

RatingsDirect®

Summary:

Winchendon, Massachusetts; General Obligation

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Credit Profile

Winchendon st qual GO mun purp loan bnds ser 2015 dtd 11/16/2015 due 12/01/2032

<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its underlying rating to 'AA-' from 'A+' on Winchendon, Mass.' general obligation debt.
- The outlook is stable.
- The rating action reflects our view of the town's improved management and financial position.

Security

The bonds are general obligations of the town. The MA qualified program provides additional security for the 2015 bonds.

Credit overview

Winchendon is a small residential community with a limited, but stable, local economy. The town's conservative and prudent approach to budgeting has supported positive financial results during the past few years, which has in turn driven growth in the town's reserves. Winchendon has low debt and some pressure from retirement liabilities.

The long-term rating also reflects our view of the town's:

- Residential economy that benefits from participation in the Worcester metropolitan statistical area (MSA);
- Strong reserves that have been steadily improved through balanced operations;
- Good financial management policies and practices and a strong institutional framework score; and
- Manageable debt service costs, with some plans for additional debt and elevated pension and other postemployment benefit (OPEB) liabilities.

Environmental, social, and governance

We assessed the town's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile. We view them as neutral within our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view the town will likely maintain balanced operations and very strong available reserves, supported by conservative budgeting and a stable tax base. Winchendon's limited long-term

liabilities and fixed costs, which we do not think will likely cause significant budget pressure, further support the stable outlook.

Downside scenario

We could lower the rating if the town's financial performance were to deteriorate, leading to a sustained draw on reserves without a plan to restore.

Upside scenario

We could raise the rating if the town's economic metrics were to improve and if sustained financial performance were to lead to a continued increase in reserves.

Credit Opinion

Stable residential tax base, with participation in broad and diverse MSA

Winchendon is a primarily residential community of about 10,700 located on Massachusetts' border with New Hampshire. The nearby U.S. route 202 provides access to state route 2, which in turn provides access to the I-190 and I-91. Winchendon participates in the Worcester MSA, which we consider to be broad and diverse. The town benefits from regional employment opportunities in Worcester and some residents commute there for work. Recent developments in the town include a CVS, a Walgreens, and a Cumberland Farms convenience store downtown. The town has also seen a slight uptick in residential development that has led to an increase in market value of more than 14% over the last three years.

Consistent financial performance supporting strong reserves

Winchendon has produced strong operating results in each of the last three fiscal years. Management attributed the town's 2021 surplus to strong property tax revenues providing stability through the year, especially since school transportation costs resulted in some unexpected expenditures. Winchendon has been allocated about \$3.2 million in American Rescue Plan Act (ARPA) funds and has spent a portion of it on water and sewer infrastructure improvements. The town expects to use the remaining appropriation for other capital needs over the next couple of years. The 2021 results drove a further increase in reserves, and the town had no immediate plans to draw down.

The town's 2022 budget totaled \$34.5 million, a 3% increase over the prior year. According to management, wastewater and chemical costs were the only expense items that deviated from the budget, and these costs were addressed with free cash at last fall's special town meeting. All major revenues generated higher than budgeted, including cannabis revenues the town started to receive in January 2022. Management estimates that final 2022 results will show a surplus of approximately \$1 million.

The 2023 budget accounted for increased utility expenditures and a \$1 million increase in the town's obligation for the education budget. To help meet this, the town identified about \$250,000 in savings elsewhere in the budget, including the consolidation of maintenance budgets across the fire, police, and public works departments.

Winchendon does not have any contingent liquidity risk from financial instruments with payment provisions that change upon certain circumstances.

Adherence to adopted financial management policies and practices

We have changed our assessment of the town's management under our Financial Management Assessment from standard to good, reflecting adoption of and adherence to additional policies and practices. The town hired a new town manager and treasurer within the last 18 months, and these policies have provided a stable environment through the transition. In developing the town's budget, management makes conservative revenue and expenditure assumptions, incorporates known items such as contractual increases, and assumes more significant increases on items such as health insurance, fuel, and energy costs, which can be more volatile. Management regularly monitors budgetary performance and reports monthly to the board of selectmen, with a focus on highlighting deviations relative to the budget. The town maintains a five-year budget forecast and devotes a meeting during the annual budget process to updating that forecast. Additionally, it maintains a long-term capital plan that includes recommended funding sources and is updated annually by a capital committee. Winchendon adheres to an investment policy that complies with state statute and the status of the town's investment is reported regularly to the board. The town's debt policy places restrictions on the term of long-term debt, limits debt service to 10% of general fund revenues, and stipulates that 50% of outstanding debt should be paid within 10 years. The adopted reserve policy stipulates that the town's reserves, including free cash and stabilization, should be maintained at more than 5% and less than 15% of general fund revenues.

The institutional framework score for Massachusetts municipalities is strong.

Low debt with limited additional capital needs

Winchendon has approximately \$5 million in direct debt outstanding. The town will be seeking approval at the fall special town meeting for authorization to borrow approximately \$10 million through the Massachusetts Clean Water Trust for installation of a water line from a neighboring community. If this debt is approved, the first payments will not be until 2025. Additionally, the town will be pursuing the construction of a new fire department headquarters, though the timeline and amount of borrowing for that project is still to be determined.

Pension and OPEB

We do not view the town's pension and OPEB liabilities as a financial or credit pressure at the moment; however, the discount rate of the Worcester Regional Retirement System (7.5%) is in our opinion higher than average and risks volatility and contribution escalation in the future.

Although OPEB is paid on a pay-as-you-go basis, costs remain manageable. However, with the current liability more than 1x the operating budget, we expect that costs will increase.

As of June 30, 2021, the town participated in the following plans:

- Worcester Regional Retirement System defined-benefit plan: 50.3% funded, \$22.5 million net pension liability.
- Other postemployment benefits plan: 0.00% funded, paid on a pay-go basis, \$23.3 million net OPEB liability.

We believe the plan's discount rate is high and could lead to volatile contributions if funding assumptions are not met. In fiscal 2021, the plan's contributions did not meet our static funding or minimum funding calculations, indicating that the plan's contributions in fiscal 2021 did not make inroads in reducing the liability. For more on our view of the state's pension plans and recent reforms, see Pension Spotlight: Massachusetts, published Oct. 14, 2020, on RatingsDirect.

While we view the costs as currently manageable, given the size of the total pension and OPEB liability relative to the town's budget, along with what we view as aggressive pension funding assumptions, we believe costs could escalate and become budgetary pressures. If the pension plan is unable to meet its funding schedule, or if rising costs begin to pressure the operating budget, we could revise our view of the town's plan to address this liability.

Winchendon, Mass.: Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Adequate economy				
Projected per capita EBI % of U.S.	91.3			
Market value per capita (\$)	77,750			
Population	10,732	10,764	10,735	
County unemployment rate (%)	5.9			
Market value (\$000)	834,413	834,413	776,819	
Ten largest taxpayers % of taxable value	3.1			
Strong budgetary performance				
Operating fund result % of expenditures	4.6	1.3	1.8	
Total governmental fund result % of expenditures	8.8	7.6	6.5	
Strong budgetary flexibility				
Available reserves % of operating expenditures	14.8	11.1	10.2	
Total available reserves (\$000)	4,813	3,688	3,206	
Very strong liquidity				
Total government cash % of governmental fund expenditures	33.9	25.6	19.4	
Total government cash % of governmental fund debt service	2,569.4	1,591.0	672.2	
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures	1.3	1.6	2.9	
Net direct debt % of governmental fund revenue	12.6			
Overall net debt % of market value	0.6			
Direct debt 10-year amortization (%)	80.3			
Required pension contribution % of governmental fund expenditures	4.6			
OPEB actual contribution % of governmental fund expenditures	2.5			
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2,

2022

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