

RatingsDirect®

Summary:

Norfolk, Massachusetts; General Obligation; Note

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Credit Profile

US\$18.0 mil GO BANs dtd 05/24/2023 due 05/03/2024

Short Term Rating SP-1+ New

Norfolk Twn GO bnds

Long Term Rating AA+/Stable Affirmed

Norfolk Twn GO rfdg bnds

Long Term Rating AA+/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Norfolk, Mass.' \$18 million general obligation (GO) bond anticipation notes (BANs) maturing May 3, 2024.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's GO bonds outstanding.
- The outlook, where applicable, is stable.

Security

The town's full faith and credit secures the BANs. Voters elected to exempt debt service on the current issuance BANs and subsequent long-term takeout debt from Proposition 2 1/2 levy limitations. The town's full faith and credit, subject to limitations under Proposition 2 1/2, secures the debt outstanding. Despite limitations imposed by the commonwealth levy limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledges because of Norfolk's resource flexibility under the levy limit.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Norfolk maintains a very strong capacity to pay principal and interest when the notes come due. The town has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants. Proceeds from the current issuance will support fire station construction.

Credit overview

Norfolk is a primarily residential community (93% of assessed value [AV]) approximately 20 miles southwest of Boston, with highway and commuter access to surrounding employment centers. The local tax base has grown consistently, driven primarily by small-scale development and improvements in existing housing stock, which we expect to continue. The town is highly reliant on local property taxes (77% of fiscal 2022 general fund revenue), collections of which remained stable through the pandemic. Expenditures are largely predictable, due to settled collective bargaining agreements and limited large capital needs.

The town has demonstrated a long trend of posting positive operational results at fiscal year-end, notwithstanding

drawdowns in fiscal years 2018 and 2019 for capital projects and unexpected expenditures. Norfolk has consistently maintained lower reserves than comparably rated state peers, but given the predictable revenue and expenditure environment, we expect a relatively stable financial profile. Incrementally rising debt service and retirement costs could increasingly pressure the budget, but over the near term we expect management to maintain balanced results while incorporating rising costs into the budget.

The rating specifically reflects our view of the town's:

- Stable tax base, with participation in the broad and diverse Boston metropolitan statistical area;
- Well-embedded financial policies and practices, including the use of multiple years of trend data when projecting revenues, regular budget-to-actual monitoring, a five-year capital improvement plan, and a debt policy that limits the financing term to the useful life of the asset, limits the ratio of net debt to total AV to 1.5%, limits general fund nonexempt debt to 10% of general fund revenues, and requires 50% of principal outstanding to be repaid within 10 years, as well as a policy of holding 5%-10% of general fund revenue in reserves, along with a strong institutional framework score;
- Stable revenue and expenditure profiles leading to generally predictable year-end financial results; and
- Limited future debt and capital needs, but with a large pension and other postemployment benefits (OPEB) liability and expectations that costs are likely to increase. Given the low funded status of the pension system (79.5%), combined with the 7.75% discount rate, which is higher than our benchmark of 6.0%, we believe costs could rise beyond planned increases, potentially pressuring the operating budget. For more on our view of the state's pension plans and recent reforms, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.

Environmental, social, and governance

We analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. We view ESG risks as being neutral in our credit rating analysis.

Outlook

We do not anticipate changing the rating within the outlook period, as we expect the town to incorporate rising costs and economic uncertainty into its budget, resulting in at least balanced operations.

Downside scenario

We could consider a negative rating action if the town's budgetary flexibility or liquidity levels decrease due to imbalanced operations or discretionary use of funds.

Upside scenario

We could raise the rating if the town demonstrates sustained maintenance of its budgetary flexibility at very strong levels, combined with economic metrics improving to levels on par with those of 'AAA' rated entities, as well as adherence to its long-term capital improvement plan, all other factors remaining at least equal.

Norfolk--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	154			
Market value per capita (\$)	197,123			
Population		12,004	12,017	
County unemployment rate (%)		5.1		
Market value (\$000)	2,366,261	2,038,053	1,979,279	
Ten largest taxpayers % of taxable value	3.9			
Strong budgetary performance				
Operating fund result % of expenditures		2.6	4.2	1.1
Total governmental fund result % of expenditures		3.5	5.4	1.3
Strong budgetary flexibility				
Available reserves % of operating expenditures		11.5	11.1	6.5
Total available reserves (\$000)		5,425	5,171	3,016
Very strong liquidity				
Total government cash % of governmental fund expenditures		44	43	12
Total government cash % of governmental fund debt service		876	836	244
Adequate management				
Financial Management Assessment	Standard			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.0	5.2	5.1
Net direct debt % of governmental fund revenue	73			
Overall net debt % of market value	1.8			
Direct debt 10-year amortization (%)	35			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		2.1		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 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

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