

RatingsDirect®

Summary:

Chelmsford, Massachusetts; General Obligation

Primary Credit Analyst:

Apple Lo, Boston (1) 617-530-8316; apple.lo@standardandpoors.com

Secondary Contact:

Le T Quach, New York (1) 212-438-5544; le.quach@standardandpoors.com

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Summary:

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Credit Profile

US\$11.767 mil GO mun purp loan bnds ser 2014 due 05/15/2029

<i>Long Term Rating</i>	AA+/Stable	New
Chelmsford Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Chelmsford Twn GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Chelmsford Twn GO (CIFG)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its rating on the Town of Chelmsford, Mass' general obligation (GO) bonds to 'AA+' from 'AA' based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

At the same time, Standard & Poor's has assigned its 'AA+' long-term rating, and stable outlook, to the town's series 2014 GO municipal purpose loan.

The town's full faith and credit pledge secures the bonds and notes. We understand that officials will use proceeds to refund a portion of its debt outstanding and to fund various capital improvements.

The rating reflects our assessment of the following factors for Chelmsford, specifically what we consider its:

- Very strong economy, which benefits from participation in the broad and diverse Boston economy;
- Strong budgetary flexibility, with available reserves at or above 8% of general fund expenditures for the most recent three audited years;
- Adequate budgetary performance, with consistent operating results in the general fund and total governmental funds;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions, with formal policy and practices; and
- Adequate debt and contingent liabilities position, driven mostly by the town's large unfunded other postemployment benefits (OPEB) liabilities and low pension funding ratio.

Very strong economy

We consider Chelmsford's economy to be very strong, with access to the broad and diverse economy of Boston in Middlesex County. Traditionally, county unemployment has tracked slightly lower than that of the state and the nation and averaged 5.3% in 2012. Chelmsford has per capita incomes that reflect residents' access to jobs in neighboring

areas. It has a projected per capita effective buying income of 144% of that of the U.S. Per capita market value for the town is what we consider very strong at \$130,000 for fiscal 2014. Assessed value (AV) continues to decline, albeit on a slower pace of less 1% in fiscal 2014. Fiscal 2014's AV is \$4.4 billion.

Strong budget flexibility

In our opinion, the town's budgetary flexibility remains strong, with available reserves above 8% of expenditures for the past several years, and Chelmsford has no plans to significantly spend down the reserves. This has been in compliance with the town's formal reserve policy of 5%-10% of revenues. Chelmsford did not budget to appropriate any of its free cash or stabilization for fiscal 2014. For audited fiscal 2013, available reserves were \$10.7 million or 9% of general fund expenditures.

Adequate budgetary performance

Chelmsford's budgetary performance has been adequate overall, in our view, with operating deficits, after taking into account one-time spending, in the general (1.3%) and total governmental funds (0.4%) in fiscal 2013. About 68% of the town's revenues are from property tax and 25% from intergovernmental aid. Management has adopted a balanced general fund budget for 2014 with no plans to draw down on its reserves.

Very strong liquidity

Supporting the town's finances is what we consider to be very strong liquidity, with total government available cash as a percent of total governmental fund expenditures at 11% and as a percent of debt service at 106%. We believe Chelmsford has strong access to external liquidity. It has issued GO bonds and bond anticipation notes frequently in the past 15 years.

Very strong management

We view the town's management conditions as very strong with sustainable formalized financial practices.

Adequate debt and contingent liability profile

In our opinion, Chelmsford's debt and contingent liability profile is adequate, with total governmental funds debt service as a percent of total governmental funds expenditures at 11% and with net direct debt as a percent of total governmental funds revenue at 74%. Meanwhile, overall net debt, after taking into account state aid reimbursement on school-related debt and self-supporting debt, is low in our opinion at 2.2% of market value. Debt amortization is rapid, with 75% of principal to be retired in 10 years. The town has additional plan to issue \$6.5 million of debt in the next two years.

The town participates in Middlesex County's contributory retirement system and makes 100% of the annual required contribution (ARC). The system is currently funded at 44%. Chelmsford subsidizes retiree health care benefits and contributes to its OPEB liability on a pay-as-you-go (PAYGO) basis. We understand that, in conjunction with labor agreements, the town has modified health benefits, which management reports has provided annual operating savings and resulted in a reduced OPEB liability to \$85 million from \$168 million. Apart from the savings from changes in health benefits, the decline in OPEB liability is also related to the town's commitment to make an annual \$1 million transfer to the OPEB trust fund, as well as changes in the discount rate. Combined pension ARC and OPEB PAYGO for fiscal 2014 is \$11 million, or 8.3% of total governmental expenditures. We consider the pension ARC and OPEB PAYGO to be high and slated to rise. Combined, Chelmsford's unfunded pension and OPEB liabilities totaled \$164

million.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts municipalities as strong. See Institutional Framework score for Massachusetts, published Sept. 12, 2013, on RatingsDirect.

Outlook

The stable outlook reflects our view of Chelmsford's continued strong budgetary flexibility and underlying economy supported by very strong management. We do not expect to change the rating within our two-year outlook horizon due to our expectation that the town will maintain strong budget flexibility and adequate financial performance. A consideration of a positive rating action over time would require further actions to mitigate the effects of Chelmsford's long-term liabilities, and improvement in budgetary performance. While unlikely, significant pressure on budget performance due to the rising OPEB costs could lead us to lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments, Sept. 12 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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