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Summary:

Auburn, Massachusetts; General Obligation; Note

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Credit Profile		
US$4.206 mil GO BANs ser 2016 dtd 09/15/2016 due 09/15/2017		
Short Term Rating	SP-1+	New
Auburn GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Town of Auburn, Mass.' general obligation (GO) bond anticipation notes. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's GO debt outstanding. The outlook is stable.

The 'SP-1+' short-term rating reflects our view that the town maintains a very strong capacity to pay principal and interest when the notes come due. Auburn has a low market risk profile because of its strong legal authority to issue long-term debt to take out the notes. In addition, it is a frequent issuer that regularly provides disclosure to market participants.

The notes are GOs of the town, for which it has pledged its full faith and credit. While still subject to the Proposition 2 1/2 levy ceiling, debt service on $3.6 million of the notes are exempted from the Proposition 2 1/2 levy limit based on a town vote.

The 'AA+' long-term rating reflects our assessment of the following factors, including its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" 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 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 22% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 29.2% of total governmental fund expenditures and 5.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.1% of expenditures and net direct debt that is 79.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 69.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Auburn's economy very strong. The town, with an estimated population of 16,358, is located in

Worcester County in the Worcester, MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 116% of the national level and per capita market value of $117,940. Overall, the town's market value grew by 2.6% over the past year to $1.9 billion in 2016. The county unemployment rate was 5.3% in 2015.

Auburn is bordered by Worcester and the towns of Millbury, Oxford, and Leicester. It is primarily residential, but maintains a stable commercial and industrial base that makes up roughly 26% of assessed value. Leading employers include RH White Construction Co. (300 employees); Imperial Distributors, a health and beauty supply distributor (250); and Life Care of Auburn, a nursing facility (200). Beginning in January, Imperial Distributors will begin moving its operations to a neighboring community.

The local economy is anchored by the Auburn Mall as well as the Auburn Industrial Park, which is home to 24 businesses with more than 390 employees. The mall has approximately 590,300 square feet of retail space with over 70 stores. Local officials report a high occupancy rate of the mall, despite the recent consolidation of Macy's and Macy's Home Stores. Simon Properties, which owns and operates the mall, has proposed two new restaurants and a medical office facility for the former Macy's Home Store space. We do not view Macy's consolidation as an immediate credit risk, as the mall represents only 3.45% of the tax levy and mall management has been proactive in finding new tenants. Beyond the mall, Auburn officials report improved vacancy rates throughout the town as well as several residential developments in the planning stages or underway.

Looking ahead, based on our regional credit conditions forecasts, we anticipate employment growth remaining modest through 2017, and unemployment improving only slightly. In our view, the regional and state economy will remain stable. Furthermore, recent data indicate that the region's median home prices are stable and improving in certain areas, and that housing starts remain positive. All these factors, we believe, are important because Auburn, along with other local governments in the region, largely look to property taxes to meet rising expenditures.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas.

Auburn maintains practices we believe are critical to supporting credit quality. The town regularly monitors revenue and expenditures, ensuring timely budget adjustments, and makes realistic budget assumptions based on current trends, with the goal of yielding positive operating results. Auburn has a five-year capital plan that looks at both facilities and infrastructure improvements, and a five-year budget forecast to help guide the effects of expenditure decisions from a long-term perspective. In addition, Auburn maintains reserve policies and a formal investment policy. The town's investment policies go beyond just state guidelines and holdings and performance are reviewed quarterly. Auburn does not have a debt management policy.

Strong budgetary performance

Auburn's budgetary performance is strong in our opinion. The town had slight operating surpluses of 1.4% of expenditures in the general fund and of 0.6% across all governmental funds in fiscal 2015. General fund operating results of the town have been stable over the last three years, with a result of 0.1% in 2014 and a result of 2.6% in 2013.

For analytical consistency, we have adjusted out any capital spent by bond proceeds across all governmental funds. The surplus in 2015 was the town's fourth consecutive audited surplus.

Auburn's strong financial performance stems from several factors. The town has been very conservative in its budgeting and has improved financial management policies, practices, and controls. Over the past few years, it has demonstrated commitment to strengthen its financial reserves and has been proactive with department heads to keep costs in line with the budget.

Town officials are expecting a similarly strong surplus in 2016 due to favorable local receipt collections and turnbacks from public safety as well as savings in health insurance.

State aid and local receipts have been stable. On the whole, property taxes comprise 65% of revenues and state aid accounts for 18.7%. Tax collections are strong and stable, with the town typically receiving 98% on a current basis. The 2017 general fund budget totals $61 million, a 5% increase over the previous year.

Very strong budgetary flexibility

Auburn's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 22% of operating expenditures, or $11.8 million. In addition, the town has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

Since 2011, the town has increased reserves due in large part to management's renewed focus on increasing budgetary flexibility. In addition to improving cash reserves in the general fund, Auburn has also built up an unused levy capacity of roughly $3.7 million, equivalent to 6.7% of expenditures. The unused levy capacity provides additional flexibility as the town can raise the levy without an operating override. Looking ahead, we anticipate reserves will remain at these levels as there are no plans to draw on them, and as we anticipate budgetary performance remaining stable. We note the town has established reserve policies that set a minimum reserve level for the stabilization and undesignated fund balance at 5% of general fund operating revenues. However, given the success in building reserves, town officials are considering revising the policy to set higher floors.

Very strong liquidity

In our opinion, Auburn's liquidity is very strong, with total government available cash at 23.0% of total governmental fund expenditures and 5.7x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

In our calculations, we have adjusted any restricted cash consisting of unspent bond proceeds and other restricted cash in nonmajor governmental funds.

The town has demonstrated strong market access by issuing GO bonds within the past several years. Therefore, we believe liquidity will remain very strong since there is no significant deterioration of cash balances planned or expected. Furthermore, we note Auburn does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. In addition, management is not aggressive in its use of investments.

Very strong debt and contingent liability profile

In our view, Auburn's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.1% of total governmental fund expenditures, and net direct debt is 79.2% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 69.8% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Our assessment of the town's debt profile has improved based on increasing market values, debt roll off and lower debt service levels. Including this issue, Auburn has roughly $49.7 million of total direct debt. Of that amount, $4.2 million includes the bond anticipation notes. Furthermore, we have adjusted out roughly $1.4 million of enterprise-related GO debt from our direct debt calculations. The GO-related sewer debt is based on three years of evidence that user charges have provided full coverage to support the outstanding obligations.

Auburn's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.2% of total governmental fund expenditures in 2015. Of that amount, 2.6% represented required contributions to pension obligations, and 1.6% represented OPEB payments. The town made its full annual required pension contribution in 2015.

Auburn participates in the Worcester Regional Retirement System and its estimated share of the system's pension liability is roughly $29 million. The unfunded OPEB liability totals $66.9 million. Favorably, the town established a pension reserve trust fund, which allows it to supplement funding of the unfunded pension liability and better manage cost increases. The pension reserve fund had a balance of $1.4 million in 2016. Furthermore, the town has established an OPEB trust fund and appropriated $500,000 into the fund in each of the last five years. As per its OPEB policy, management will continue to appropriate that amount in future budgets, and will make additional appropriations, beyond the $500,000, if operating results support it. The 2017 year-end balance in the trust will be $3 million.

Although Auburn's pension and OPEB costs are manageable, the Worcester Regional Retirement System funded status is weak. If pension and OPEB costs significantly increase as a percent of expenditures and there is no significant change to the funding status of the plan, we could negatively adjust this factor in the future to account for the large pension exposure. We acknowledge, however, that the town has been actively managing the effects of the costs on budgetary performance.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The outlook on the rating reflects Auburn's focus on maintaining a very strong fund balance. We believe the town's improved economic outlook, strong management, and rather predictable operating profile should translate into its maintaining balanced operations. Economic development has been steady, which should also aid in tax base stability, as well as provide additional future tax revenues. We therefore do not anticipate changing the rating over the two-year outlook horizon.

Upside scenario

Should the town's wealth and income indicators improve to levels comparable to higher-rated credits, coupled with a stronger management score, we could raise the rating.

Downside scenario

We could lower the rating if budgetary performance becomes imbalanced or if retirement costs pressure operating results, leading to a draw on reserves.