

# RatingsDirect®

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## Summary:

# Quincy, Massachusetts; General Obligation

### Primary Credit Analyst:

Victor M Medeiros, Boston + 1 (617) 530 8305; victor.medeiros@spglobal.com

### Secondary Contact:

Kaiti Vartholomaios, New York + 1(212) 438 0866; kaiti.vartholomaios@spglobal.com

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### Credit Profile

US\$34.925 mil GO mun purp loan of 2023 bnds ser 2023A due 05/01/2043

<i>Long Term Rating</i>	AA/Stable	New
Quincy GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Quincy GO mun purp loan		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Quincy GO mun purp loan bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Quincy, Mass.' \$34.925 million series A 2023 general obligation (GO) municipal purpose bonds and affirmed its 'AA' long-term rating on the city's GO bonds outstanding.
- The outlook on the long-term bonds is stable.

### Security

The city's full-faith-and-credit pledge, subject to the limitations of Proposition 2 1/2, secures the bonds. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019, on RatingsDirect). Proceeds from the bonds will finance main roadways and sidewalk repair, fire equipment, and watermains system repairs and replacement.

### Credit overview

Quincy is a diversified commercial and industrial city, immediately south of Boston, with a growing tax base and strong per capita household incomes. Over the past several years, it has seen robust commercial and residential growth in the downtown and surrounding neighborhoods, which has led to lower tax rates and has supported the city's budgetary performance and financial flexibility. Despite these strengths, the city maintains a high debt burden and has escalating debt service costs, which, amid an uncertain economic environment, will challenge management's ability to maintain strong budgetary performance.

For additional information on S&P Global Ratings' view of the economy, see "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.

Additional credit factors supporting the rating include our view of Quincy's:

- Very strong per capita market values, high residential incomes, and its participation in the broad and diverse Boston metropolitan statistical area (MSA);
- Strong management environment, with good financial policies and practices under our financial management

assessment (FMA) methodology, and a strong institutional framework;

- Ample revenue-raising capacity that provides strong budgetary flexibility to maintain structural balance amid rising expenditures; and
- A high debt and contingent liability profile that is very high as a percentage of total governmental fund revenue. While the city has addressed its unfunded pension liability with a pension obligation bond (POB), it still has large pension and other postemployment benefits (OPEB) obligations that will likely continue to pressure current costs.

### **Environmental, social, and governance**

We consider environmental risks elevated, given the city's coastal exposure and proximity to the tax base, which could lead to revenue disruption if affected by a severe weather event. However, its social and governance risks relative to its economy, management, financial measures, and debt and liability profile are, we believe, credit neutral in our analysis. While environmental risks are elevated, the city is proactively addressing those risks through its Multi-hazard Mitigation Plan and seawall improvements. We believe management will continue to plan for and address potential effects from environmental risks, as well as incorporating necessary improvements into its annual capital funding plans. The city also maintains various cyber security protections, with plans in place to properly prepare for, respond to, or recover from a cyber attack.

## **Outlook**

The stable outlook on the long-term rating reflects S&P Global Ratings' opinion of Quincy's very strong economy and favorable access to the Boston MSA. The outlook further reflects Quincy's improved budgetary performance in fiscal 2022, which will improve overall reserves, and our expectation that the city will show discipline in its budget management to achieve its savings objectives and maintain operating balance amid increasing debt service costs.

### **Downside scenario**

Should budgetary pressures arise, requiring the city to spend down reserves to weak levels, or if it is unable to make revenue and spending adjustments to maintain a stable financial position given its high debt and unfunded liabilities, we could lower the rating.

### **Upside scenario**

Although we do not expect to raise the rating over the outlook period, we could do so if debt metrics and reserves improve to levels that we consider comparable with those of higher-rated peers.

## **Credit Opinion**

### **Stable and growing economy benefiting from its location within the broad and diverse Boston MSA**

Quincy's economy is well-diversified, and its tax base has been expanding quite rapidly in the last few years. The city is just south of Boston and considered a regional transportation hub with four major highways, subway lines, and a commuter rail. The city has a significant employment base anchored by insurance and financial services, and since 2014, upward of 4,000 housing units have come online throughout the city. Moreover, despite a slowing economy driven by high inflation and increasing mortgage interest rates, Quincy's real estate environment and development

prospects have stayed strong. The city's commercial sector is also proving resilient, as many of its major commercial employers have expanded their operations in Quincy. We attribute this to Quincy's transit-oriented options and slightly more affordable choices for families and young professionals.

### **Good financial policies and practices under our FMA**

Quincy regularly updates and adjusts expenditure and revenue forecasting to respond to trends and budgetary performance, and performs a five-year historical trend analysis when developing its budget. While the city is at times a bit optimistic with its revenue and expenditure assumptions, budget surveillance is generally sound. Management reports budget-to-actual results quarterly to the mayor and city council, as well as investment holdings and earnings monthly. Officials recently created a long-term financial forecast that projects revenue and expenditures for seven years, as well as a formal investment management policy.

Management maintains a five-year capital improvement plan, a debt management policy, and a formal reserve policy of keeping available reserves at a minimum of 5%-6% of the budget. While the city is at or near those targets, fiscal 2022 estimates and 2023 projected results suggest reserves will improve back to stronger levels. We will continue to monitor the city's adherence to its policies because we believe they influence its ability to implement timely and sound financial and operational decisions, particularly in response to changing economic dynamics and rising expenditure demands.

The institutional framework score for Massachusetts municipalities is strong.

### **Ample revenue-raising capacity should support steady operations over the next few years despite growing costs**

The city's reserves are improving, and we consider the additional flexibility to raise revenue despite statewide tax caps as a positive factor in our assessment of budgetary flexibility. Quincy can raise the tax levy without an electorate-approved Proposition 2 1/2 override, which supports its ability to maintain structural balance. Currently, the city reports excess levy capacity of \$49 million.

Quincy is committed to maintaining, if not building, reserves over the next few years to stronger levels. The city is allocating \$5 million annually from savings derived from a recently issued pension obligation bond (POB) to a contingent reserve fund until it reaches a balance of \$30 million. The reserve will provide additional budgetary flexibility and liquidity to manage pension cost volatility in the event of prolonged market underperformance. We note allocating these sums require management maintain budgetary discipline amid a slowing economy with high inflation, and as debt service costs escalate.

According to unaudited draft financials, the city is reporting a sizeable surplus for fiscal year 2022, exceeding early estimates across most of its revenues. According to management, local source revenues performed well, which, along with lower pension costs, led to sizeable operating variances.

The fiscal 2023 budget totals \$372.7 million, a 7.7% increase from the previous year. The increase provides for additional investments in public safety, education, and the city's infrastructure, and accounts for higher fixed costs and progress in its plan to increase reserves. Property taxes, along with higher state aid appropriations, will fund much of the increase. Overall, property taxes and state aid account for 68% and 24% of general fund revenues, respectively, on

a generally accepted accounting principles (GAAP) basis. Given the strong tax collection record and stable state aid environment, we do not believe there will be much financial deterioration, despite some cost pressures. The city was allocated roughly \$61 million in American Rescue Plan Act (ARPA) funds, and approximately \$24.2 million remains unspent. The city has utilized the funds toward "loss revenue" and for economic development and capital infrastructure. It has also discussed applying some funds toward restoring public safety jobs lost during the pandemic.

### Very weak debt and contingent liability profile with over \$1.1 billion of direct debt outstanding and sizable OPEB liabilities

Following the issuance of the bonds and notes, Quincy will have about \$1.1 billion in total direct debt outstanding, with approximately \$173.9 million in bond anticipation notes.

Quincy recently issued approximately \$475 million in POBs, fully funding the unfunded actuarially accrued liability (UAAL) of its pension system. The city estimates the issuance of the POB lowers cumulative pension contributions by over \$130.6 million, on a present-value basis, through 2040. Management sized the POB based on an updated UAAL determined as of Sept. 30, 2021, modeled using a conservative 6.25% discount rate, and, as mentioned, is establishing a contingent reserve fund that will mitigate volatility to its pension costs in the event of adverse investment returns.

The city will issue additional debt over the next two years for downtown and park improvements, as well as various capital projects, including water and sewer infrastructure work. We are not anticipating any meaningful change to its debt profile because the amount issued will closely match the amount it retires over the same period (excluding the POB).

### Pension and other postemployment benefits

While we no longer consider pension costs a source of credit pressure, OPEB liabilities remain a challenge for Quincy, and given the size of the unfunded liability, we expect costs will increase over time. The city pays OPEB on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. However, it has established a trust and has begun prefunding the liability. On June 30, 2021, the city reported a net OPEB liability of \$827.6 million between the city and Quincy College. Quincy's OPEB trust currently has a balance of \$5.3 million. While the practice of prefunding the OPEB liability is positive, given the funded status of its OPEB liabilities, escalating costs could pressure the budget in the long term.

### Quincy--Key credit metrics

	Most recent	Historical information		
		2021	2020	2019
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	115			
Market value per capita (\$)	213,720			
Population		97,595	97,664	96,937
County unemployment rate (%)		5.1		
Market value (\$000)	20,858,040	17,929,394	17,043,134	15,941,086
Ten largest taxpayers % of taxable value	6.2			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		(1.9)	(0.5)	0.0

## Quincy--Key credit metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Total governmental fund result % of expenditures		(2.1)	(0.5)	1.1
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		4.5	6.6	7.5
Total available reserves (\$000)		16,493	23,226	24,913
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		11	18	21
Total government cash % of governmental fund debt service		203	347	362
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		5.3	5.2	5.7
Net direct debt % of governmental fund revenue	265			
Overall net debt % of market value	5.5			
Direct debt 10-year amortization (%)	39			
Required pension contribution % of governmental fund expenditures		7.7		
OPEB actual contribution % of governmental fund expenditures		4.3		

**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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

### Ratings Detail (As Of April 21, 2023)

Quincy GO mun purp loan bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Quincy GO mun purp loan of 2022 bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Quincy GO pub safety facs bnds ser 2022 due 01/15/2043		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Quincy GO sch bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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*Summary: Quincy, Massachusetts; General Obligation*

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