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Summary:

Seekonk, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$5.439 mil GO bnds ser 2016		
Long Term Rating	AA+/Stable	New
Seekonk Twn GO		
Long Term Rating	AA+/Stable	Affirmed
Seekonk Twn GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings has assigned its 'AA+' long-term rating, and stable outlook, to the Town of Seekonk, Mass.' series 2016 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating, with a stable outlook, on the town's GO debt outstanding.

The town's full faith and credit pledge, subject to the limitations of Proposition 2 1/2, secures the bonds. Despite the limitations imposed by Proposition 2 1/2, we did not make a rating distinction for the limited-tax GO pledge. While still subject to the levy ceiling, these bonds were excluded from the levy limit. We also note that the town has significant flexibility under the levy ceiling.

We understand that officials will use proceeds to take out bond anticipation notes used to design and construct a senior center, as well as refund 2005 bonds for an estimated net present value savings of $130,000.

The rating reflects our assessment of the following factors for Seekonk:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.2% of total governmental fund expenditures and 7.0x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 21.8% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 81.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Seekonk's economy very strong. The town, with an estimated population of 13,929, is located in Bristol County in the Providence-Warwick MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 123% of the national level and per capita market value of $148,945. Overall, the town's market value was stable over the past year at $2.1 billion in 2016. The county unemployment rate was 6.3% in 2015.

Seekonk is a primarily residential community on the Massachusetts-Rhode Island border, just four miles east of Providence, R.I. Due to the higher sales tax and business inventory tax in neighboring Rhode Island, but also as a result of easy highway access from Route 44 and Interstate 195, the town serves as a regional retail center. Leading employers include Stop & Shop (256 employees), Wal-Mart (250 employees), and Target (175).

FedEx recently announced the opening of a regional distribution center on a 78-acre parcel in Seekonk. The $48 million investment is expected to bring 75 jobs and $1.3 million in recurring tax payments after a five-year incentive program. Local officials expect the distribution center will open sometime in 2018.

Economic development efforts have recently been concentrated on finding new uses for a vacant Sam's Club and Showcase Cinema site. Developers have considered office space to counterbalance the town's heavy retail presence, but the discussion remains ongoing. Seekonk's tax base is 75.2% residential and 19.5% commercial. The 10 leading taxpayers account for 9.6% of the tax base.

Strong management

Seekonk's management conditions are strong, in our opinion, with "good" financial 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.

Town officials engage in in-depth conversations on budget assumptions with close correspondence with the schools. They conduct a multi-year trend analysis to determine areas where revenues or expenditures deviate from budget. Oversight is strong with monthly budget-to-actual reports shared with the Board of Selectmen. Reporting on investments is done annually, but the board has access to the reports at any time. The town has its own investment policy that prioritizes safety, liquidity, and yield; and limits investments to certificates of deposits and U.S. treasuries. Seekonk engages in capital planning, and has a three-year budget forecast, projecting revenues compared to expenditures. While town management is guided by debt management goals and reserve targets, it has not been formalized into a policy. Debt service is limited to 5%-10% of operating budget, and 5%-15% of the operating budget each year is allocated to a capital stabilization account. Management also maintains reserves at a minimum of 5%-10% of the operating budget, and uses annual surpluses only toward nonrecurring expenses.

Strong budgetary performance

Seekonk's budgetary performance is strong in our opinion. The town had balanced operating results of negative 0.2% of expenditures in the general fund and of 0.1% across all governmental funds in fiscal 2015.

Management attributes strong operating results to growth in motor vehicle excise and hotel taxes, and cost savings relating to health insurance and payroll. It expects similarly strong results in fiscal 2016, owing to many of the same factors.

The fiscal 2017 budget totals $50 million and is a 3.3% increase over the previous year. Property tax represents 73% of revenues, followed by state aid, which makes up 18.75%. Based on consistent operating performance and conservative budgeting, we expect Seekonk's performance to remain strong.

Very strong budgetary flexibility

Seekonk's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 19% of operating expenditures, or $9.1 million.

The town's reserves have grown consistently over the past three years, and we expect them to continue their upward trend. The town reported positive operating results in 2016, and is anticipating making a $1.5 million appropriation to stabilization accounts in 2017. Although Seekonk only has an informal reserve policy, we expect our assessment of flexibility will remain at least strong in the near term given past practices and future projections.

Very strong liquidity

In our opinion, Seekonk's liquidity is very strong, with total government available cash at 17.2% of total governmental fund expenditures and 7.0x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

The town has demonstrated strong market access by issuing GO bonds within the past several years. Therefore, we believe liquidity will remain very strong since there is no significant deterioration of cash balances planned or expected. Furthermore, we note Seekonk does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. In addition, management is not aggressive in its use of investments.

Very strong debt and contingent liability

In our view, Seekonk's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 21.8% of total governmental fund revenue. Overall net debt is low at 0.7% of market value, and approximately 81.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Debt service is less than half of 2013 levels due to a refunding and the retirement of school bonds with a grant from the Massachusetts School Building Authority. After this issue, Seekonk will have $11.5 million in debt outstanding, and $3.5 million in underlying debt associated with the Seekonk Water District, which provides water services to 87% of the town. Although Seekonk is considering several large capital projects such as relocating the Department of Public Works and constructing a new library, we do not expect the town to issue any debt for these projects within our outlook horizon.

Seekonk's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.3% of total governmental fund expenditures in 2016. Of that amount, 4.2% represented required contributions to pension obligations, and 2.1% represented OPEB payments. The town made its full actuarial determined contribution in 2015.

The town participates in a cost-sharing, multiple-employer defined benefit plan of the Bristol County Contributory

Retirement System, which is 61% funded. Seekonk's proportionate share of the net pension liability for the system is $19.6 million. The town also contributes to OPEB in the form of health and life insurance on the pay-as-you-go basis. Its unfunded OPEB liability is approximately $23.8 million. Seekonk is contributing to a trust to pay down the liability, which has a current balance of $815,249.

Strong Institutional Framework

We consider the institutional framework score for Massachusetts towns strong.

Outlook

The stable outlook reflects what we view as the town's very strong liquidity position and debt and liability profile, supported by a very strong underlying economy. The outlook also reflects our view of Seekonk's strong management practices leading to very strong budgetary flexibility and strong performance.

Upside scenario

We could raise the rating over time if wealth and income indicators improved to levels in line with higher-rated credits, coupled with the introduction of strengthened policies and practices.

Downside scenario

While unlikely, we could lower the rating if Seekonk's flexibility and performance declined significantly. We could also lower the rating if pension and OPEB liabilities become a budget pressure, leading to a draw on reserves.

Related 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
- 2015 Update Of Institutional Framework For U.S. Local Governments