S&P Global Ratings

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Summary:

Everett, Massachusetts; General Obligation

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US$15.05 mil GO muni purp loan ser 2022 due 01/15/2042		
Long Term Rating	AA+/Stable	New
US$10.5 mil GO prop acquis bnds ser 2022 due 01/15/2042		
Long Term Rating	AA+/Stable	New
Everett GO mun purp loan bnds		
Long Term Rating	AA+/Stable	Affirmed
Everett GO mun purp loan bnds ser 2020 due 04/01/2040		
Long Term Rating	AA+/Stable	Affirmed
Everett GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Everett, Mass.' $10.5 million series 2022 general obligation (GO) property acquisition bonds and its $15.05 million GO municipal purpose loan bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's existing debt. The outlook on all ratings is stable.

The city's full-faith-and-credit pledge secures the bonds, subject to Proposition 2 1/2 limitations. We rate the limited-tax GO debt on par with our view of Everett's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on resource fungibility, which supports our view of the city's overall ability and willingness to pay debt service.

We understand officials plan to use series 2022 property acquisition bond proceeds to acquire land that is planned to be developed into elderly and veteran housing; the series 2022 municipal purpose bonds will finance various capital improvements across the city.

Credit overview

The rating and outlook on Everett reflect our opinion of its strong financial profile trends and history of prudent budgeting that has facilitated stable operations. Furthermore, Everett's local economy benefits from participating in the broader Boston metropolitan statistical area (MSA). The city has been financially planning for the possible closing of the Mystic Generating Station by gradually reducing the budgeted tax revenue it depends on from the plant, as well as holding ongoing discussions at the state level regarding funding eligibility of the Regional Greenhouse Gas Initiative (RGGI) Fund, which is specifically dedicated to assist communities in the transition of closing power plants. In our view, rating stability will likely remain dependent on strong management and, over the medium term, dependent on the city's ability to mitigate the financial budgetary impact should the Mystic Generating Station close.

The rating also reflects our opinion of the city's:

- Strong economy, with access to Boston's broad and diverse MSA;
- Strong financial management (despite recent turnover in some key financial management positions) with good financial policies and practices under our Financial Management Assessment (FMA) methodology and strong institutional framework score;
- Record of robust financial performance and fund balance levels over the last three years; and
- Strong debt-and-contingent-liability position, with rapid amortization, but a large pension and other-postemployment-benefit (OPEB) obligation.

Environmental, social, and governance

We have analyzed Everett's social, environmental, and governance risks relative to the city's economy, financial management, financial measures, and debt-and-liability profile and have determined all are in-line with our view of the sector standard. The city is partnering with the neighboring city Chelsea on infrastructure projects (seawall replacement and wetland improvements) to mitigate flood risk, costs for which the city will seek Federal reimbursement.

Stable Outlook

Downside scenario

We could lower the rating if budgetary performance were to deteriorate, causing a reserve drawdown; if Everett were to budget funds without receiving corresponding host-agreement revenue; if the power plant, Mystic Generating Station, were to alter operations materially, leading to budgetary imbalance; or if the tax base were to become overly concentrated because of the casino.

Upside scenario

We could raise the rating if Everett's economic indicators were to improve markedly and pension and OPEB liabilities were to decrease and if the casino's opening does not result in major tax base or employment concentration.

Credit Opinion

Robust economy includes residential developments, Encore hotel and casino, despite the potential closing of Mystic Power LLC, the city's largest taxpayer

Everett is located four miles outside of Boston proper and has direct access to regional employment centers via Interstate 93 and U.S. Route 1, as well as eight bus service lines operated by Massachusetts Bay Transportation Authority. Its population has grown incrementally over the last decade, while the city's assessed value has experienced significant year-over-year growth, consistent with regional trends. The tax base is a mix of residential, industrial, and commercial properties. The 10 leading taxpayers represent 20.4% of the tax base. Mystic Power LLC is the city's leading taxpayer at 9.2% of assessed value. The city has experienced robust residential and mixed-use development in recent years, further expanding the tax base.

The city's recently opened high-end casino and hotel, Encore, by Wynn Resorts Ltd., began operations in 2019 and has employed more than 4,000. Despite a slow start due to the COVID-19 pandemic, Encore was busy in fiscal 2021 with state gaming revenues hitting record highs in the summer 2021. The city and casino operator have an active host agreement that stipulates payments in lieu of taxes (PILOTs) that began in 2019. PILOT revenue will begin at $20 million and increase by 2.5% annually. The city will also receive an annual $5 million community-impact fee, increasing by 2.5% annually. Officials also estimate an additional $2.5 million of excise-tax revenue annually. The operator is working with the city and the state to continue to invest in the casino and hotel and conduct additional development projects in the Lower Broadway district, including potentially new infrastructure to enhance accessibility between the casino and Assembly Row subway platform in nearby Somerville.

Mystic Generating Station, the city's power plant, is currently the city's leading taxpayer. However, in 2018, the plant's operator, citing an uncertain operating environment, filed to close the plant in 2022. The plant has had a tax-increment-financing agreement with the city since 2000, which ended in 2021. While officials expect operations will ultimately continue unabated due to the plant's significance to the region's power grid and energy infrastructure, the city has made financial contingency plans by reducing its expectations of the plant's tax revenues as well as discussing state aid from the RGGI Fund as the city undergoes this transition.

If any change were to occur to the PILOT and community-impact agreements or the power plant were to materially alter operations before expected, these actions could substantially affect the city's economy and finances. Currently, we do not expect any changes that would weaken the tax base.

Leading city employers include:

- Wynn, MA LLC (4,000 employees),
- Mellon Bank (1,200),
- Cambridge Health Alliance (800),
- Massachusetts Bay Transportation Authority (600), and
- Boston Coach (300).

Prudent management with well-embedded financial management policies despite recent turnover

The city recently experienced turnover in its treasurer/collector and assistant collector positions, which created minor delays in CAFR submissions and filing of state reports; however, replacements have since been secured for these positions.

Everett's budgetary assumptions are generally conservative. Further supporting finances are the city's debt and reserve policies. The debt policy caps GO debt service at 5% of expenditures and limits the payment schedule to the project's useful life. The reserve policy sets a stabilization-fund target at 15% of the operating budget and dedicates surplus cash to fund balance if levels decrease below that threshold. Furthermore, management reports regularly on finances with monthly budget-to-actual performance and quarterly investment-holdings-and-performance reports to the city council.

Highlights include management's:

- Formal five-year, long-term capital and operating projections; and
- Three-year trend analysis during the budgeting process.

Everett has cybersecurity protections. It maintains various network and system backups, coupled with cybersecurity insurance. We understand the city has not faced any major cybersecurity attacks during the past year that could materially affect finances.

History of stable and strong financial profile

The city's primary revenue sources for the general fund are property tax revenues (38%), state aid (34%), PILOT revenues (8%), and motor vehicle/hotel/motel/meals tax and departmental revenues (5.1%). Property tax collections have remained consistently high, in our view, typically exceeding 99% during the past three fiscal years.

The city's fiscal 2021 budget totaled $202.6 million, an overall 2% decrease over fiscal 2020 with reduced revenue assumptions for fiscal 2021 due to budgetary uncertainty brought on by COVID-19, including assumed decreases in local receipts and flat state aid funding. Officials also budgeted for a modest $2 million of new growth for its tax levy. The city lowered personnel costs and revised some capital projects to the future. It expects year-end results to show a surplus primarily attributed to this conservative budgeting, with actual revenues outperforming budgeted estimates. The city expects its unassigned fund balance to increase by $4.5 million for fiscal 2021 year-end. The most meaningful expenditure increase in the fiscal 2021 budget is for pension contributions, at about 5%, offset by decreased costs in other areas of the budget.

The city's fiscal 2022 budget totaled $218.9 million, a 7% increase over fiscal 2021. Property taxes and building permits are ahead of the budget, and motor-vehicle-excise taxes exceed current projections according to management. Expenditures are also on budget with no major variances currently present.

Furthermore, we believe the city maintains very strong reserves, with the expectation that fund balance will likely remain stable and continue to grow due to the city's history of building reserves during the past three fiscal years.

The city has also significantly increased its unused-levy capacity for fiscal 2021 to $58 million from $4.2 million in fiscal 2019. Officials attribute the increase to the casino resort. State law MGL 121A requires the city to execute the community-host agreement with the casino prior to issuing tax bills. According to officials, however, the casino operator neglected to file the paperwork in fiscal 2019, which meant the city had to assess the property and issue a tax bill based on a value of roughly $600 million as of Jan. 1, 2019. However, the city abated the bill after the issuance based on the terms in the community-host agreement that state the casino will provide annual PILOTs and community-impact fees. Because of capturing this value, the city's levy capacity increased significantly, according to state guidelines. The city plans to maintain this levy capacity, and it does not currently plan to use this revenue.

In our view, Everett's issuance of GO bonds during the past 20 years demonstrates strong access to external liquidity. The city does not have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. The city has maintained very strong cash during the past three fiscal years with no indication of a drawdown. Therefore, we expect liquidity will likely remain very strong during the next two fiscal years.

Very strong debt metrics with rapid amortization and minimal near-term debt plans

With this issuance, the city will have about $119.6 million of total direct debt. According to its capital improvement plan, the city could issue about $1 million in additional debt during the next two fiscal years for various capital improvements. We do not expect this to have a material effect on the debt profile.

Pension and other postemployment benefits highlights:

- We view pension and OPEB liabilities as a credit pressure for Everett because costs represent a large portion of the budget, and we expect they will likely increase.
- Because the city's actuarially determined pension contribution reflects, what we view as, weak assumptions and methodologies, we think it increases the risk of unexpected contribution escalation. However, we expect higher contributions will likely remain affordable because of conservative budgeting and very strong reserves, resulting in stable financial performance.
- Although management 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, the city has legal flexibility to alter OPEB, which we view as a potential means to mitigate escalating costs. The city also maintains an irrevocable OPEB trust fund with a roughly $7.4 million balance in fiscal 2020, with 2.55% funded.

As of June 30, 2020, Everett participates in:

- Everett Contributory Retirement System, which was 65.64% funded, with a proportionate share of the city's net pension liability at $94.3 million, assuming a 7.38% discount; and
- Everett's defined-benefit, OPEB health-care plan, which was 2.55% funded, with an OPEB liability of about $282.6 million.

Everett's combined required pension and actual OPEB contribution totaled 10% of total-governmental-fund expenditures in fiscal 2020: 6.3% represented required contributions to pension obligations and 3.7% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2020. Funding progress was significant during the most recent fiscal year with contributions exceeding our minimum-funding-progress metric.

Pension contributions should increase by about 3% annually due to the level-percent-of-pay amortization. Management expects full funding after a 10-year closed period. The annual increase and a 7.38% discount add to the risk of cost escalation due to market volatility, exacerbated by the requirement to maintain payroll-growth assumptions.

In fiscal 2020, Everett contributed $9.5 million toward pay-as-you-go OPEB and an additional $1.1 million into the OPEB trust fund. The city expects to appropriate 15% of certified free cash annually toward the OPEB trust, which it met in fiscal 2020. The city also expects to contribute $800,000 in fiscal 2021. Everett also plans to make additional contributions toward OPEB, more aggressively funding OPEB once it fully funds the pension plan.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Everett City, Massachusetts Key Credit Metrics				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Strong economy				
Projected per capita EBI % of U.S.	79.48			
Market value per capita ($)	154,448.78			
Population		44,911	44,375	44,212
County unemployment rate(%)		7.30		
Market value ($000)	6,936,449	6,592,280	6,560,522	
Ten largest taxpayers % of taxable value	22.22			
Strong budgetary performance				
Operating fund result % of expenditures		1.41	(3.91)	0.92
Total governmental fund result % of expenditures		2.34	(2.27)	1.19
Very strong budgetary flexibility				
Available reserves % of operating expenditures		16.08	15.35	19.64
Total available reserves ($000)		38,109	34,744	43,390
Very strong liquidity				
Total government cash % of governmental fund expenditures		26.24	23.87	29.25
Total government cash % of governmental fund debt service		410.33	408.30	563.09
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.39	5.85	5.20
Net direct debt % of governmental fund revenue	44.48			
Overall net debt % of market value	3.00			
Direct debt 10-year amortization (%)	74.46			
Required pension contribution % of governmental fund expenditures		6.28		
OPEB actual contribution % of governmental fund expenditures		3.77		

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