S&P Global Ratings

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Summary:

Arlington, Massachusetts; General Obligation

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Credit Profile		
US$18.09 mil GO muni purp loan ser 2023 due 12/01/2053		
Long Term Rating	AAA/Stable	New
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Arlington, Mass.' roughly $18.09 million series 2023 general obligation (GO) municipal-purpose loan bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt.
- The outlook is stable.

Security

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the series 2023 bonds and GO debt outstanding. 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.

Officials plan to use series 2023 bond proceeds to fund various capital projects, including the construction of the new high school and department of public works) garage, and finance takeout bond anticipation notes for the department of public works facility.

Credit overview

The rating reflects our opinion of Arlington's extremely strong tax base, which continues to see residential and mixed-use development and could benefit from the town's adoption of expanded multifamily zoning. The diverse and stable tax base is about 94% residential and 4% commercial properties. While the town intentionally used a portion of override levy reserves during the past several fiscal years, we expect Arlington will likely maintain very strong reserves and remain, at least, structurally balanced. As part of its long-term financial plan, the town recently approved another override, which will support budgetary needs and provide further growth of override reserves during the next few fiscal years.

Arlington reports surplus results again in fiscal 2023 with about $3.7 million of expenditure savings due to conservative budgeting and some position vacancies and $6.3 million of excess revenue, which is due mostly to continued property and other tax collection strength. The adopted, balanced fiscal 2024, $201 million budget is a 4.4% increase over fiscal 2023, including a $588,575 appropriation of override-stabilization funds, a standard practice for the town. Management reports the budget is performing as expected to date. It, however, expects budget pressure from benefit and retirement liability costs. We expect the town's history of revenue-raising flexibility will likely support consistent budgetary performance.

Arlington funds other postemployment benefits (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 $19 million balance as of fiscal 2022. The town's policy is to contribute about $805,000 annually toward the OPEB trust. While Arlington is currently managing elevated costs with a structurally balanced budget, we think it has a limited ability to control pension-liability growth.

As of the June 30, 2022, audit, Arlington participates in:

- Arlington Contributory Retirement System, which is 70.4% funded, with a proportionate share of the town's net pension liability at $91.3 million; and
- Arlington's defined-benefit, postretirement, health-care plan, which is 9% funded, with an OPEB liability of about $191.3 million.

Additional rating factors include our opinion of Arlington's:

- Steady tax base growth, coupled with very strong wealth and income and participation in the Boston metropolitan statistical area, which we consider broad and diverse;
- Very strong reserves despite a planned and recent use of override stabilization funds, which we expect will likely continue;
- Strong management with good and well-embedded financial-management policies, practices under our Financial Management Assessment (FMA) methodology--highlighted by its formal, five-year, long-term financial and capital-improvement plans and formal reserve policy--and strong Institutional Framework score; and
- Weak debt profile with about $312 million of debt outstanding, which we think remains manageable with plans for some additional borrowing to complete the high-school project and support the town's capital plan and pension and OPEB liabilities with, what we view as, weak assumptions and methodologies, which could lead to contribution-escalation risk.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) factors relative to Arlington's economy, budgetary outcomes, management, and debt-and-liability profile; we view them all as neutral in our credit analysis. The town's most-prevalent physical risk is flooding because it borders or crosses three waterways: the upper Mystic River, Mill Brook, and Alewife Brook. Arlington approved its updated five-year hazard-mitigation plan in 2020, including identified risk, targeted projects with funding sources, and time-frame targets to address them. In addition, the town has drafted a 2050 net-zero greenhouse-gas-emission plan.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Arlington will likely maintain very strong reserves through, at least, balanced operations and that conservative budgeting, levy flexibility, and tax base support will likely allow Arlington to manage fixed costs and liabilities.

Downside scenario

We could lower the rating if fixed costs were to increase to levels such that budgetary performance or flexibility were to weaken materially.

Ratings above the sovereign

Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, 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.

Arlington, Massachusetts--key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	205.3			
Market value per capita ($)	288,602			
Population		46,108	45,277	45,557
County unemployment rate(%)		3.1		
Market value ($000)	13,306,855	12,517,358		
Ten largest taxpayers % of taxable value	3.8			
Strong budgetary performance				
Operating fund result % of expenditures		(0.7)	(1.5)	3.1
Total governmental fund result % of expenditures		11.3	1.4	41.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		26.0	26.3	30.1
Total available reserves ($000)		50,832	51,686	54,548
Very strong liquidity				
Total government cash % of governmental fund expenditures		44.0	33.0	39.0
Total government cash % of governmental fund debt service		589.0	568.0	549.0
Strong management				
Financial Management Assessment	Good			
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		7.2	5.9	7.5
Net direct debt % of governmental fund revenue	124.7			
Overall net debt % of market value	2.6			
Direct debt 10-year amortization (%)	38.6			
Required pension contribution % of governmental fund expenditures		6.2		
OPEB actual contribution % of governmental fund expenditures		3.6		

Arlington, Massachusetts--key credit metrics (cont.)				
	Most recent	--Historical information--		
		2022	2021	2020
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022