

# RatingsDirect®

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## Summary:

# Cohasset, Massachusetts; General Obligation

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## Summary:

# Cohasset, Massachusetts; General Obligation

### Credit Profile

US\$1.975 mil GO mun purp loan of 2021 bnds due 10/02/2025

*Long Term Rating* AAA/Stable New

Cohasset GO

*Long Term Rating* AAA/Stable Affirmed

## Rating Action

S&P Global Ratings assigned its 'AAA' rating to Cohasset, Mass.' series 2021 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the bonds. Despite limitations imposed by the commonwealth's levy limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledges due to the town's operating flexibility under the levy limit. We rate the limited-tax GO debt on par with our view of Cohasset's general creditworthiness, because the ad valorem tax is not derived from a measurably narrower property tax base and there are no fungibility resource limitations, supporting our view of the town's overall ability and willingness to pay debt service.

Proceeds from the current series 2021 issuance will fund a range of purposes including bridge, road, and street repair.

### Credit overview

The rating reflects our view of Cohasset's very strong socioeconomic demographics, strong management environment, growing property tax base, and balanced operations during the past few fiscal years that have boosted reserves to very strong levels on a generally accepted accounting principles (GAAP) basis. Cohasset is an affluent residential suburb on the coast about 20 miles south of Boston in Norfolk County. With one-third of the town under conservation protection, Cohasset maintains an affluent suburban character with a quaint downtown catering to several small independent businesses. The stable outlook reflects our view that the town will maintain balanced operations and very strong reserves, allowing it the flexibility to withstand unanticipated budgetary challenges. Although it maintains large pension and other postemployment benefit (OPEB) obligations compared with its budget, we think these costs should remain manageable over our outlook period, particularly given its strong tax base and budgeting policies that should support stable operations in the future.

Cohasset's GO bonds are rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the town has a predominately locally derived revenue source, with 77% of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The 'AAA' rating also reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, 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 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 31.8% of total governmental fund expenditures and 6.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 5.0% of expenditures and net direct debt that is 22.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 93.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

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

We view environmental risks and their potential effect on taxable properties as above average relative to peers given that Cohasset is a coastal community along the Atlantic. Management, however, has been proactive in addressing these risks by working with the Federal Emergency Management Agency to update its flood maps, and is part of the Massachusetts Municipal Vulnerability Preparedness Program, which provides grants to support climate change resilience efforts. In our opinion, governance factors are generally in line with the sector, but we note the town's positive efforts to protect the organization from cyberattacks through its recent establishment of an IT department and use of multiple malware and firewall software applications, encryption and multifactor authentication, and email filters to reduce intrusion threats and data breaches. Moreover, we note its favorable demographics are a social advantage and support its historically strong financial operations through consistently strong economic activity and revenue collections.

## **Stable Outlook**

### **Downside scenario**

Should the town's financial performance weaken, and operating reserves deteriorate, we could consider a negative rating action.

## **Credit Opinion**

### **Very strong economy**

The town, with a population of 8,304, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 206% of the national level and per capita market value of \$382,238. Overall, market value grew by 2.8% over the past year to \$3.2 billion in 2021.

Cohasset is an affluent residential suburb with highway access via Route 3A and a commuter train station providing residents employment opportunities throughout the greater Boston MSA. The town is predominantly residential with over 93% of its tax base classified as such. Prior to the pandemic, the tax base had been growing strongly. Since 2017, assessed value has increased 15%, and management expects further increases given modest new construction in the pipeline and the strong real estate environment.

The regional economy is well-diversified and has been growing the past few years, but the pandemic stymied its momentum. The county unemployment rate was 2.3% in 2019, although it increased significantly because of the stay-at-home orders, peaking at 15.5% in April 2020. Unemployment declined to 5.8% in March 2021, although these levels remain above average compared with previous years. IHS Markit forecasts Norfolk County's real gross county product (GCP) fell by 5.95% in calendar 2020, worse than the state's 3.8% decline. The forecast suggests that economic activity will not return to pre-pandemic levels until late 2021 or early 2022. This is largely consistent with S&P Global Economics' U.S. forecasts. (For more information on S&P Global Ratings' economic outlook, please see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021.)

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In developing the budget, the town uses conservative assumptions grounded in a historical trend analysis and careful tracking of past expenditures. Management monitors budgetary performance regularly, with budget-to-actuals submitted to the select board every month. It has the flexibility to make changes midyear, although large amendments require approval at a town meeting. The town's investment policies adhere to state guidelines, with quarterly investment reports submitted to the select board quarterly. Management refers to an annually updated five-year financial plan and a ten-year capital plan to identify budgetary pressures and capital needs. The town's debt management policy limits carrying costs for debt to no more than 10% of the budget and pegs amortization to no more than the useful life of the project. In addition, Cohasset has a reserve policy goal of achieving a minimum 15% reserve balance of prior year's property tax levy, less debt and capital exclusions, between free cash and its various stabilization reserve accounts.

### **Strong budgetary performance**

The town had operating surpluses of 3.9% of expenditures in the general fund and 2.9% across all governmental funds in fiscal 2020. The favorable operating performance over the past several years is a result of conservative budgeting for revenue and departmental turn-backs. The town's finances were largely unaffected by the pandemic. Local property taxes are Cohasset's major revenue source, accounting for about 77% of general fund revenues, with state aid accounting for about 13%. Property tax collections were strong even amid the pandemic, with collections typically exceeding 98%.

Because of Cohasset's conservative budgeting practices and history of positive operating performance, we expect it to maintain strong budgetary performance over the next several years. The 2021 budget totals \$53.7 million, a small increase over the previous year. Throughout the pandemic, Cohasset did well in implementing several cost-saving initiatives and was conservative in its planning, revising revenue estimates downward for fiscal 2021 and reducing

spending in like amounts. The town also slowed down capital projects, while managing staffing levels to minimize expenditure growth.

Currently, budgetary results for fiscal 2021 are better than anticipated, and with level funding of state aid in fiscal years 2021 and 2022, we believe severe financial deterioration is minimal over our outlook period. Moreover, the town is eligible to receive upward of \$1 million in direct American Rescue Plan (ARP) funds, and the school district is also benefiting from Elementary and Secondary School Emergency Relief (ESSER) stimulus funds, which we believe will support steady operating performance across all its major departments. Notably, pensions, OPEBs, and other fixed costs are manageable, and do not currently pose a budgetary pressure, although we believe they will continue and increase because of the pension systems' current funding levels.

### **Very strong budgetary flexibility**

Cohasset's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 20% of operating expenditures, or \$10.6 million.

Officials have set to improve and sustain a strong level of reserves. The town's recent reserve policy sets to achieve and maintain a minimum combined stabilization fund balance of 15% of the prior year's property tax levy, less debt and capital exclusions. We note that the respective stabilization funds represent one part of the total balance we consider available. With the increase in allocations to the stabilization fund, we expect fund balance to continue and remain strong over the next several years with no sudden deterioration anticipated.

### **Very strong liquidity**

In our opinion, Cohasset's liquidity is very strong, with total government available cash at 31.8% of total governmental fund expenditures and 6.3x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We anticipate the town's liquidity profile will remain very strong as there is no expectation of any significant deterioration of cash balances. Lending further support to the liquidity assessment is Cohasset's strong access to external liquidity through regular GO bond issuances. Moreover, the town has no direct-purchase or variable-rate debt, or other contingent liabilities that may put pressure on available cash. Investments are in government-sponsored enterprises and U.S. Treasury notes.

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

In our view, Cohasset's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.0% of total governmental fund expenditures, and net direct debt is 22.8% of total governmental fund revenue. Overall net debt is low at 0.4% of market value, and approximately 93.0% of the direct debt is payable within 10 years, which are, in our view, positive credit factors.

Total direct debt is \$31.8 million, of which \$18 million is self-supporting from the town's water enterprise account. Officials indicate they may issue additional debt to address the aging town hall. Management estimates project costs between \$13.5 million and \$14.5 million. In our view, given the wealthy tax base, along with its rapid debt repayment schedule, we do not envision the borrowing will materially change our view of the town's overall debt profile.

Pension and OPEB highlights:

- In our opinion, Cohasset's combined pension and OPEB obligation is manageable, although we acknowledge costs are likely to increase given the plans' funded status.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which we believe increase the risk of unexpected contribution escalations.
- Although OPEB liabilities are payable on a pay-as-you-go basis, costs remain low despite the large liability and exposure to medical cost trends, and we expect the town will continue adding to its OPEB trust fund.

Cohasset participated in the following pension and OPEB plans as of June 30, 2020:

- Norfolk County Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan: 65% funded ratio, with the town's net pension liability at \$19.2 million.
- A single-employer, defined-benefit health care plan (OPEB) that provides medical, dental, and life insurance to eligible retirees; 5.11% funded ratio and a net OPEB liability of \$72.3 million.

Cohasset's combined required pension and actual OPEB contributions totaled 8.2% of total governmental fund expenditures in 2020. Of that amount, 4.2% represented required contributions to pension obligations, and 4.0% represented OPEB payments. The town made its full required pension contribution in 2020.

Contributions currently exceed our view of minimal funding progress, as well as static funding, which is favorable. The pension system is on target to achieve full funding by 2031; however, in our opinion, the plan's assumed long-term rate of return of 7.75% exceeds our 6.00% guidelines and could lead to contribution volatility.

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

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong, its current financial management practices.

## **Related Research**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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