

Westminster, Massachusetts; General Obligation

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Credit Profile		
US\$1.775 mil GO wtr bnds ser 2024 dtd 02/21/2024 due 02/15/2034		
Long Term Rating	AAA/Stable	New
Westminster GO		
Long Term Rating	AAA/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating on Westminster, Mass' general obligation (GO) debt by one notch to 'AAA' from 'AA+'.
- S&P Global Ratings also assigned its 'AAA' rating to Westminster, Mass' \$1.775 million series 2024 GO water bonds.
- The outlook is stable.
- The upgrade reflects the town's substantial buildup in reserves to 99% of expenses, along with its extremely low debt burden and proactive approach to managing its retirement liabilities.

Security

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. While the town has previously exempted a portion of its debt from property tax limitations, we do not make a rating distinction between the town's limited-tax pledge and its general creditworthiness as expressed in the GO rating based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect.

Bond proceeds will retire existing notes maturing in February 2024 that financed water tank replacement.

Credit overview

Westminster's credit profile is supported by its consistently positive financial performance that has supported an eight-year build up in reserves, which have increased more than 3x nominally since fiscal 2015, along with a track record of proactive management as demonstrated by its commitment to addressing retirement liabilities while the pension plan works towards full-funding status. In addition, its very low debt burden and ability to address capital needs on a pay-go basis provides further flexibility. The town's local economy is primarily residential and has seen significant increases in market values, consistent with state peers; although its wealth and income metrics are somewhat below 'AAA' state peers, we believe prospects for growth and access to regional employment areas contribute to economic stability.

The rating also reflects our view of Westminster's:

- Primarily residential local economy (89% of assessed value) with access to the broader Worcester region that supports stable income metrics and growing assessed values;
- Ten-year trend of positive financial performance leading to a substantial build-up in reserves averaging 100% of

expenses;

- Well-embedded financial policies and practices with an emphasis on long-term planning, coupled with a strong institutional framework score; and
- Very low and manageable debt burden with limited additional capital needs. While pension plan funding levels remain poor, the town's associated costs are low and it has established a pension trust fund (\$7.5 million balance as of fiscal 2023) to begin pre-funding the liability.

Environmental, social, and governance

We have assessed environmental, social, and governance factors relative to Westminster's economy, management, financial measures, and debt-and-liability profile and view all as neutral in our credit-rating analysis. Westminster did not experience material localized flooding from recent severe rainstorms.

Outlook

The stable outlook reflects our view of Westminster's steady financial profile, including robust reserve levels and excess levy capacity, which provides significant flexibility to address its retirement obligations or respond to other potential budgetary pressures.

Downside scenario

Although unlikely, we could consider a negative rating action if budgetary performance were to weaken, leading to material and consecutive decreases in available reserves.

Credit Opinion

Stable local economy with annually growing market values

Westminster is about 24 miles north of Worcester, connecting it to employment opportunities in the city and throughout the broader Worcester regional economy. The town's top taxpayers include a mix of commercial, warehousing and manufacturing; Wachusett Mountain Ski Area 's base lodge is located within town limits and serves as the fourth largest taxpayer and principal employer (which is more seasonal in nature). Westminster has seen 35% growth in assessed value over the past five years, which can primarily be attributed to a hot real estate market and home price appreciation.

Robust financial profile

Westminster's revenue profile is very stable, with property tax the primary revenue source (77% of general fund revenue). The town has produced surpluses for eight consecutive fiscal years, including in fiscal 2023 as various revenue sources (property tax, excise tax and landfill host fees) exceeded budgeted figures and town departments returned almost \$2 million in unexpended appropriations. Fiscal 2024 year-to-date performance has been positive with the town currently projecting a \$2 million positive revenue variance; therefore we expect performance to remain stable in line with its long-term trend. Additionally, while the town was previously planning for its landfill closure and potential reserve draws, it actually offset loss of landfill revenue sharing with increased property tax revenue while simultaneously lowering the tax rate over the last five years.

The long history of surpluses has led to robust growth in reserves, increasing to \$25.5 million in fiscal 2023 from \$7.5 million in fiscal 2015; the town has also increased its unused levy capacity to \$4 million as of fiscal 2023, which provides ample flexibility to address unforeseen circumstances or long-term obligations as necessary.

Emphasis on long-term planning supports management practices

Westminster has maintained long-standing financial management policies and practices, and most recently adopted a full suite of policies in November 2023.

Highlights include:

- Conservative assumptions with a five-year historical trend analysis when developing the budget and monthly budget-to-actual reporting provided to the town board.
- Forward-looking and comprehensive five-year forecasting and capital improvement plans that are updated annually as part of the budget process.
- Formal investment policy with semi-annual reports on holdings and performance to the board.
- Formal debt management policy that follows commonwealth guidelines.
- A formal reserve policy requiring maintenance of total reserves at minimum 20% of general fund expenditures and general stabilization minimum 10% of prior year's budget. The town also maintains additional stabilization accounts with established funding mechanisms and priority.

Overall low debt burden with manageable costs and limited capital needs

Westminster will have \$5 million in outstanding debt following this issuance, inclusive of \$1.9 million in direct placements with state and federal entities. The town has no additional new-money debt plans over the outlook horizon as it typically funds capital needs on a pay-go basis in its budget. We expect the town's debt profile will remain low with very manageable costs.

Pension and other postemployment benefits (OPEB) liabilities are still substantial, though the town is taking steps to address it

Westminster's pension and OPEB obligations continue to be a credit weakness given the Worcester Regional Retirement System's low funded ratio combined with the town's \$6 million OPEB liability. However, the town has taken a more proactive approach by establishing a pension stabilization fund in fiscal 2021 (current balance of \$7.5 million) as a mechanism to begin addressing the liability and intends to continue adding to the stabilization fund until the balance equals 100% of its pension liability. The pension plan is scheduled to reach full funding in 2036, at which point the town intends to redirect pension assessment savings toward funding its OPEB liability.

Westminster participated in the following plans as of June 30, 2023:

- Worcester Regional Retirement System: 48% funded, with a \$14.5 million proportionate share of the net pension liability.
- A single-employer defined-benefit health care plan for retirees: 5% funded, with a \$6.6 million net OPEB liability.

Rating Above the Sovereign

We rate Westminster higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. (For more information, see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013)

Westminster, Massachusetts--key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	124	124	121	
Market value per capita (\$)	203,453	154,805	146,240	
Population		8,040	7,813	
County unemployment rate(%)		3.9		
Market value (\$000)	1,635,762	1,480,112	1,244,636	
Ten largest taxpayers % of taxable value	3.9			
Strong budgetary performance				
Operating fund result % of expenditures		0.5	8.1	6.2
Total governmental fund result % of expenditures		1.7	7.8	8.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		99.0	102.4	92.7
Total available reserves (\$000)		25,518	24,684	23,391
Very strong liquidity				
Total government cash % of governmental fund expenditures		59	66	63
Total government cash % of governmental fund debt service		6497	6870	6168
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		0.9	1.0	1.0
Net direct debt % of governmental fund revenue	12			
Overall net debt % of market value	0.3			
Direct debt 10-year amortization (%)	71			
Required pension contribution % of governmental fund expenditures		4.1		
OPEB actual contribution % of governmental fund expenditures		1.1		

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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