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Ratings

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Summary:

Ipswich Town, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$16.7 mil GO mun purp loan bnds ser 2021 dtd 05/19/2021 due 10/01/2040		
Long Term Rating	AAA/Stable	New
Ipswich Twn gen oblig recreation bnds		
Long Term Rating	AAA/Stable	Affirmed
Ipswich Twn GO muni purp ln		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Ipswich, Mass.' $16.7 million series 2021 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on Ipswich's existing GO debt. The outlook is stable.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Ipswich higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2020, local property taxes generated 70% of revenue, which demonstrated a lack of dependence on central government revenue.

The town's full faith and credit, subject to Proposition 2 1/2 limits, secures the bonds. We rate the limited-tax GO debt on par with our view of Ipswich's general creditworthiness, reflected in the rating on the unlimited-tax GO bonds.

Officials will use series 2021 bond proceeds to fund various water and sewer capital improvement projects, as well as to refund the town's series 2007, 2008, 2010, and 2011 GO bonds.

Credit overview

The stable outlook reflects the town's strong and stable economy, with growth driven by the New England Biolabs expansion as well as continued residential sales up nearly 10% year over year (for more information, see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect). The rating is further supported by the town's surplus performance for fiscal 2020 and anticipated surplus for fiscal 2021. While Ipswich anticipates additional debt in the near term, costs remain affordable given the continued growth in the tax base, reserves over 20%, and a higher-than-average other postemployment benefit (OPEB) funding ratio when compared with regional peers.

The rating reflects our opinion of the town's:

- 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 anticipated surplus operating results in fiscal 2021 but that we expect could be lower in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 31.7% of total governmental fund expenditures and 4.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 6.5% of expenditures and net direct debt that is 38.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but significant medium-term debt plans and a large pension and OPEB obligation; and
- Strong institutional framework score

Environmental, social, and governance (ESG) factors

We consider the town's social risks in line with the sector. As a coastal community, we believe Ipswich's environmental risk are above average for the sector but in line with peer coastal communities. The environmental risk is partially mitigated by the town's significant planning and investment in coastal resiliency efforts, including raising the elevation on roads prone to flooding and seeking grants for coastal stabilization. Ipswich is also focused on reducing its carbon footprint with the passage of a resolution to achieve a net zero carbon level by 2035. We believe the town's governance risks relative to Ipswich's economy, management, financial measures, and debt and liability profile are all in line with our view of the sector standard.

Stable Outlook

Downside scenario

While not anticipated during our outlook period, we could lower the rating or revise the outlook if the town's finances were to deteriorate significantly or if rising fixed costs placed budgetary pressures on Ipswich, leading to a material drawdown on reserves.

Credit Opinion

Very strong economy

We consider Ipswich's economy very strong. The town, with an estimated population of 14,247, is in Essex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 158% of the national level and per capita market value of $227,774. Overall, the town's market value grew by 6.0% over the past year to $3.2 billion in 2021.

Ipswich, located in northeastern Massachusetts, is approximately 28 miles north of Boston. Principal highways serving the town include Interstate 95, U.S. Route 1, and state routes 1A and 133. Residents have access to the Boston MSA by these routes, as well as by Massachusetts Bay Transportation Authority commuter rail service. The area is primarily residential, with residences accounting for over 89% of the tax base. Residential development continues in the town, with ongoing construction on the Linebrook Road housing development for 35 additional homes, and a new 10-acre development for 191 rental units. Although Ipswich is primarily residential, the town also maintains a small commercial and industrial component. Commercial development continued during the pandemic, with the town's top tax payor, New England Biolabs, breaking ground on a $69 million development on its existing campus. Assessed value (AV) has increased by an average of 4.5% over the past five fiscal years because the area housing market remains strong.

With continued development, the town's employment trends mirrored national trends, with the Essex County's unemployment figures spiking to 19.9% in June 2020; however, it tempered to 7.7% in December 2020. The expansion of New England Biolabs is expected to provide additional job growth over the next decade. Therefore, we expect the town's economy to remain very strong.

Strong management

We view the town'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.

The town's revenue and expenditure assumptions are conservative, coupled with a six-year historical trend analysis and quarterly reporting of budget-to-actual results to the board. Ipswich maintains a five-year capital improvement plan that it updates annually with funding sources identified, and has formally adopted a five-year long-term financial plan that it updates annually. The town also maintains formal debt management and investment policies with annual reporting on holdings and earnings to the board. In addition, Ipswich's formal reserve policy is to maintain the stabilization fund at a minimum of $1 million and free cash at no less than $100,000, to which the town adheres at present. Ipswich anticipates reviewing its policies and procedures to determine areas for improvement and bring required levels in line with current performance metrics.

Strong budgetary performance

Ipswich's budgetary performance is strong in our opinion. The town had operating surpluses of 6.0% of expenditures in the general fund and 9.4% across all governmental funds in fiscal 2020. While we expect Ipswich to have surplus operating results, we do not expect results to be as favorable as they had been in 2020.

Fiscal 2020 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Ipswich reported a second consecutive surplus for fiscal 2020 mainly due to its conservative budgeting. The town noted that it met its meal tax receipts budgeted estimates by the third quarter before the declaration of the COVID-19 pandemic. The surplus performance was also the result of the town slowing spending during the year as well as higher-than-budgeted revenues including motor vehicle excise taxes and investment income. The town incurred some additional pandemic-related costs; however, Ipswich received approximately $600,000 in Coronavirus Aid Relief and Economic Security Act reimbursements for personal protective equipment and other eligible expenses.

The town's revenues primarily consist of property taxes, accounting for approximately 70% of annual revenues, followed by intergovernmental revenues at 22%. Property tax collections remain strong during the period at over 99%

despite the pandemic.

Ipswich's budget remains conservative for fiscal 2021, approving a $60.6 million budget for the year, approximately 1.3% lower than fiscal 2020. The reductions included lowering local receipts by approximately $400,000, as well as decreasing state aid by 10% for the year. However, with Massachusetts maintaining funding for fiscal 2021 at fiscal 2020 levels, the town anticipates state aid will be $600,000 over budgeted. In addition, Ipswich received a building permit payment from the New England Biolab project of more than $700,000 that was not budgeted for. Overall, with stable property tax collections anticipated in the 99% area for the fiscal year and favorable performance in permits and aid payments, the town expects to end the year with another surplus.

Very strong budgetary flexibility

Ipswich's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 21% of operating expenditures, or $12.3 million.

The town has maintained strong budgetary flexibility over the past three years. The fiscal 2021 budget had included a use of stabilization funds but these were replaced during the fall town meeting.

Management also has a formal reserve policy of maintaining the stabilization fund at a minimum of $1 million and free cash at no less than $100,000, to which the town currently adheres. Ipswich anticipates reviewing its reserve policies and updating levels to become more in line with current levels. With the anticipated review of the policy and expected surplus for fiscal 2021, we expect Ipswich to maintain its very strong budgetary flexibility.

Very strong liquidity

In our opinion, Ipswich's liquidity is very strong, with total government available cash at 31.7% of total governmental fund expenditures and 4.9x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

Ipswich has issued bonds frequently over the past several years, including GO bonds and short-term bond anticipation notes. The town has no variable-rate or direct purchase debt. We do not expect its liquidity metrics to change during our outlook period.

Adequate debt and contingent liability profile

In our view, Ipswich's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.5% of total governmental fund expenditures, and net direct debt is 38.5% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, which is in our view a positive credit factor. Negatively affecting our view of the town's debt profile is Ipswich's significant medium-term debt plans.

With this issuance, Ipswich will have about $37.3 million in total direct debt. Management plans to bring a new $25 million public safety project to the town meeting in October 2021. If approved, the town would begin to look to borrow in stages for the project. In addition, the upcoming May meeting issue of about $7 million over the next two-to-three years will be used for water- and sewer-related projects and approximately $1.5 million for paving projects.

Pension and other postemployment benefits

- We view pension and OPEB liabilities as a credit weakness for Ipswich based on lower funding levels and our expectation that costs will increase.
- Because the plan's actuarially determined contribution (ADC) is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the town's revenue base.
- Although OPEB liabilities are funded on a pay-as-you-go basis, which given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs Ipswich has legal flexibility to alter OPEB benefits, which we view as a potential means to mitigate escalating costs should they modify benefits.

Ipswich participates in the following plans as of June 30, 2020:

- Essex Regional Retirement System (ERRS): 54.1% funded, with the town's share of the net pension liability equal to $44.1 million.
- A single-employer, defined-benefit health care plan that provides benefits to eligible retirees and their spouses: 18.56% funded, with an OPEB liability of about $24.6 million.

The town's combined required pension and actual OPEB contributions totaled 7.9% of total governmental fund expenditures in 2020. Of that amount, 5.9% represented required contributions to pension obligations, and 2.0% represented OPEB payments. In our view, a discount rate of 7.3% for ERRS remains above our 6.0% guideline and could lead to contribution volatility. Ipswich funds 100% of pension ADCs but contributions fell short of both static funding and minimal funding progress. Although the town is managing these costs, we believe Ipswich has limited ability to control growth of pension liabilities.

For more on our view of the state's pension plans and recent reforms, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.

With respect to OPEB liabilities, the town maintains an OPEB trust fund with a balance of $5.6 million, which translates into a 18.56% funded ratio. Ipswich began funding the OPEB liability in 2010; however, it established a formal OPEB funding policy in March 2017 that the board reviews annually. The policy provides three tiers of funding the trust: contributing 0.25% of total annual salaries of the previous year, contributing 25% of free cash in excess of $1 million, and shifting all future pension contributions to the trust fund once the ERRS is fully funded.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

- 2020 Update Of Institutional Framework For U.S. Local Governments