S&P Global Ratings

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Summary:

Fitchburg, Massachusetts; General Obligation; Non-School State Programs

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Credit Profile		
US$9.28 mil GO st qual mun purp loan of 2021 bnds ser 2021 due 03/01/2041		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Fitchburg GO		
Long Term Rating	AA/Stable	Current
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating and 'A+' underlying rating to Fitchburg, Mass.' series 2021 state qualified municipal-purpose general obligation (GO) bonds and affirmed its 'A+' underlying rating on the city's GO debt outstanding. The outlook is stable.

The long-term rating reflects our assessment of the security provided by the Massachusetts Qualified Bond Act. Under the Qualified Bond Act (Massachusetts General Law, Chapter 44A), approval by the Municipal Finance Oversight Board, which oversees and monitors the program, is required. Once a participant is approved, the state treasurer pays debt service directly to the paying agent from money withheld from the borrower's annual state aid appropriation. If necessary, the state treasurer advances debt service from legally available funds and withholds the amount paid from aid payable to the municipality. There is no appropriation risk related to the debt service payment. Given the law's provisions, we view the state's obligation to pay debt service identical to the commonwealth's unconditional debt obligation, and therefore we rate the program on par with Massachusetts' GO debt. Therefore, the long-term rating will move in tandem with the state GO rating. (For more information on the creditworthiness of the commonwealth, please refer to the full analysis on Massachusetts, published April 9, 2018, on RatingsDirect.)

The underlying rating reflects the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (Jan. 22, 2018). The city's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the series 2020 bonds and the city's GO debt outstanding. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction between the limited-tax GO pledge and Fitchburg's general creditworthiness because the tax limitation imposed on the city's ability to raise revenue is already embedded in our analysis of its financial and economic conditions.

We understand the 2021 bond proceeds of approximately $9.3 million will finance a city hall remodeling project, new water meters, a feasibility study, sewer improvements, and an airport runway.

Credit overview

Fitchburg's growing economic base and active management team have led to consistent financial results and a stable reserve profile. Rising retirement costs could increasingly pressure the budget, but costs have generally remained stable and while elevated, management is incorporating them into the budget. We expect the city's economic base will continue to grow, supported by access to a broad and diverse metropolitan statistical area (MSA), which will help support growing expenditures, particularly as the city invests in infrastructure. We do not expect to revise the rating or outlook at this time.

The underlying rating further reflects our view of the following factors for the city:

- Adequate economy, with projected per capita effective buying income (EBI) at 78.4% and market value per capita of $73,904, that benefits from access to a broad and diverse MSA;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.4% of total governmental fund expenditures and 40.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at less than 1% of expenditures and net direct debt that is 41.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Environmental, social, and governance factors

We have analyzed the city's environmental, social, and governance (ESG) factors and believe them to be in line with the sector standard.

Stable Outlook

Upside scenario

We could raise the rating should the city maintain structural balance, leading to continued growth in reserves, outside of any direct federal stimulus funds, along with continued growth in the economic metrics and tax base, holding all else constant.

Downside scenario

We could lower the rating if budgetary imbalance, particularly if caused by rising debt and retirement costs, results in declining reserves as a percentage of expenditures.

Credit Opinion

Adequate economy

We consider Fitchburg's economy adequate. The city, with a population of 41,261, is in Worcester County in the Worcester MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 78.4% of the national level and per capita market value of $73,904. Overall, market value grew by 7.9% over the past year to $3.0 billion in 2021. The county unemployment rate was 3.1% in 2019.

Fitchburg is a primarily residential and historically industrial community that benefits from access to regional employment opportunities in Worcester, where many residents commute for employment. Its tax base has grown markedly in each of the past three years, increasing its taxing capacity. For fiscal 2021, the city's total assessed value exceeded $3 billion for the first time. Management reports continued development in residential, particularly in multifamily with two townhome developments underway and other multifamily residential projects expected to being construction within the year. Additional development in the industrial sector includes the redevelopment of a vacant industrial property. Fitchburg is also generating new revenue from several marijuana facilities, and is expecting several more to come onto the tax rolls in the next two years.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

In development of its annual budget, the city analyzes three-to-five years of historical trends to form its revenue and expenditure assumptions. When available, it consults outside sources, such as the governor's proposed municipal aid budget, which typically provides a more conservative estimate of state revenue for the upcoming budget year. In addition, management reviews budget requests submitted by city department heads and prioritizes expenditures that will be incorporated into the mayor's proposal to the city council.

During the fiscal year, management reviews performance trends regularly and shares monthly budget-to-actuals to the mayor, city council, and all department heads. The council can make adjustments and amend the budget on the mayor's recommendation, as required by ordinance. Fitchburg also maintains an informal five-year capital improvement plan and has a formal investment policy with monthly reporting on earnings and holdings to the council. There is no debt management policy outside of state guidelines, and management does not perform formal revenue and expenditure forecasting. The city does not have a formal reserve policy outside of an informal 5% target for stabilization.

Strong budgetary performance

Fitchburg's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 0.9% of expenditures, and surplus results across all governmental funds 2.0% in fiscal 2020. General fund operating results have been stable, at 0.5% in 2019 and 1.3% in 2018.

Our view of Fitchburg's performance includes adjustments for recurring transfers from nonmajor funds and capital spending. Our evaluation of the city's budgetary performance is based on the draft 2020 financial statements. The audit is nearly final and we do not anticipate a material change between the draft and final audits.

In fiscal 2020, property taxes generate about 38% of general fund revenue, intergovernmental aid accounts for 52%, while charges for services was about 4% of operating revenue, consistent with prior years. The majority of the city's intergovernmental aid revenue is funding for the school department, including pass-through payments for the teachers' retirement system. The city did not encounter material revenue volatility in fiscal 2020 and it continues to seek reimbursement for expenditures incurred due to the pandemic.

The city is expecting an approximately $1 million shortfall in hotel taxes in fiscal 2021, primarily due to a large resort's closure during the pandemic. Management is viewing this revenue shortfall as a one-time occurrence and rather than adjusting expenditures is expecting to use reserves to cover the shortfall. It also budgeted for the use of reserves for small capital and other items. However, management continues to hold open certain vacancies and is working to constrains expenditures to create flexibility in its budget. The city is also expecting about $32 million in aid from the American Rescue Plan act. We believe it is likely to again outperform its budget, and notwithstanding the one-time infusion of federal funds, expect Fitchburg to maintain strong budgetary performance, including at least break-even operating results in fiscal 2021.

Very strong budgetary flexibility

Fitchburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 16% of operating expenditures, or $22.7 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 15% of expenditures in 2019 and 15% in 2018.

Given our view of the city's performance over the next year, along with new federal stimulus revenues, we do not anticipate a change in its flexibility profile at this time. If federal funds include significant restrictions currently not anticipated, and the city ultimately draws on reserves over the next one-to-two years, we could revise our view of flexibility to strong, based on available reserves and future projections.

Very strong liquidity

In our opinion, Fitchburg's liquidity is very strong, with total government available cash at 30.4% of total governmental fund expenditures and 40.3x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

Fitchburg is a regular market participant that has issued debt frequently over the past 20 years, including GO bonds and short-term bond anticipation notes. The city has no variable-rate or direct-purchase debt, and management has confirmed it has no 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 Fitchburg invests its cash in low-risk assets with original maturities of three months or less, including the Massachusetts Municipal Depository Trust, money markets, and short-term certificates of deposit. Therefore, the city's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong.

Adequate debt and contingent liability profile

In our view, Fitchburg's debt and contingent liability profile is adequate. Total governmental fund debt service is less than 1% of total governmental fund expenditures, and net direct debt is 41.8% of total governmental fund revenue.

Overall net debt is low at 2.5% of market value, which is, in our view, a positive credit factor.

Following this issuance, Fitchburg will have approximately $90 million in total direct debt, including capital leases. The city anticipates issuing about $4.5 million in new-money debt within the next two years for water system improvements, which we expect will be self-supporting. It is also undertaking a study for a new school, which management estimates to have a local share cost of about $20 million, although it will not have a firm estimate until after the study concludes. At this time, we do not expect a material change in the city's debt profile or ratios.

Pension and other postemployment benefits

- In our opinion, a credit weakness is Fitchburg's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it.
- We believe the city's retirement costs will continue to represent a credit weakness based on high carrying costs, elevated unfunded liabilities, and aggressive assumptions. Fitchburg's combined required pension and actual OPEB contributions totaled 10.6% of total governmental fund expenditures in 2020. Of that amount, 7.5% represented required contributions to pension obligations, and 3.0% represented OPEB payments. The city made its full required pension contribution in 2020, as it does annually.
- Because the city's pension 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.
- 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.

Fitchburg participated in the following pension plans as of June 30, 2020:

- Fitchburg Contributory Retirement System: with a funded ratio of 48.4%; proportionate share of net pension liability of $138.7 million, and annual required contribution of $12.1 million.

The city also provides OPEBs. As of June 30, 2020, the net OPEB liability totaled about $184 million. Fitchburg established an OPEB trust fund, with a balance of $1.5 million. It has worked with its collective bargaining units to share costs by increasing employee co-pays and premiums to reduce the overall liability, but intends to focus on addressing its OPEB liability after the pension 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

Ratings Detail (As Of April 13, 2021)

Ratings Detail (As Of April 13, 2021) (cont.)		
Fitchburg GO		
Long Term Rating	AA/Stable	Current
Underlying Rating for Credit Program	A+/Stable	Affirmed
Fitchburg GO st qual mun purp loan of 2020 bnds		
Long Term Rating	AA/Stable	Current
Underlying Rating for Credit Program	A+/Stable	Affirmed

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.