash levels compared to peers

The expectations is for the financial position to stabilize and improve. Over the last 3 years operating results generated a small deficit ranging from -0.4% to -2.6%, this reduced their modest reserves and has put downward pressure on their credit profile. Fiscal 2018 required the use of \$495,556 in free cash for operations. Financial pressure in recent years is primarily due to growing school related expenses, increased pension, and employee benefit costs.

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Fiscal 2019 budget ended the year with no use of free cash which should result in modest improvements to the towns reserve levels. However, the 2020 budget returns to utilization of a small \$276,00 of free cash. However, the town has not used its stabilization funds and with the expectation of increased state aid expects to add to its reserve position for 2020.

Available fund balance has declined to \$4.1 million or modest 7.1% of fiscal 2018 revenues, compared to the A1 median for the state of 13%. The decline follows a high point of 12.1% in fiscal 2015, 11.1% in fiscal 2016, and 7.7% in fiscal 2017. The use of reserves for current operations reduces financial flexibility and puts downward pressure on the rating. However, we expect fund balance levels to improve for fiscal 2019 and 2020.

Future reviews will continue to monitor the town's ability to maintain structurally balanced operations and build reserves. The town's main source of revenues are property taxes, at 55%, but the town also relies on a significant amount of state aid, at approximately 37% of revenues. Future budget drivers will continue to be education and employee benefits.

LIQUIDITY

Cash and investments at the end of fiscal 2018 were \$6 million or 10.2% of operating revenues, which is moderately strong for the rating category, but below its Massachusetts peer group A1 median of 16.8%.

Debt, Pensions, and OPEBs: Manageable debt levels and fixed costs despite increasing OPEB expenses

The direct debt burden is elevated with \$52.3 million in debt outstanding equal to 3.7% of equalized value. Additionally the town is contemplating a number of projects over the next several years including a new library, anaerobic digester (funded from sewer fees), a fire station, and ongoing capital expenditures for infrastructure improvements and upgrades. The additional debt while significant should remain manageable dependent on how the debt is layered in as other debt matures.

Pension and OPEB liabilities are elevated yet remain manageable. Positively, the town has dedicated its marijuana excise tax to reduce the OPEB liabilities while small this is a positive long-term measure.

DEBT STRUCTURE

The current debt is fixed rate and debt service of \$4.4 million is 7.6% of fiscal 2018 expenses.

DEBT-RELATED DERIVATIVES

The town is not subject to any swap agreements or other derivatives.

PENSIONS AND OPEB

The town's adjusted pension liability is modest and affordable; however, net retiree healthcare (OPEB) liabilities are elevated despite pay-go contributions remaining affordable. The town contributes to the Greenfield Contributory Retirement System, a multi-employer retirement system. Teachers are covered by the state teachers plan through on behalf payments made to the city by the state. Total fixed costs are low and remain affordable, but are expected to increase with new debt issuance and increased pension and OPEB costs. The table below summarizes the town's long term liabilities.

Exhibit II 2

Leverage and Fixed Costs

	\$	% of Operating Revenues	Discount Rate
Operating Revenue	71,543		
Reported Net Pension Liability	41,274	57.69	7.4
Moody's Adjusted Net Pension Liability	90,992	127.19	4.14
Reported Net OPEB Liability	84,473	118.07	3.87
Moody's Adjusted Net OPEB Liability	80,805	112.95	4.14
Pension Contribution	3,636	5.08	
Pension Tread Water Gap	NA	NA	
OPEB Contribution	2,559	3.58	
Debt Service (proforma MADS)	4,388	6.13	
Total Fixed Costs (pro forma MADS)	10,582	14.79	
Net Direct Debt (Proforma)	52,254	73.04	

Data is most recent year available at the time of publishing

Source: Issuer Financial Statement and Moody's Investor Service

The town's fixed costs including debt service, pension contributions and OPEB contributions are very manageable at 14.8% of government revenues (GASB 34). To the extent that the multi-employer pension plans in which the town participates experience returns on assets that fall short of their assumptions, the town's required pension contribution will increase. The town has a modest OPEB trust fund with a fiscal 2018 assets valued at \$1.3. As the number of retirees increases and retirees age, annual OPEB expense will increase. Potential pension contribution increases combined with higher OPEB expense and debt service associated with new debt could put upward pressure on fixed costs.

Management and Governance

While experienced the town's director of finance is new this past year. Challenges for the town are to rebuild reserves and develop policies to maintain adequate operating flexibility.

Massachusetts Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit III 3

Greenfield (Town of) MA

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$1,502,608	Aa
Full Value Per Capita	\$86,060	Aa
Median Family Income (% of US Median)	99.8%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	7.1%	A
5-Year Dollar Change in Fund Balance as % of Revenues	-0.2%	Baa
Cash Balance as a % of Revenues	10.2%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	1.7%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	3.5%	A
Net Direct Debt / Operating Revenues (x)	0.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	5.6%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.4x	A
	Scorecard-Indicated Outcome	A1
	Assigned Rating	A1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication

Source: US Census Bureau, Issuer Financial Statements, Moody's Investor Service

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