

# RatingsDirect®

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## Summary:

# Seekonk, Massachusetts; General Obligation

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## Table Of Contents

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Credit Highlights

Outlook

Credit Opinion

Related Research

## Summary:

# Seekonk, Massachusetts; General Obligation

### Credit Profile

US\$4.175 mil GO mun purp loan of 2023 bnds dtd 05/23/2023 due 05/01/2038

*Long Term Rating* AA+/Stable New

Seekonk Twn GO

*Long Term Rating* AA+/Stable Affirmed

Seekonk Twn GO mun purp loan of 2020 bnds

*Long Term Rating* AA+/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Seekonk, Mass.'s \$4.2 million series 2023 general obligation (GO) bonds (municipal purpose loan).
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the town's outstanding GO debt.
- The outlook is stable.

### Security

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

Management indicates bond proceeds will be used to permanently finance outstanding bond anticipation notes (BANs) issued for athletic field and senior center renovations.

### Credit overview

Seekonk is a predominantly residential town with a sizeable commercial tax base. The town's operating results in recent years have generally been balanced, although Seekonk had a negative result in fiscal 2022 partially due to management funding capital expenditures with its very strong reserves. The town's fixed costs are manageable, although we expect them to increase due to an estimated \$30 million in additional debt planned during the next two years, coupled with increases in its pension and other postemployment benefit (OPEB) contributions. Further supporting the rating is Seekonk's desirable location, with access to employment centers in Boston and Providence.

The rating reflects our view of Seekonk's:

- Predominantly residential town near Providence, RI, with a sizable commercial tax base;
- Operating deficit in fiscal 2022 due in part to one-time expenditures, but maintenance of very strong reserve levels;
- Regular budget monitoring and long-term planning, a comprehensive reserve policy, and a strong institutional

framework; and

- Currently manageable fixed costs that could increase due to debt plans and poorly funded pension and OPEB liabilities.

### **Environmental, social, and governance**

We have evaluated ESG risks relative to Seekonk's economy, financial measures, management, and debt-and-long-term-liability profile and have determined they are in-line with its peers and sector standards. Seekonk recently became a municipal vulnerability preparedness program community, and it is now refining its hazard mitigation plan.

## **Outlook**

The stable outlook reflects our expectation that the town will maintain very strong reserves and close to breakeven operating results, although performance could fluctuate depending on one-time capital expenditure levels.

### **Downside scenario**

We could lower the rating if Seekonk's reserves materially decreased, either due to an imbalance or a one-time drawdown, without a plan to restore them. We could also lower the rating if fixed costs become a budgetary pressure.

### **Upside scenario**

We could raise the rating if Seekonk's economic metrics improved to a level commensurate with its higher-rated peers, coupled with strong budgetary performance and maintenance of very strong reserves.

## **Credit Opinion**

### **Residential Providence suburb**

Seekonk is a primarily residential community about five miles east of Providence, RI, with a sizable commercial property tax base primarily centering on large retail stores. Residential assessed value (AV) accounts for 79.3% of total AV. Town management expects modest residential and commercial development to continue, including a new 80-unit residential development under the commonwealth's affordable housing (Chapter 40B) laws. Recently, Seekonk has also benefitted from approximately \$700,000 in annual retail cannabis taxes, which it expects will increase after a second cannabis establishment opens. We expect the town's economic metrics to remain stable.

### **Maintenance of very strong reserves despite fiscal 2022 negative operating result**

For analytical consistency, we included the town's stabilization funds in our analysis of general fund results and available fund balances. In fiscal 2022, the town finished with a negative \$1.0 million (negative 1.5%) general fund result. While recurring expenditures roughly tracked to budget, the deficit was partly due to an approximately \$1.4 million use of reserves (free cash and stabilization) for capital expenditures. Seekonk benefits from predictable revenue sources, including property taxes (70.9%) and intergovernmental funds (19.2%). Management reports fiscal 2023 is tracking to budget so far and does not anticipate any major budget changes in fiscal 2024. The town used its American Rescue Plan Act (ARPA) funds for one-time capital purchases, including street sweepers. Management has integrated rising fuel and construction costs into the budget and recently settled its police and fire labor contracts. While we

believe the town's financial performance will remain stable due to its highly predictable revenue and expenditures and conservative budgeting practices, we think annual performance may fluctuate based on the town's frequent use of reserves to fund capital expenditures.

Seekonk finished fiscal 2022 with \$13.4 million in its available fund balance or 19.5% of expenditures, which we consider very strong. During the last three years, Seekonk has used approximately \$500,000 to \$1 million in stabilization funds annually for one-time expenditures but has maintained very strong reserves through positive variance in its operating budget. While we expect this practice to continue, we understand management has no plans to significantly draw down its fund balance and we expect flexibility to remain very strong during the next two years. We also expect liquidity to remain very strong.

### **Regular budget monitoring and detailed long-term planning**

Management uses three to five years of historical trends when developing revenue and expenditure assumptions, incorporating information from department heads, the school department, and the commonwealth. Management provides monthly budget-to-actual reports to the board, which could amend the budget through the town meeting process. The town's budget projections forecast revenues and expenditures for three years; its five-year, annually updated, capital investment plan identifies projects by year and funding. Seekonk's aim is to allocate 30% of its annual free cash (remaining, unrestricted funds from the prior year's operations) to one-time capital expenditures, 45% to stabilization accounts, and 15% to its OPEB trust; it seeks to maintain stabilization funds at least 10% of its tax levy. Its debt management policy targets debt service under 10% of general fund expenditures, excluding enterprise funds, and at least 50% amortization within 15 years. It adheres to commonwealth investment laws. Seekonk has taken steps to mitigate cyber risk.

The institutional framework score for Massachusetts municipalities is strong.

### **Manageable fixed costs that could increase due to debt plans and poorly funded long-term liabilities**

Following this issuance, Seekonk will have \$23.0 million in direct debt, including an (unrated) \$1.2 BAN issued concurrently. The town is considering about \$10 million in fiscal 2024 for fire station construction and \$20 million in fiscal 2025 for a public works facility; both projects are contingent on voter approval to exclude project debt service from Proposition 2 1/2 levy limits, which we believe would largely alleviate any budgetary pressure caused by increased debt service costs, which we currently view as manageable. We included analysis of these projects in our view of the town's debt profile, so we do not expect to change our view during the outlook period.

Pension/OPEB:

- In our opinion, Seekonk's large pension and OPEB obligation, despite a low carrying charge, is a credit weakness.
- While the pension plan uses actuarially determined contributions, we think some assumptions could result in contribution escalation and volatility, which when combined with low OPEB funding ratios, could lead to increasing fixed costs and pressure the budget in the long-term.

The town participates in:

- Bristol County Retirement System, 71.6% funded as of Dec. 31, 2021, with a \$26.0 million proportionate net pension liability. The town made its full required contribution in fiscal 2022. If all funding assumptions are met, the plan will

be fully funded by fiscal 2034.

- Seekonk's retiree health and life insurance through various contributory plans, which was 10.97% funded, with a \$30.6 million net OPEB liability, as of June 30, 2022.

The pension plan uses a 7.35% discount rate, which we consider high and likely to lead to contribution volatility. In addition, the level-percent amortization will also increase costs. We expect costs will likely increase, particularly if the plan adopts increasingly conservative assumptions. Should costs materially increase relative to current levels, we could negatively revise our view of the town's plan to address these liabilities. The town's OPEB policy targets appropriating 15% of free cash annually into its OPEB trust and plans to substantially increase its contributions once the pension plan is fully funded. The town will also soon begin requiring employee contributions to its OPEB trust fund. For more information, see the article, titled "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.

Seekonk, Mass.: key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	123			
Market value per capita (\$)	210,131			
Population			14,759	14,718
County unemployment rate(%)			6.5	
Market value (\$000)	3,101,318	2,819,568	2,663,245	
Ten largest taxpayers % of taxable value	7.9			
<b>Adequate budgetary performance</b>				
Operating fund result % of expenditures		(1.5)	3.7	3.4
Total governmental fund result % of expenditures		(1.3)	4.6	1.1
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		19.4	20.7	19.6
Total available reserves (\$000)		13,406	13,805	12,490
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		24	27	23
Total government cash % of governmental fund debt service		969	1136	1167
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Adequate debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		2.5	2.4	2.0
Net direct debt % of governmental fund revenue	31			
Overall net debt % of market value	0.8			
Direct debt 10-year amortization (%)	59			
Required pension contribution % of governmental fund expenditures		4.4		
OPEB actual contribution % of governmental fund expenditures		0.6		

**Seekonk, Mass.: key credit metrics (cont.)**

	Most recent	Historical information		
		2022	2021	2020

**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
- 2022 Update Of Institutional Framework For U.S. Local Governments

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