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Ratings

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Research Update:

Quincy, MA Series 2025A GO Municipal Purpose Loan Rated 'AA'; Outlook Is Negative

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Quincy, Mass.' $23.3 million series 2025A general obligation (GO) municipal purpose loan.
- At the same time, we assigned our 'SP-1+' short-term rating to the city's $337.8 million series 2025 GO bond anticipation notes (BANs), maturing July 24, 2026.
- The outlook, where applicable, is negative.
- The negative outlook reflects the city's elevated debt burden and diminished budgetary flexibility following years of rising costs.

Rationale

Security

Quincy's full faith and credit, subject to the limitations of Proposition 2 1/2, secures the bonds and notes. Our 'SP-1+' short-term rating on Quincy's notes reflects our criteria for evaluating and rating BANs. In our view, Quincy has strong capacity to pay principal and interest when the BANs come due. We maintain a high investment-grade rating on the city's GO debt and a low market risk profile because the city has strong legal authority to issue long-term debt to take out the BANs and is a frequent issuer that regularly provides ongoing disclosure to market participants. Proceeds from the municipal purpose loans and BANs will be used to refund previously issued bonds and notes, in addition to providing funds for new capital projects.

We rate the limited-tax GO debt to be at the same level as our view of Quincy's general creditworthiness. We factor into the rating any limitation imposed on the obligor's ability to raise revenue, so we make no rating distinction.

Credit highlights

The rating and outlook reflect our view of Quincy's growing financial constraints due to a recently weakened reserve position and looming increase to debt service costs. The city used a portion of free cash reserves to reduce the 2024 tax rate, contributing to an estimated $8.8 million fund balance drawdown; reserves are estimated at 5.4% of general fund revenue in fiscal 2024 (unaudited). While still within the city's policy range of 5%-6% of expenditures, we believe the weaker reserve position further reduces budget flexibility relative to the city's large debt and liabilities, particularly given an upcoming increase to current costs. The debt schedule currently reflects a 45% increase in principal payments beginning in fiscal 2026, which officials plan to absorb through unused property tax levy capacity; $31.3 million will be available in 2025. In addition, the city realized a $91.9 million investment loss in the Quincy Retirement System in calendar 2022, and now carries an additional net pension liability of $98.3 million in fiscal 2023. We believe Quincy has the levy capacity and wherewithal to absorb the rise in current costs and overall expenses, but the willingness to increase the tax levy becomes challenging during periods of economic uncertainty, possibly limiting management's ability to achieve structural balance if costs unexpectedly increase. Supporting the rating is the city's well-embedded financial policies and practices and growing economy that continues to underpin revenue growth.

The rating further reflects our view of Quincy's:

- Growing and diverse economy, with county per capita income and economic output above national levels, but weaker local incomes relative to the county.
- Ample revenue-raising capacity that provides some budgetary flexibility amid rising expenditures, offset by recent fund balance drawdowns and rising costs.
- Prudent management practices, including long-range financial and capital planning, a reserve minimum of 5%-6% of expenditures, debt and investment policies, and regular reporting to council.
- Elevated debt and liabilities, which continue to pressure the budget.
- For more information on our assessment of Massachusetts municipalities, see "Institutional Framework Assessment: Massachusetts Local Governments ," published Sept. 9, 2024.

Environmental, social, and governance

We consider physical risks moderately high given the city's coastal exposure, which could lead to revenue disruption in a severe weather event. Although physical risks are elevated, the city is addressing them through its multi-hazard mitigation plan and seawall improvements to minimize storm-related damage. Quincy's social and governance risks relative to its economy, management, financial measures, and debt and liability profile are neutral in our credit analysis.

Outlook

The negative outlook reflects a one-in-three chance that we could lower the rating if the city's operating position weakens further into fiscal years 2025 or 2026, with financial metrics that we no longer consider comparable with those of 'AA' peers.

Downside scenario

We could lower the rating if the budgetary plan to address rising costs fails to materialize, leading to structural imbalance and additional declines in reserves with no plan to restore. We could also lower the rating if debt and liabilities increase to levels that we no longer consider comparable with those of peers.

Upside scenario

We could revise the outlook to stable if debt metrics and reserves improve and the city sustains them at levels comparable with those of higher-rated peers.

Credit Opinion

Economy

Income and economic output are above those of state and national peers, and we think strong population growth and development will likely continue in Quincy and Norfolk County. The city's economy is well diversified, and its tax base has been expanding rapidly in the past few years, contributing to steady revenue growth. The city is just south of Boston and is considered a regional transportation hub with four major highways, subway lines, and commuter rail. Furthermore, despite an economic slowdown in recent years because of high inflation and elevated mortgage interest rates, Quincy's real estate environment and development prospects have stayed strong. The commercial sector is also proving resilient, as many of the city's major commercial employers have expanded operations. We attribute this to Quincy's transit-oriented options and slightly more affordable choices for families and young professionals.

Finances

The fiscal 2023 audit yielded a modest general fund deficit, mainly due to the increased debt service costs associated with the 2021 pension obligation bonds (POBs). We did not receive the city's official 2024 audit, but preliminary results reflect an additional drawdown of approximately $8.8 million due to appropriated reserves for property tax relief. Revenue growth remained strong (10% higher than 2023) due to good property tax growth, but was still outpaced by expenses, increasing about 12% largely because of higher long-term liability costs.

To help manage future pension volatility and rising costs, the city initially contributed $5 million to a contingent reserve within the unassigned general fund balance, with subsequent plans to contribute at least $5 million annually to the reserve, or until the balance reaches $30 million. To date, it has about $6.6 million in the dedicated reserve, approximately $13.4 million short of the goal. We view this reserve as providing important additional budgetary flexibility and liquidity in the event of prolonged market underperformance (which occurred in calendar 2022). The $424 million 2025 budget is balanced, but includes higher health care costs, increased fuel expenses, and contractual raises for staff. According to officials, year-to-date estimates reflect a slight 1%-3% surplus for the year.

Management

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’s revenue and expenditure assumptions can be overly optimistic, its budget surveillance is generally sound, in our view. Management reports budget-to-actual results quarterly to the mayor and city council, and reports investment holdings and earnings monthly. Officials maintain a long-term financial forecast that projects revenue and expenditures for seven years, as well as a formal investment management policy. The city 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% to 6% of the budget. We will monitor the city's adherence to its policies because we believe they influence its ability to implement timely and sound financial and operational decisions.

Debt and liabilities

Following the issuance of the BANs, Quincy will have about $1.41 billion in total direct debt outstanding, with approximately $338 million in BANs. The BANs outstanding will eventually need to be taken out into long-term fixed debt, but officials currently have no timeline . The city could issue about $124 million in additional debt over the next two years for parking garages, but we do not expect the debt will cause additional pressure on the budget. Pension costs were manageable in 2023, but further investment losses like in 2022, changes to actuarial assumptions, or hiring additional employees could compound the liability. Furthermore, other postemployment benefits liabilities remain a challenge for Quincy and, given the size of the unfunded liability, we expect costs will increase over time.

Quincy, Massachusetts--Credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.30
Economy	1.0
Financial performance	2
Reserves and liquidity	2
Management	2.00
Debt and liabilities	4.50

Quincy, Massachusetts--Key credit metrics

	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	--	118	120	120
County PCPI % of U.S.	--	165	165	162
Market value ($000s)	--	20,858,040	18,912,238	17,929,394
Market value per capita ($)	--	203,156	188,737	183,712
Top 10 taxpayers % of taxable value	--	6.2	7.9	--
County unemployment rate (%)	--	3.1	3.3	5.0
Local median household EBI % of U.S.	--	116	114	112
Local per capita EBI % of U.S.	--	121	122	123
Local population	--	102,670	100,204	97,595
Financial performance				
Operating fund revenues ($000s)	--	377,754	365,034	359,629
Operating fund expenditures ($000s)	--	379,889	341,540	368,770
Net transfers and other adjustments ($000s)	--	-1,333	334	2,408
Operating result ($000s)	--	-3,468	23,828	-6,733
Operating result % of revenues	--	-0.9	6.5	-1.9
Operating result three-year average %	--	1.2	1.4	-0.8
Reserves and liquidity				
Available reserves % of operating revenues	--	8.2	11.0	4.6

Quincy, Massachusetts--Key credit metrics

	Most recent	2023	2022	2021
Economy				
Available reserves ($000s)	--	30,925	40,320	16,493
Debt and liabilities				
Debt service cost % of revenues	--	9.5	6.5	5.4
Net direct debt per capita ($)	13,741	11,247	10,762	5,440
Net direct debt ($000s)	1,410,794	1,154,718	1,078,397	530,957
Direct debt 10-year amortization (%)	54	--	--	--
Pension and OPEB cost % of revenues	--	6.0	117.0	12.0
NPLs per capita ($)	--	957	--	4,100
Combined NPLs ($000s)	--	98,277	--	400,185

Financial data might reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$23.315 mil GO mun purp loan of 2025 bnds ser A due 07/01/2045	
Long Term Rating	AA/Negative
US$337.797 mil GO BANs dtd 07/09/2025 due 07/24/2026	
Short Term Rating	SP-1+

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