

# RatingsDirect®

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## Summary:

# Bellingham, Massachusetts; General Obligation

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## Summary:

# Bellingham, Massachusetts; General Obligation

### Credit Profile

US\$11.35 mil GO bonds ser 2014 due 08/12/2034

*Long Term Rating*

AA+/Stable

New

Bellingham GO

*Long Term Rating*

AA+/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to the town of Bellingham, Mass.' series 2014 general obligation (GO) bonds. We also affirmed our 'AA+' rating on the town's existing GO debt. The outlook on all the ratings is stable.

A pledge of the town's full faith and credit secures the bonds. Officials will use the bond proceeds for various capital improvements and redeem \$3.6 million of outstanding bond anticipation notes (BANs).

The rating reflects the underlying credit quality of the town and our assessment of the following factors, specifically its:

- Very strong economy as the town is in the Boston-Cambridge-Newton metropolitan statistical area (MSA);
- Strong management conditions with what we consider "good" financial policies and practices based on our Financial Management Assessment (FMA) methodology;
- Strong budgetary flexibility based on what we consider a strong available fund balance;
- Strong budgetary performance with a history of stable financial performance;
- Very strong liquidity providing strong cash levels to cover both debt service and expenditures;
- Very strong debt and contingent liabilities position, which includes overall net debt at less than 3% of market value and rapid amortization of principal.

### Very strong economy

Bellingham, with a population estimate of 16,700, is primarily a residential community in southern Massachusetts 35 miles west of Boston and 27 miles north of Providence, R.I. The local economy has become a retail hub in recent years. Located on the I-495 beltway and within the broad and diverse Boston-Cambridge-Newton MSA, Bellingham is home to several big box stores, including Wal-Mart, Home Depot, and Market Basket. Norfolk County unemployment averaged 6% in 2013. New developments in the town include the installation of solar panels on an old landfill site (which will cut costs for the municipal budget), additional housing, and a new 280,000-square-foot packaging facility. Projected per capita effective buying income is a good 119% of the national level.

Residential properties account for about 70% of total assessed valuation (AV), with commercial and industrial properties accounting for 16%. Bellingham's AV has been stable the past three fiscal years. For fiscal 2014, total AV was \$2.1 billion; we consider Bellingham's market value per capita extremely strong at about \$126,000. The town's property tax base is diverse, as the 10 leading taxpayers account for 20% of total AV due to the presence of two

electrical generation facilities. While property values declined following the softening of the residential housing market, based on our forecasts, we believe that the median home prices throughout New England will be flat or see some modest growth through 2015.

### **Strong management conditions**

Standard & Poor's considers Bellingham's financial management practices "good" under its FMA methodology, indicating practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

Bellingham regularly updates budget figures to determine if revenues are deviating from long-term trends, issues monthly reports to town officials, and maintains a long-term capital improvement plan. There is a high level of coordination with the schools in the budgeting process in part due to an integrated system, putting the town in a better position to plan for and manage changes in the budget.

### **Strong budgetary flexibility**

In our opinion, budgetary flexibility is strong. Over the past three fiscal years, the town has been able to increase available reserves. For fiscal 2013, the town had \$6.4 million in available reserves or 12% of expenditures, similar to fiscal 2013. We believe these balances will likely be sustained at levels greater than 10% of expenditures over the next two fiscal years.

### **Strong budgetary performance**

Overall budgetary performance is strong, with a 2% general fund surplus that the town has sustained since 2012. Total governmental funds operating results were also positive at about 1% of expenditures when adjusting for spent bond proceeds and recurring transfers to its water enterprise fund. Public works, education, and public safety increased at the same rate as in prior years. Town officials are expecting positive performance in fiscal years 2014FY14 and 2015 due to new revenues from the introduction of a meals tax and income from a new ambulance. They also expect cost savings from the closure of an elementary school.

Property taxes are the town's leading revenue source, accounting for 60% of general fund revenues, followed by intergovernmental aid (32%). Property tax collections have historically averaged about 98% on a current basis.

### **Very strong liquidity**

Bellingham has a very strong liquidity position, with total government available cash at 28% of total governmental fund expenditures and 4x debt service. We believe the town has strong access to external liquidity, having issued GO bonds within the past 10 years. This does not include \$10.4 million of restricted cash.

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

The debt and contingent liability profile is strong. The town's initial debt profile is strong with net direct debt 38% of revenue and with total governmental fund debt service 7% of total governmental fund expenditures. The town's debt profile improves when considering overall net debt at less than 3% of market value and rapid amortization of principal with 83% retired within 10 years when considering this issuance. The town's total direct debt is offset by remaining Massachusetts School Building Authority reimbursement and self-supporting debt for the town's water operations.

Bellingham participates in the Norfolk County Regional Retirement System. The town contributed its full annual

required contribution (ARC) of \$1.8 million in 2013. As of its 2012 valuation, the system was about 53.9% funded. The town also provides other postemployment benefits (OPEBs) in the form of health insurance and contributed \$1.2 million in fiscal 2013 on a pay-as-you-go basis. As of its 2011 valuation, the OPEB plan had an unfunded liability of \$26.3 million. In fiscal 2013, the combined pension and OPEB payments represented 5% of total government expenditures, a level we consider elevated. While given the current low pension funding level, contributions are likely to increase, but they are manageable considering the current carrying charge. Management has established an OPEB trust it plans to fund through its available surplus, with an initial contribution of \$250,000 in fiscal year 2013 and expected \$100,000 contribution in fiscal 2014.

### Strong institutional framework

We consider the Institutional Framework score for Massachusetts municipalities strong.

## Outlook

The stable outlook reflects Standard & Poor's expectation that Bellingham will continue to adjust its budget to maintain structural balance while improving its reserves. The underlying wealth and income levels provide rating stability, along with its strong debt profile.

While we expect the town to maintain stable operations, should performance deteriorate and reserves decline, we could lower the rating. Conversely, improved reserves could lead to a higher rating. Accordingly, we do not anticipate changing the rating within the two-year outlook horizon.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

### Ratings Detail (As Of August 6, 2014)

#### Bellingham GO

*Unenhanced Rating*

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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