




Office of the Treasurer & Collector of Taxes

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Phyllis L. Marshall
Treasurer & Collector of Taxes

Memorandum

Date: February 3, 2022
To: Stephen W. DeCoursey, Select Board Chair
From: Phyllis L. Marshall, Treasurer – Collector 
Subject: \$82,445,000 General Obligation Municipal Purpose Loan of Bond

The \$82,445,000 bond for sale February 3, 2022 generated seven competitive bids for 30 year bond issue. J. P. Morgan Securities LLC was the winning bidder at a net interest rate of 2.416%.

The issue includes \$75 million exempt debt for the High School project, \$11.2 million for the construction of the DPW Municipal facility as well as various projects town-wide for Capital Improvement.

Attached is a copy of the S&P Global Rating affirming our long-term rating of 'AAA' and stable outlook issued in advance of the sale today.

Proceeds for financing Capital fund recommendations by the Capital Planning Committee in the Report to Town Meeting of 2021 as voted.

I respectfully request your favorable consideration and vote for sale of these bonds that will close on February 24, 2022 as well as the maximum useful life of the departmental equipment as represented in the attached Vote of the Select Board.

Attachments

Cc: Adam Chapdelaine, Town Manager
Sandy Pooler, Deputy Town Manager

RatingsDirect®

Summary:

Arlington, Massachusetts; General Obligation

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US\$86.99 mil GO municipal purp loan ser 2022 due 10/15/2051

Long Term Rating

AAA/Stable

New

Arlington GO

Long Term Rating

AAA/Stable

Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the Town of Arlington, Mass.' \$86.99 million series 2022 general obligation (GO) municipal purpose loan. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO bonds. The outlook on all ratings is stable.

The series 2022 bonds and parity GO bonds are secured by the town's full faith and credit, subject to Proposition 2 1/2 limitations. We rate the limited-tax GO debt on par with our view of Arlington's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource-fungibility limitations supporting our view of the town's overall ability and willingness to pay debt service. Series 2022 bond proceeds will be used to finance various capital improvements throughout the town including high school and Department of Public Works (DPW) building improvements.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Arlington higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario due to its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2021, local property taxes generated 71% of general fund revenue, demonstrating a lack of dependence on central government revenue.

Credit overview

The rating reflects our opinion of Arlington's extremely strong tax base, which continues to grow within the Boston metropolitan statistical area (MSA). In addition, while the town intentionally used a portion of reserves during fiscal 2021 and plans to spend down override levy reserves during the next two years, we anticipate Arlington will maintain a very strong level of reserves and remain structurally balanced. The town's primary revenue streams are relatively stable, with property taxes making up the majority of revenue and, due to the COVID-19 pandemic, the town has pulled back assumptions for more sensitive revenue streams such as meals and hotel taxes for the 2021 budget for which actual revenues outpaced assumptions. The town's debt is manageable, in our view, with significant debt plans for a new high school. In our opinion, long-term liabilities will likely remain a credit risk due to low funded pensions and other postemployment benefits (OPEB). However, we expect Arlington's favorable tax rate, very strong budgetary flexibility with additional support from a taxpayer-approved operating override of the commonwealth levy limit, very

strong economy, and conservative budgeting somewhat mitigate long-term liability risk.

Additional rating factors include our opinion of Arlington's:

- Steady tax base growth coupled with very strong wealth and income indicators;
- Very strong reserves despite planned use of stabilization funds in the near term;
- Well embedded practices and policies in place coupled with a strong institutional framework; and
- Elevated fixed costs, with additional debt plans ahead, coupled with plans to shore up underfunded long-term liabilities by 2035.

Environmental, social, and governance

We analyzed Arlington's environmental, social, and governance risks relative to the town's economy, management, financial measures, and debt and liability profile. The town has some exposure to environmental risks such as flooding and severe weather events; however, we view Arlington's exposure as in line with the sector standard. The town's most prevalent environmental risk is flooding because the town is bordered or crossed by three waterways, the upper Mystic River, Mill Brook, and Alewife Brook. In addition, groundwater sourced flooding of basements is common in different areas of the town. The 2020 hazard mitigation plan includes a goal to implement climate adaptation and resiliency solutions. Arlington approved its updated five-year hazard mitigation plan in 2020, which includes identified risks, targeted projects with funding sources, and time frame targets to address them. In addition, the town has drafted its 2050 net zero greenhouse gas pollution plan.

We consider the town's social and governance risks in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating should the town's fixed costs (both debt service and pension and OPEB) rise to a level such that budgetary performance or flexibility weakens materially given Arlington's plans for additional debt needs combined with an intent to shore up funding for long-term liabilities by 2035.

Credit Opinion

Primarily residential tax base with extremely strong wealth indicators

Arlington is a wealthy, primarily residential community about seven miles north of Boston. Its favorable location in the Boston-Cambridge-Newton MSA contributes to the area's desirability. The town continues to experience modest assessed value growth of 1%-3% in recent years compared with previous years, averaging a 9% annual growth rate from 2016 to 2020. The tax base is diverse and stable in part due to the composition which is about 94% residential and 4% commercial property. Building permit activity in 2021 kept pace with 2018 and 2019 building activity after dipping slightly in 2020. We anticipate the tax base will grow at a similar rate in the next two years. Over the past two decades overall population has decreased by nearly 6% but has remained relatively stable in the past three years.

Well-embedded and formalized practices and policies in place

Arlington creates its annual budget based on a multiyear analysis and intentionally conservative revenue and expenditure assumptions; this typically yields positive operating results. Management monitors the budget monthly to identify and address any intra-year budget variances with formal quarterly reports to the finance committee. Arlington appoints oversight committees under its town charter that serve as checks and balances, including a finance committee and three trust commissions--the boards of library trustees, trust fund commissioners, and cemetery--each of which continually reviews the performance of town funds.

The town's long-term financial plan is updated annually and used as a planning tool to identify future budget gaps and identify the need for potential overrides. Arlington also annually maintains a comprehensive five-year capital improvement program that identifies capital projects and funding. Its formal investment-management policy calls for regular holdings-and-earnings reports to the finance committee. Arlington's maintains a basic debt management policy but lacks quantitative restrictions. The town's reserve policy mandates a minimum unassigned general fund balance at 5% of expenditures. Arlington has several protective measures in place to prepare, respond, and recover against cybersecurity risks.

Adequate budgetary performance and maintenance of very strong reserves despite plans to spend down dedicated override levy funds in the near term

We adjusted general fund results to account for recurring transfers into nonmajor governmental funds and the water and sewer enterprise fund from the general fund. We also adjusted total governmental-fund results to account for capital fund expenditures using previously received bond proceeds. Property taxes generated 71% of fiscal 2021 general fund revenue while intergovernmental aid accounted for 12%, which we view as a relatively stable revenue mix. The fiscal 2021 budget assumed 3.5% growth in property taxes, an 89% decline in hotel and meals tax revenues due to the COVID-19 pandemic, and 6.0% decline in state aid revenue. Actual revenues outperformed budget assumptions with property taxes, motor vehicle excise taxes, hotel and motel taxes, and meal taxes trending \$1.2 million above budget. Charges for services came in \$2.4 million lower than the previous year due to pandemic shutdowns that took place starting in March 2020, reduction in school programs, and fewer town hall rental receipts. The town experienced a \$2.1 million decline in reserves and the fiscal 2021 budget included \$5.9 million in free cash and \$2.0 million in override stabilization funds.

The town was awarded \$35 million in American Rescue Plan Act funds during fiscal 2021; however, expenses were not encumbered during the fiscal year. Preliminarily the town plans to use about \$10 million for revenue loss and the remaining \$25 million will fund equity outreach, business and non-profit financial assistance, food security, various capital improvements, affordable housing, and homelessness prevention investments.

Management indicates budget-to-actual results are on target, and it does not currently expect any negative financial performance by fiscal year-end 2022 beyond the budgeted use of \$5.7 million free cash and \$6.2 million in override stabilization funds. Due to our view of Arlington's stable revenue profile, very strong collections at more than 99%, and active management with strong budgetary oversight, we expect budgetary performance will likely remain structurally balanced throughout the two-year outlook period.

The town has maintained very strong budgetary flexibility in the past three fiscal years. We anticipate Arlington will

maintain very strong reserves despite intentions to spend down a portion of reserves in the near term due to historically conservative budget assumptions and positive budget to actual variances. The town also approved an operating override of the commonwealth levy limit from year to year as needed which we think provides additional flexibility and strong voter support. The town's last levy override was in fiscal 2020 for \$5.5 million and the town estimates the potential need for another override in 2024. Therefore, we expect budgetary flexibility will likely remain very strong. While the town's policy is to maintain a minimum available fund balance equivalent to 5% of the annual operating budget, reserves have remained well in excess of this level, and we do not anticipate any material deterioration in reserves in the near term.

In our view, the town has strong access to external liquidity if necessary, as a regular market participant that has issued debt frequently over the past several years. Arlington has no variable-rate or direct-purchase debt, and investments are limited to highly liquid, conservative investment vehicles. We expect the liquidity profile will remain very strong.

Slow amortization coupled with and high combined fixed costs

Following this issuance, Arlington has about \$320.6 million in total direct debt. The town's capital plan has identified the need for a total \$49.5 million in capital investments through 2026 and the town has approximately \$98 million in authorized but unissued debt remaining for school, DPW facility improvements, water, sewer, and various other improvements. Officials currently expect to issue \$11.5 million to complete the DPW facility, an additional \$5 million in improvements and equipment, and \$100 million for Arlington High School through 2024. We believe this debt will likely remain affordable due to the town's wealthy tax base and that it will not materially affect finances due to its commonwealth levy limit exclusion. However, if increased debt service were to pressure financial performance, we could lower the rating.

We currently adjust for minimal enterprise revenue self-support from the town's tax supported enterprise revenue debt obligations as the funds do not maintain full coverage of debt service for the three prior fiscal years without general fund transfers which support operations and debt service costs. We believe the water sewer fund coverage and self-support might improve during the next two fiscal years subsequent recent increases in water and sewer rates in 2020 and 2021, coupled with an intent to rely less on general fund support in the future.

Pension and OPEB highlights

In our opinion, a credit weakness is Arlington's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. The town's combined required pension and actual OPEB contributions totaled 10.4% of total governmental fund expenditures in 2021. Of that amount, 6.7% represented required contributions to pension obligations, and 3.7% represented OPEB payments. Arlington made 100% of its annual required pension contribution in 2021. The funded ratio of the largest pension plan is 60.8%. While the town is managing these costs, we think pension and OPEB liabilities will likely remain a long-term credit concern due to lower funding and our expectation that costs will likely increase.

Because the town's actuarially determined pension contribution reflects what we view as weak assumptions and methodologies, we believe the risk of unexpected contribution escalations will likely increase. However, we expect higher contributions will likely remain affordable, at least during the next few fiscal years, due to the strength of the

town's revenue base, very strong reserves, and conservative budgeting.

Arlington funds OPEB on a pay-as-you-go basis, which, due to claims volatility and medical cost and demographic trends, is likely to lead to escalating costs. Management, however, also contributes to an OPEB trust fund, which has a current balance of \$21.2 million for fiscal 2021, according to the audit.

As of the June 30, 2021, audit the town participates in:

- Arlington Contributory Retirement System, which is 60.8% funded with a proportionate share of the town's net pension liability at \$118.4 million; and
- Arlington's defined-benefit, postretirement health care plan, which is 6.3% funded, with an OPEB liability of about \$243.2 million.

The Arlington Contributory Retirement System is currently on track for full funding by 2035, five years ahead of the commonwealth-mandated deadline of 2040. We attribute this low funding to numerous years of underfunding, aggressive assumptions, and weak market performance. Currently, the plan assumptions are meeting static funding progress but not minimum funding progress. While the town is currently managing these elevated costs with a structurally balanced budget, we speculate it has a limited ability to control pension-liability growth.

Management's OPEB policy is to contribute about \$1 million annually toward the trust. Arlington has maintained a very strong financial position and at least adequate performance during the past three fiscal years despite these elevated fixed costs. In addition, management's willingness and ability to support very strong budgetary flexibility and approve the commonwealth levy limit operating override, coupled with very strong economic indicators and strong management, will likely help Arlington withstand notable retirement cost increases during the next few fiscal years. In our opinion, however, these costs will likely create long-term budgetary pressure, potentially weakening budgetary performance and reserves.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Arlington, Mass.--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	208.7			
Market value per capita (\$)	268,411.2			
Population (no.)		46,635	45,557	45,368
County unemployment rate(%)			7.3	
Market value (\$000)	12,517,358	12,186,905	12,056,976	
Ten largest taxpayers % of taxable value	3.4			
Adequate budgetary performance				
Operating fund result % of expenditures		(1.5)	2.8	0.6
Total governmental fund result % of expenditures		17.2	41.3	0.5
Very strong budgetary flexibility				

Arlington, Mass.--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Available reserves % of operating expenditures		26.4	30.1	29.3
Total available reserves (\$000)		51,686	54,548	49,930
Very strong liquidity				
Total government cash % of governmental fund expenditures		43.1	52.9	36.3
Total government cash % of governmental fund debt service		632.4	702.1	610.3
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.8	7.5	5.9
Net direct debt % of governmental fund revenue	150.8			
Overall net debt % of market value	2.9			
Direct debt 10-year amortization (%)	35.0			
Required pension contribution % of governmental fund expenditures		6.7		
OPEB actual contribution % of governmental fund expenditures		3.7		
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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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VOTE OF THE SELECT BOARD

I, the Clerk of the Select Board of the Town of Arlington, Massachusetts (the "Town"), certify that at a meeting of the board held February 7, 2022, of which meeting all members of the board were duly notified and at which a quorum was present, the following votes were unanimously passed, all of which appear upon the official record of the board in my custody:

Voted: that the maximum useful life of the GVW Dump Truck, to be financed with the proceeds of the \$140,000 borrowing authorized by the vote of the Town passed May 17, 2021 (Article 56, Item 2) is hereby determined pursuant to G.L. c.44, §7(1) to be 7 years.

Further Voted: that the sale of the \$82,445,000 General Obligation Municipal Purpose Loan of 2022 Bonds of the Town dated February 24, 2022 (the "Bonds") to J.P. Morgan LLC at the price of \$87,214,963.65 and accrued interest is hereby approved and confirmed. The Bonds shall be payable on October 15 of the years and in the principal amounts and bear interest at the respective rates, as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
2022	\$1,070,000	5.00%	2037	\$2,805,000	2.125%
2023	1,485,000	5.00	2038	2,865,000	2.25
2024	1,770,000	5.00	2039	2,935,000	3.00
2025	1,845,000	5.00	2040	3,015,000	3.00
2026	1,930,000	5.00	2041	3,100,000	3.00
2027	2,015,000	5.00	2042	3,180,000	3.00
2028	2,100,000	5.00	2043	3,265,000	2.50
2029	2,200,000	5.00	2044	3,340,000	2.50
2030	2,300,000	5.00	2045	3,420,000	2.50
2031	2,390,000	4.00	2046	3,500,000	2.50
2032	2,475,000	4.00	2047	3,585,000	2.50
2033	2,555,000	3.00	2048	3,670,000	2.50
2034	2,625,000	3.00	2049	3,755,000	2.50
2035	2,700,000	3.00	2050	3,845,000	2.50
2036	2,765,000	2.125	2051	3,940,000	2.75

Further Voted: that in connection with the marketing and sale of the Bonds, the preparation and distribution of a Notice of Sale and Preliminary Official Statement dated January 25, 2022 and a final Official Statement dated February 3, 2022, each in such form as may be approved by the Town Treasurer, be and hereby are ratified, confirmed, approved and adopted.

Further Voted: that the Town Treasurer and the Select Board be, and hereby are, authorized to execute and deliver a continuing disclosure undertaking in compliance with SEC Rule 15c2-12 in such form as may be approved by bond counsel to the Town, which undertaking shall be incorporated by reference in the Bonds for the benefit of the holders of the Bonds from time to time.

Further Voted: that we authorize and direct the Town Treasurer to establish post issuance federal tax compliance procedures and continuing disclosure procedures in such forms as the Town Treasurer and bond counsel deem sufficient, or if such procedures are currently in place, to review and update said procedures, in order to monitor and maintain the tax-exempt status of the Bonds and to comply with relevant securities laws.

Further Voted: that any certificates or documents relating to the Bonds (collectively, the "Documents"), may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document; delivery of an executed counterpart of a signature page to a Document by electronic mail in a ".pdf" file or by other electronic transmission shall be as effective as delivery of a manually executed counterpart signature page to such Document; and electronic signatures on any of the Documents shall be deemed original signatures for the purposes of the Documents and all matters relating thereto, having the same legal effect as original signatures.

Further Voted: that each member of the Select Board, the Town Clerk and the Town Treasurer be and hereby are, authorized to take any and all such actions, and execute and deliver such certificates, receipts or other documents as may be determined by them, or any of them, to be necessary or convenient to carry into effect the provisions of the foregoing votes.

I further certify that the votes were taken at a meeting open to the public, that no vote was taken by secret ballot, that a notice stating the place, date, time and agenda for the meeting (which agenda included the adoption of the above votes) was filed with the Town Clerk and a copy thereof posted in a manner conspicuously visible to the public at all hours in or on the municipal building that the office of the Town Clerk is located or, if applicable, in accordance with an alternative method of notice prescribed or approved by the Attorney General as set forth in 940 CMR 29.03(2)(b), at least 48 hours, not including Saturdays, Sundays and legal holidays, prior to the time of the meeting and remained so posted at the time of the meeting, that no deliberations or decision in connection with the sale of the Bonds were taken in executive session, all in accordance with G.L. c.30A, §§18-25, as amended.

Dated: February 7, 2022

Clerk of the Select Board