

RatingsDirect®

Summary:

Fitchburg, Massachusetts; General Obligation; Note

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Credit Profile

US\$3.8 mil GO bnd antic nts ser 2015 dtd 06/05/2015 due 06/24/2016

Short Term Rating SP-1+ New

Fitchburg GO BANs dtd 06/27/2014 due 06/26/2015

Short Term Rating SP-1+ Affirmed

Fitchburg GO

Unenhanced Rating A+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Fitchburg, Mass.' series 2015 general obligation (GO) bond anticipation notes (BANs), payable June 24, 2016.

At the same time, Standard & Poor's affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing GO debt.

The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Fitchburg maintains a very strong capacity to pay principal and interest when the BANs come due. The city also maintains, what we view as, 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.

The city's full-faith-and-credit pledge secures the bonds and BANs. We understand officials intend to use series 2015 BAN proceeds to fund various sewer projects and purchase departmental equipment.

The rating reflects our opinion of the following factors for Fitchburg, specifically its:

- Weak economy, with projected per capita effective buying income at 81.9% of the national level and market value per capita of \$51,918, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 10.3% of operating expenditures;
- Very strong liquidity, with total government available cash of 22.4% of total governmental fund expenditures and 6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 3.7% of expenditures and

net direct debt that is 18.1% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 74.2% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation; and

- Strong institutional framework score.

Weak economy

We consider Fitchburg's economy weak. The city, with an estimated population of 40,316, is located in Worcester County in the Worcester MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 81.9% of the national level and per capita market value of \$51,918. Overall, the city's market value grew by 1.3% over the past year to \$2.1 billion in 2015. The county unemployment rate was 6.2% in 2014.

Fitchburg is a primarily residential and industrial community located approximately 46 miles west of Boston and 25 miles north of Worcester. The city benefits from access to Worcester's business community, but it also has a local economy. Leading city employers include Fitchburg State University, Great Wolf Lodge (a resort and hotel), and Demoulas Supermarket. The city is home to several manufacturing firms, including Simonds Industries and Avery Dennison Mfg. Co.

Adequate management

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

Management presents monthly reports on budget-to-actual results to all department heads, the city council, and the mayor. The city maintains a five-year budget projection that it updates annually. Revenue and expenditure assumptions include some historical analysis, and they are generally conservative. Fitchburg's informal target is to build up and maintain 5% of budgeted expenditures in the stabilization fund. The city does not currently have any formal long-term capital planning or debt management policies.

Strong budgetary performance

Fitchburg's budgetary performance is strong, in our opinion. The city had balanced operating results in the general fund of 0.2% of expenditures, but a slight deficit result across all governmental funds of 0.6% of expenditures in fiscal 2014. General fund operating results of the city have been stable over the last three years, with a result of negative 1% in 2013 and a result of 2% in 2012.

With less than one month remaining in fiscal 2015, officials are projecting they will end fiscal 2015 with a slight deficit in the general fund due to higher-than-budgeted expenditures. This projection includes a roughly \$240,000 deficit in the snow-and-ice budget, approximately half of which officials expect Federal Emergency Management Agency funds to reimburse. The city has not yet adopted the fiscal 2016 budget; the mayor's proposed budget, however, totals \$108.7 million, a 2.4% increase over the fiscal 2015 budget.

Strong budgetary flexibility

Fitchburg's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 10.3% of operating expenditures, or \$12.4 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 10.2% of expenditures in 2013 and 10.4% in 2012.

Officials are currently projecting they will use roughly \$100,000 of fund balance at fiscal year-end 2015 due to higher-than-budgeted expenditures. We, however, do not believe this will have a material effect on the city's budgetary flexibility.

Very strong liquidity

In our opinion, Fitchburg's liquidity is very strong, with total government available cash of 22.4% of total governmental fund expenditures and 6x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We do not currently expect any deterioration in the city's cash levels. The city does not currently have any contingent liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events.

Very strong debt and contingent liability profile

In our view, Fitchburg's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.7% of total governmental fund expenditures, and net direct debt is 18.1% of total governmental fund revenue. Overall net debt is low at 1.3% of market value and approximately 74.2% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Officials currently intend to issue roughly \$25 million in additional debt within the next two years for airport and sewer projects, approximately \$23 million of which they expect to be self-supporting. Therefore, we do not expect this to change the city's debt profile materially.

In our opinion, Fitchburg's large pension and OPEB liability, without a plan in place that we think will sufficiently address the obligation, is a credit weakness. Fitchburg's combined pension and OPEB contribution was 11.1% of total governmental fund expenditures in fiscal 2015. Of that amount, 6.4% represented contributions to pension obligations and 4.6% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2015. The pension's funded ratio is 42%.

Fitchburg administers the Fitchburg Regional Retirement System. At Jan. 1, 2014, the unfunded actuarial accrued liability (UAAL) was \$193.7 million with just 42% funded, which we consider low. The city also offers OPEB to retirees. At Jan. 1, 2014, the OPEB UAAL was \$179 million, which was entirely unfunded. The city recently established an OPEB trust with an initial \$250,000 deposit; it is currently negotiating an OPEB redesign to lower the liability. We, however, do not believe this will sufficiently address the city's large liabilities.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of the city's consistent financial performance and strong reserves. We believe Fitchburg's access to the broad and diverse Worcester MSA provides additional rating stability. If budgetary performance were to deteriorate substantially, and if reserves were to diminish subsequently as a result, we could lower the rating. We could raise the rating over time if, all else being equal, management were able to mitigate

the effects of the pension and OPEB liabilities on Fitchburg; if management were to continue to build up reserves; and if management were to adopt more-formal financial management policies. We, however, do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

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

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