

RatingsDirect®

Summary:

Lynnfield, Massachusetts; General Obligation; Note; School State Program

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Credit Profile		
US\$53.75 mil GO BANs dtd 02/08/2024 due 02/06/2025		
Short Term Rating	SP-1+	New
Lynnfield GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Lynnfield, Mass.' roughly \$53.8 million series 2024 general obligation (GO) bond anticipation notes (BANs).
- S&P Global Ratings also affirmed its 'AA+' long-term rating on the town's existing GO debt.
- In addition, S&P Global Ratings affirmed its 'SP-1+' short-term rating on the town's existing notes.
- The outlook on the long-term rating is stable.

Security

The town's full-faith-and-credit pledge, not subject to Proposition 2 1/2 limitations, secures the series 2024 BANs. Lynnfield's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, also secures the limited-tax GO bonds. Despite commonwealth levy-limit laws, we did not make a rating distinction between the town's limited-tax GO pledge and general creditworthiness because our analysis of Lynnfield's financial and economic conditions already includes tax limitations imposed on the town's revenue-raising ability.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Lynnfield maintains a very strong capacity to make principal-and-interest payments when the BANs come due. The town maintains a low market-risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer that regularly provides ongoing disclosure to market participants.

Officials intend to use series 2024 BANs to construct a fire headquarters; remodel a police, fire, and Town Hall complex; and renew existing BANs.

Credit overview

Lynnfield is a mature, affluent, residential community with excellent access to the Boston employment base. Due to its location to the Boston area employment base, Lynnfield has historically maintained well-above-average wealth and income and historically low unemployment compared with the nation. We understand several new projects have been completed during the past few years along Route 1. In addition, various housing developments are underway townwide, which officials believe will continue to add to the property tax base.

Fiscal 2022 results continue a record of surplus results. Economically sensitive revenue--such as meals taxes, permits, and departmental revenue--came in overbudget because these revenue sources largely recovered from COVID-19-related slumps. For fiscal 2023, the town estimates to have ended with another general fund surplus of about \$1.7 million. According to officials, local receipts and other revenue items--such as investment income, building permits, and motor-vehicle excise taxes--exceeded budgeted amounts. In addition, the town experienced expenditure savings due primarily to vacant positions it did not fill.

For fiscal 2024, Lynnfield adopted a \$69.3 million budget, a 4.4% increase over fiscal 2023. Management indicates budget-to-actual results are tracking the budget favorably, and it currently expects the budget to end fiscal 2024 with balanced operations. While the town does not expect to draw down on reserves, we understand it has reclassified some assigned fund balance into committed reserves for fiscal 2023.

Following the series 2024 issuance, Lynnfield will have about \$81.8 million in total direct debt, of which approximately \$54 million is BANs. The town also has an energy-equipment-lease obligation outstanding that totaled \$5.5 million as of fiscal 2023. The lease contains standard events of default and acceleration provisions upon default, but we do not consider the lease a liquidity risk. We understand officials currently plan to issue about \$12 million of additional debt during the next two years to three years for a library project.

Lynnfield participates in Essex Regional Retirement System, which is 67% funded, with a net pension liability of \$26 million as of fiscal 2022. It also maintains a defined-benefit other postemployment benefit (OPEB) health-care plan with a liability of about \$88 million. We view pension and OPEB liabilities as a credit weakness for Lynnfield based on lower funding and our expectation costs will likely increase. In our opinion, large growing pension and OPEB liabilities could potentially add budgetary pressure during the next few fiscal years. The town established an OPEB trust fund that totals \$1.7 million as of fiscal 2022, which it plans to add about \$100,000 to annually.

Additional rating factors include our opinion of Lynnfield's:

- Wealthy and diverse tax base with high income, bolstered by its access to the Boston metropolitan statistical area;
- Consistently positive financial operations, which continue to support strong reserves, with additional fund balance increases estimated for fiscal 2023;
- Strong management with good financial-management policies, practices under our Financial Management Assessment (FMA) methodology--including its formal long-term financial planning and reserve policies that limit unassigned fund balance to no less than 5% of expenditures, with a goal of maintaining 10%-15%--and strong Institutional Framework score for Massachusetts municipalities; and
- Weak debt profile with large combined pension and OPEB liabilities--However, additional debt needs are currently limited.

Environmental, social, and governance

We have assessed environmental, social, and governance (ESG) factors relative to Lynnfield's economy, management, financial measures, and debt-and-liability profile; we view them all as neutral in our credit-rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Lynnfield's stable economic profile, strong management, and predictable operating profile. In our view, Lynnfield's reserve profile will likely continue to provide near-term flexibility and lend some stability to its overall credit profile. We think pension and OPEB costs will likely remain a budget pressure because we expect those costs will likely continue to increase, but we also think costs will likely remain manageable during the two-year outlook.

Downside scenario

We could lower the rating if Lynnfield were to face budgetary pressure, leading to a sustained draw on reserves.

Upside scenario

With all other factors remaining constant, we could raise the rating if Lynnfield were to continue to increase and maintain available reserves; if it were to implement stronger financial-management policies, including capital planning; and if it were to reduce retirement liabilities.

Lynnfield, Massachusetts--key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	193.7			
Market value per capita (\$)	362,604			
Population		12,972	12,684	12,777
County unemployment rate(%)		3.9		
Market value (\$000)	4,703,704	3,933,956		
10 leading taxpayers as a % of taxable value	9.4			
Strong budgetary performance				
Operating fund result as a % of expenditures		1.1	0.5	0.1
Total governmental fund result as a % of expenditures		2.1	2.2	1.3
Strong budgetary flexibility				
Available reserves as a % of operating expenditures		14.5	14.6	14.2
Total available reserves (\$000)		9,708	9,238	8,771
Very strong liquidity				
Total government cash % of governmental fund expenditures		18.3	20.4	19.3
Total government cash % of governmental fund debt service		335.8	446.5	397.5
Strong management				
Financial Management Assessment	Good			
Weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		5.4	4.6	4.9
Net direct debt as a % of governmental fund revenue	105.5			
Overall net debt as a % of market value	1.8			

Lynnfield, Massachusetts--key credit metrics (cont.)

	Most recent	--Historical information--		
		2022	2021	2020
Direct debt 10-year amortization (%)	21.5			
Required pension contribution as a % of governmental fund expenditures		4.1		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		3.2		

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
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- 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 January 18, 2024)

Lynnfield GO mun purp loan bnds		
Long Term Rating	AA+/Stable	Affirmed
Lynnfield GO sch bnds unltd tax		
Long Term Rating	AA+/Stable	Affirmed
Lynnfield GO BANs		
Short Term Rating	SP-1+	Affirmed

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