

# RatingsDirect®

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## Summary:

# Erving Town, Massachusetts; General Obligation

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### Credit Profile

Erving Twn GO swr bnds ser 2022 due 06/01/2042

*Long Term Rating*

AA/Stable

Rating Assigned

## Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to the town of Erving, Mass.' approximately \$1.57 million series 2022 general obligation (GO) sewer bonds.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures bond debt service. We rate the limited-tax GO debt on par with our view of Erving's general creditworthiness given that the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, which supports our view of the town's overall ability and willingness to pay debt service.

The town remains undecided regarding a public sale or private placement of the series 2022 bonds. Regardless of the sale type, we expect the transaction structure will likely remain the same.

Officials intend to use series 2022 bond proceeds to finance the replacement of a sewer main.

### Credit overview

Erving, in western Massachusetts, has a population estimate of 1,600. The town has a stable tax base with limited new growth, primarily consisting of residential development. The town had consistently produced surplus operating results until 2020 when it made a large transfer into the library-construction fund. Instead of financing the town's share of the library-construction project with debt, management funded the cost using transfers from reserves. The town benefits from low debt, and it has typically used free cash and stabilization to finance capital needs. Management intends to make greater use of external liquidity and issue additional bonds on a limited basis.

The rating reflects our opinion of the town's:

- Stable economy with a tax base highly concentrated among the top 10 taxpayers;
- Good financial-management environment under our Financial Management Assessment (FMA) methodology--indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them--and a strong Institutional Framework;
- Consistent budgetary performance, supporting very strong reserves; and
- Low debt with limited additional debt plans.

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

We have analyzed environmental, social, and governance (ESG) risks relative to Erving's economy, management, financial measures, and debt-and-liability profile and have determined all are neutral in our analysis. Erving borders the Connecticut and Millers rivers, and it has exposure to some flooding. The town has worked to develop hazard-mitigation plans for river and stormwater flooding. A significant storm in summer 2021 caused damage to roads and bridges in the town with full reimbursement for the damage coming from various sources, including commonwealth funding.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if budgetary performance or reserves were to decrease significantly due to revenue pressure or significant fixed-cost growth associated with long-term liabilities.

### **Upside scenario**

While unlikely due to historically limited economic growth, we could raise the rating if wealth and income were to improve significantly from current levels, coupled with the maintenance of other credit factors.

## **Credit opinion**

### **A stable economy with a concentrated tax base**

The roughly 14.4-square-mile Erving is in Franklin County in western Massachusetts, approximately 75 miles west of Boston. The town's population estimate was 1,665 as of the 2020 U.S. Census. There has been limited development in the town, and most assessed value growth is due to property appreciation. Management reports that many businesses in town are small businesses with approximately 10 employees and that those businesses are stable. Unemployment is typically equal to that of the commonwealth and below national levels; it was 5.9% for 2021, down to 4.8% as of January 2022. The town's 10 leading taxpayers include a utility company, a paper manufacturer, and solar arrays: They account for 89.5% of the total tax levy.

Northfield Mountain LLC operates Northfield Mountain Hydroelectric Facility; it is the town's leading taxpayer, accounting for more than 80% of the levy. The facility is a pumped storage hydroelectric plant. The plant has operated since 1972, and it is renewing the license with the Federal Energy Regulatory Commission that expired in 2018. The commission has not acted on the renewal, but the plant has continued to operate; management expects renewal with a new license extending at least 40 years. The town and plant owner are waiting for an Appellate Tax Board hearing regarding a tax abatement. Qualified independent third parties have appraised the property, and the last three appraisals have developed similar assessments. It is unclear what the plant owner is seeking, but the town reports it could be an abatement covering five years for a total of \$15 million. We think the town has capacity through reserves to absorb this, if necessary. The town thinks the property assessment is fair, and it is not expecting a detrimental effect on finances.

### **Formal financial policies, procedures in most key areas**

When developing the annual budget, the town looks at revenue trends, which are primarily local tax revenue with no volatility; it holds public meetings where each department has to justify any increases or additions requested in the budget. The town always uses the full 2% levy increase available and typically does not factor new growth projections into the budget. Management presents budget updates to the board for review monthly; while rare, it can amend the budget as needed. The town maintains a long-term capital plan that identifies funding, which it revises yearly, led by a capital-planning committee. The town does not conduct any formal long-term financial planning, but it is considering new financial-management tools that would allow for this type of planning and improve the capital-planning process. The town maintains a reserve policy that dictates maintaining an amount totaling at least 50% of the current operating budget in the general stabilization fund, and the policy stipulates how management may use these funds.

Erving also maintains a debt-management policy that includes stipulations that debt service is limited to 10% of general fund revenue with a target of 5%. The town does not have an investment-management policy, but it adheres to all commonwealth statute guidelines and restrictions. Furthermore, Erving has taken steps to mitigate exposure to cyber-related risk.

### **Consistent financial performance**

Erving's largest source of general fund revenue is property taxes (84%), followed by intergovernmental aid (5%). In fiscal 2020, the town reported a negative operating result in the general fund for the first time in many fiscal years. Management attributes this to transfers into the library-construction fund from the stabilization fund and free cash. The library project is nearing completion, and the town does not expect to make additional transfers to support this fund. Prior to the transfer to the library-construction fund, the town had produced consistent surplus results and a surplus of approximately \$2.2 million in fiscal 2021; therefore, we do not view this as a structural deficit.

Most departments produced positive variances relative to the budget in fiscal 2021. The town plans to replenish the stabilization fund during the next few fiscal years; this year's town meeting warrant includes an appropriation of \$273,000 into the general-stabilization account. At fiscal year-end 2021, total available fund balance rebounded to more than \$12.6 million, nearing the fiscal 2019 high.

The town's American Rescue Plan Act of 2021 allocation is \$523,000. Management has set aside more than \$500,000 of this funding for use in wastewater projects; the town expects to use the rest of the allocation to address wastewater needs. Erving reports revenue and expenditures are on track to this point in fiscal 2022. The town experienced a severe storm in summer 2021, and the town received authorization from the commonwealth to deficit spend for bridge-and-road repairs; it will receive commonwealth reimbursement to cover these costs.

The fiscal 2023 budget does not include new growth assumptions, and the school department has proposed level funding. The town generally has a good working relationship with the school department, which helps avoid situations where the school's budget pressures finances.

The town has neither any investments we consider aggressive nor any privately placed debt that could present a contingent-liquidity risk. We expect liquidity will likely remain very strong.

### Low debt with limited additional debt plans

After this series 2022 issuance, Erving will have approximately \$3.3 million in debt outstanding. The town may issue additional debt related to two bridge-replacement projects; however, if Erving needs to issue debt, and how much it will need to issue, the outcome will pend commonwealth grants and appropriations. In the long term, Erving is working toward issuing debt for projects, such as the sewer project funded with these bonds, and relying less on using reserves. We do not expect these plans will alter our view of the town's debt profile during the next few years.

### A well-funded pension system, plan to address long-term other postemployment benefit (OPEB) costs

We do not view pension and OPEB liabilities as a credit pressure for Erving because costs are low. While we consider the use of an actuarially determined contribution a credit positive, we posit some assumptions used to build the pension actuarially determined contribution reflect, what we view as, slightly weak assumptions and methodologies we think increase unexpected contribution-escalation risk. Although management funds OPEB liabilities on a pay-as-you-go basis, costs remain low despite the large liability and exposure to medical cost trends; we expect the town will likely continue to add to its OPEB trust fund.

As of June 30, 2021, Erving participates in:

- Franklin Regional Retirement System, which is 74% funded, with a \$2.5 million proportionate share of the net pension liability; and
- Erving's single-employer, defined-benefit, health-care plan, which it funds on a pay-as-you-go basis, with a total OPEB liability of \$858,000.

Franklin Regional Retirement System is a multiple-employer, defined-benefit pension plan. The system covers all municipal employees, except school teachers; the commonwealth pays the teachers' pensions. While Massachusetts requires all pension systems to achieve full funding no later than 2040, the system plans to do so by 2034.

Erving contributed \$300,000 to the OPEB trust in 2021, bringing the balance to approximately \$5.9 million, or 87% of the total liability.

### Strong Institutional Framework

The Institutional Framework score for Massachusetts municipalities is strong.

#### Erving, Massachusetts Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
Very weak economy				
Projected per capita effective buying income as a % of U.S.	83.0			
Market value per capita (\$)	521,199			
Population			1,846	1,810
County unemployment rate(%)			7.4	
Market value (\$000)	962,134	969,881	939,717	
10 leading taxpayers as a % of taxable value	84.4			

## Erving, Massachusetts Select Key Credit Metrics (cont.)

	Most recent	--Historical information--		
		2021	2020	2019
Strong budgetary performance				
Operating fund result as a % of expenditures		18.1	(15.0)	12.2
Total governmental fund result as a % of expenditures		21.6	15.7	16.1
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		104.8	92.8	115.2
Total available reserves (\$000)		12,683	10,688	12,770
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		62.3	58.7	56.8
Total government cash as a % of governmental fund debt service		--	--	--
Strong management				
Financial Management Assessment	Good			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		0	0	0
Net direct debt as a % of governmental fund revenue	13.0			
Overall net debt as a % of market value	0.2			
Direct debt 10-year amortization (%)	69.9			
Required pension contribution as a % of governmental fund expenditures		2.8		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		4.5		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

## 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
- 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
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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