S&P Global
Ratings

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Summary:

Marlborough, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$14.84 mil GO mun purp loan bnds ser 2022 due 05/01/2042		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Marlborough, Mass.' $14.840 million series 2022 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating on the city's existing GO debt. The outlook is stable.

The city's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. We rate the limited-tax GO debt on par with our view of Marlborough's general creditworthiness, because the city does not derive the ad valorem tax from a measurably narrower property tax base and there are no resource-fungibility limitations, supporting our view of its overall ability and willingness to pay debt service.

We understand officials intend to use series 2022 bond proceeds to finance the construction of a library, water main, and sewer line.

Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Marlborough higher than the nation, because we think the city 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 bond debt service is at limited risk of negative sovereign intervention. In 2021, local property taxes generated 61% of revenue, which demonstrated a lack of dependence on central government revenue.

Credit overview

The rating reflects the city's very strong economy with access to the broader Boston economy. Several of the city's largest taxpayers are expanding operations and its residential housing market remains very robust. Marlborough maintained positive financial performance even throughout the COVID-19 pandemic thanks to conservative budgeting and targeted expenditure-saving measures. This in turn helped bolster its very strong reserve position. We think the city's large pension and other postemployment benefits (OPEB) obligation and associated costs, which officials have been managing, could pressure the budget in the long term.

The long-term rating reflects our view of the city's:

- Wealthy Boston suburb with ongoing expansion of its largest taxpayers.
- Very strong and well-established financial management policies and practices and strong institutional framework.
- Recurring surpluses throughout the pandemic and very strong reserves.

- Moderate debt burden but elevated pension and OPEB carrying charges and a large pension liability.

Environmental, social, and governance

We analyzed Marlborough's environmental, social, and governance risks relative to the city's economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. We note that Marlborough has a partially capped landfill and has recently gotten approval to fully cap it. Though management indicates that there have not been any leakages from the site, we believe fully capping the landfill will mitigate potential waste and pollution environmental risks and associated cleanup costs.

Stable Outlook

Downside scenario

If the city's budgetary performance deteriorates, leading to a material decline in reserves, we could consider a negative rating action.

Credit Opinion

Wealthy Boston suburb with diverse taxpayer base

Marlborough--a predominantly residential community that also has a diverse industrial and commercial base--is approximately 25 miles west of Boston. Interstates 290 and 495, as well as U.S. Route 20 traverse the city, which connects residents to Boston, Worcester, and other regional employment centers. In addition, due to its central location and highway access, Marlborough has experienced considerable residential and commercial growth. Since fiscal 2019, its assessed value (AV) increased 9.3%, while its tax base remained very diverse, with the 10 leading taxpayers accounting for 9.8% of AV.

In the past decade, Marlborough successfully attracted several large corporate employers and management reports that several of them continue to expand. Leading employers include Raytheon (2,000 employees), TJX Cos. Inc. (1,900), Boston Scientific (1,600), and Quest Diagnostics (1,500). Along with the commercial base, the city's residential sector has steadily grown as well. In the future, the city will be able to use a $3 million downtown revitalization grant, which should spur further investment. We believe given the city's favorable location and attractive mix of commercial and residential taxpayers, Marlborough's tax base will continue to increase over our outlook horizon.

Very strong financial management with well-established policies and practices

In preparation of its annual budget, management employs conservative budgeting practices, which include the use of four-to-five years of historical data to forecast its revenue and expenditure assumptions. In addition, the city estimates its local tax receipts and intergovernmental revenue by reviewing economic and demographic growth trends in coordination with the assessor's office. Management determines annual budget appropriations by assessing fixed costs, such as debt service and contractual obligations from collective bargaining, to determine its baseline. It then identifies the remainder of budgeted appropriations and prioritizes based on municipal department and community needs.

Throughout each fiscal year, the city also monitors its budget-to-actual performance, and management delivers a monthly report to the city council to address budget variances. According to management, council may not increase any supplementary appropriations without the mayor's recommendation.

Marlborough maintains a five-year capital improvement plan (CIP), which it updates annually. The CIP identifies capital needs and various funding sources, as well as debt service amortization. In addition, the city uses a five-year long-term financial plan to forecast future revenue and expenditure trends. It adopted an investment policy that complies with commonwealth guidelines for fund investments, and provides investment reports quarterly. It has adopted debt policies to limit debt service to 5% of expenditures, requiring tax-supported debt to amortize at least 65% over the first 10 years, as well as forbidding enterprise debt from exceeding 25% of total operating expenditures. Marlborough has a formal debt reserve policy, with a requirement to hold reserves at a minimum of 15% of annual expenditures, and it has historically met this target and sustained reserves at that level.

We view positively steps management has taken to protect the city from emerging risks, such as cybersecurity threats.

Very strong financial position with reserves increasing throughout the pandemic

We adjust financial results for recurring transfers and one-time capital expenditures paid for with bond proceeds.

Marlborough maintained positive operations despite pandemic-related budgetary shortfalls in fiscal years 2020 and 2021. Targeted expenditure cuts and overall conservative expenditure assumptions helped offset weakness in economically sensitive revenues, especially motor vehicle and excise taxes. These are Marlborough's third largest revenue component, accounting for 3.8% of general fund revenues, while property taxes and intergovernmental revenue (32.5%) are the largest and second largest, respectively. In addition, federal money through the Coronavirus Aid, Relief, and Economic Security Act provided relief and helped cover pandemic-related costs.

In fiscal 2022, officials expect a continuation of positive financial performance, albeit with a smaller surplus than in fiscal 2021. Economically sensitive revenues are recovering, while positive variances on the expense side may not be as large as in previous years. Overall, we believe these results would further bolster Marlborough's very strong reserve position, which was 23.6% at the end of fiscal 2021. In the future, should budgetary pressures arise, we view positively that the city has the flexibility to raise additional revenues despite statewide tax caps, given its unused primary levy capacity of $19.1 million. However, the city has no plans to tap into this levy capacity. Marlborough anticipates using its $11.7 million American Rescue Plan Act allocation primarily for several one-time capital projects.

We adjusted the city's liquidity to account for restricted cash as well as highly liquid investments with Massachusetts Municipal Depository Trust that can be made readily available. Marlborough has frequently issued debt over the past 20 years, and has no variable-rate, direct-purchase debt, or contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. City investments are subject to state guidelines, and Marlborough invests its cash in low-risk assets.

Limited pressure from debt and contingent liabilities but a relatively low funded pension and OPEB obligation

After this issuance, Marlborough will have about $163.4 million in total direct debt. It plans to issue debt for about $17.2 million in general fund and $28.7 million in water and sewer capital projects as part of its CIP over the coming years, though we do not expect this will affect our view of its debt burden, given its amortization schedule.

Pension and OPEB liabilities:

- In our opinion, a credit weakness is Marlborough's large pension and OPEB obligation. We believe the low pension funded ratio, permissive assumptions, and large OPEB liability, collectively, result in a liability profile that could pressure the operating budget.
- 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, increasing the risk of unexpected contribution escalations.
- Although management funds OPEB liabilities on a pay-as-you-go basis, which, due to claims volatility and medical cost and demographic trends, could lead to escalating costs, the city has legal flexibility to alter OPEB, which we view as a potential means to mitigate escalating costs.

The city participates in the following plans:

- Marlborough Contributory Retirement System: 84.2% funded with a $39.7 million proportionate share of the net pension liability as of Dec. 31, 2020.
- Marlborough's defined-benefit, OPEB health care plan, which is 8.43% funded, with an OPEB liability of about $178.8 million.

We believe the discount rate of the city's pension plan remains high at 7.5%, along with permissible mortality tables and optimistic payroll growth assumptions. The system made progress in both our static and minimum funding progress calculations, indicating it addressed both the current costs and unfunded liabilities. The plan's closed, nine-year amortization schedule, which fully funds the unfunded liability by 2028, is a positive, in our view, and more aggressive than many other pension plans in the state.

In its efforts to fund its OPEB obligation, Marlborough has elected to contribute an escalating amount. In fiscal 2021, it paid a base amount of $350,000 and at least 10% of free cash to its OPEB trust, which equates to approximately $1.8 million. Officials plan to increase the base amount by $50,000 annually and increase contributions to the OPEB trust fund further once the pension plan is fully funded after 2028.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Marlborough, Massachusetts -- Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	129			
Market value per capita ($)	165,821			
Population			42,194	41,872
County unemployment rate(%)			7.3	
Market value ($000)	6,996,661	6,515,328	6,182,004	
Ten largest taxpayers % of taxable value	9.8			
Strong budgetary performance				
Operating fund result % of expenditures		6.6	3.6	0.4

Marlborough, Massachusetts -- Key Credit Metrics (cont.)	Most recent	Historical information		
		2021	2020	2019
Total governmental fund result % of expenditures		3.8	2.8	1.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		23.6	23.5	22.0
Total available reserves ($000)		41,899	40,118	36,463
Very strong liquidity				
Total government cash % of governmental fund expenditures		41	31	30
Total government cash % of governmental fund debt service		961	857	872
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.3	3.7	3.5
Net direct debt % of governmental fund revenue	45			
Overall net debt % of market value	1.5			
Direct debt 10-year amortization (%)	60			
Required pension contribution % of governmental fund expenditures		4.5		
OPEB actual contribution % of governmental fund expenditures		3.9		
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

Ratings Detail (As Of April 14, 2022)		
Marlborough GO		
Long Term Rating	AAA/Stable	Affirmed
Marlborough		
Long Term Rating	AAA/Stable	Affirmed
Marlborough GO (MBIA) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.