

RatingsDirect®

Summary:

Somerville, Massachusetts; General Obligation; Note

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Table Of Contents

Credit Highlights

Outlook

Summary:

Somerville, Massachusetts; General Obligation; Note

Credit Profile		
US\$14.2 mil GO BANs dtd 02/21/2025 due 02/20/2026		
Short Term Rating	SP-1+	New

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Somerville, Mass.' roughly \$14.2 million series 2025 general obligation (GO) bond anticipation notes (BANs).
- At the same time, we affirmed our 'AAA' long-term rating on the city's existing GO debt and our 'SP-1+' short-term rating on the city's existing BANs.
- The outlook on the long-term rating is stable.
- The rating reflects the application of our criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

Security

Somerville's full-faith-and-credit pledge secures its GO debt and BANs. The city's debt is subject to Proposition 2-1/2 limitations, but we do not make a rating distinction because we rate the limited obligation at the same level as our view of Somerville's general creditworthiness. The city's series 2020 municipal-purpose loan bonds were excluded by vote from the limitations imposed by Proposition 2-1/2.

The short-term rating reflects our high investment-grade, long-term rating on the city and its low market-risk profile. In our view, and pursuant to our BANs criteria, we have assessed the city's market risk as low due to Somerville's strong market access, information availability, and takeout authorization.

Officials intend to use series 2025 BAN proceeds to finance a portion of the purchase price of a parcel of land within the city.

Credit overview

The 'AAA' long-term rating reflects Somerville's large, growing property tax base, high incomes compared to the national average, favorable county economic output, sizable available reserves, and robust budgeting practices and long-term planning. Offsetting these strengths, in our view, are the city's large debt and retirement liabilities that produce per capita debt and liability metrics that are weaker than those of many similarly rated peers. During the outlook period, we believe the city's positive economic trends and proactive management will support at least stable financial performance and reserves despite the potential for some slowdown in revenue growth and increasing health care and other costs.

A suburb of Boston, the property tax base continues to grow following recent public and private development. Somerville's economic growth prospects and financial performance remain positive, though there has been some slowdown in certain projects due to interest rates; however, management continues to budget conservatively for new growth assumptions and large-scale projects remain on time and target.

The city maintains positive operations as revenue consistently outpaces expenses due to conservative budget assumptions. Property taxes remain the city's main revenue source, followed by intergovernmental aid and departmental income, which we expect will likely continue. For fiscal 2024, continued positive variances against the budget led to another increase in general fund balance. The fiscal 2025 budget is \$397 million, roughly 7% higher than fiscal 2024, which is consistent with Somerville's recent budget growth during the past few fiscal years. No drawdown of reserves is expected for the fiscal 2026 year. We expect the city will likely maintain balanced financial performance through fiscal 2026, but we continue to monitor expired labor contracts and their potential to pressure the budget.

The city's current costs of debt and liabilities are currently manageable, though consistent debt needs and large pension and other postemployment benefit (OPEB) liabilities will likely lead to stable or increasing costs over the near term. On a per capita basis, debt and liabilities are a weakness in the overall debt and liability profile, though we understand a portion of direct debt is related to debt for the school district which can inflate per capita debt figures compared to other states. The city plans to fully fund its pension liabilities by 2033 and has established an OPEB trust that contains \$29.3 million as of fiscal 2025. We will continue monitor the effect of future debt plans and retirement liabilities on the city's financial performance and reserves, though we expect metrics to remain stable during the outlook period due to management's proactive policies and practices.

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

- Growing property tax base, high incomes, and county economic output and incomes on a per capita basis that are very favorable on a national scale;
- Robust management that incorporates upcoming changes into forward-looking long-term planning documents in a way that preserves structural balance and sizable available reserves;
- Consistently positive budgetary performance with another positive result expected in fiscal 2025 and reserves higher than those of most similarly-rated commonwealth peers; and
- Sizable debt and retirement liabilities that could grow in the near term due to additional debt needs, rising retirement costs, and a relatively high discount rate assumption associated with the pension liability.
- For more information on our institutional framework assessment for Massachusetts municipalities, see "Institutional Framework Assessment: Massachusetts Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We view physical risks as slightly elevated given the city's location on the Mystic River. However, we think its multipronged approach to stormwater management somewhat mitigates these risks alongside its commitment to its climate-change vulnerability assessment and adopted climate change plan. We view social and governance factors as neutral in our credit analysis.

Rating above the sovereign

We rate Somerville above the sovereign because we think the city can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. Somerville has predominantly locally derived revenue sources with most general fund local revenue coming from property taxes and independent taxing authority and treasury management from the federal government. (For further information, see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013.)

Outlook

The stable outlook reflects our view of Somerville's trend of positive financial performance and increasing available reserves. We expect that the city will continue to incorporate increasing costs into its budget in a way that produces at least balanced operations and maintains reserves.

Downside scenario

We could lower the rating if financial performance or reserves weaken materially on a sustained basis or if debt and retirement liabilities significantly increase from current levels.

Table 1

Somerville, Massachusetts--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	1.61
Economy	1.0
Financial performance	1
Reserves and liquidity	1
Management	1.30
Debt and liabilities	3.75

Table 2

Somerville, Massachusetts--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.			181	183
County PCPI % of U.S.			157	155
Market value (\$000s)		22,302,696	20,853,026	19,297,892
Market value per capita (\$)		276,359	248,318	234,169
Top 10 taxpayers % of taxable value		9.0	9.0	6.9
County unemployment rate (%)		2.9	3.0	4.5
Local median household EBI % of U.S.		148	144	140
Local per capita EBI % of U.S.		159	157	151
Local population		80,702	83,977	82,410

Table 2

Somerville, Massachusetts--Key credit metrics (cont.)				
	Most recent	2023	2022	2021
Financial performance				
Operating fund revenues (\$000s)		349,360	323,908	294,125
Operating fund expenditures (\$000s)		314,785	289,155	277,416
Net transfers and other adjustments (\$000s)		(21,152)	(19,213)	(2,541)
Operating result (\$000s)		13,423	15,540	14,168
Operating result % of revenues		3.8	4.8	4.8
Operating result three-year average %		4.5	4.0	3.0
Reserves and liquidity				
Available reserves % of operating revenues		33.9	31.7	28.6
Available reserves (\$000s)		118,294	102,792	83,981
Debt and liabilities				
Debt service cost % of revenues		5.1	5.3	4.5
Net direct debt per capita (\$)	5,492	4,267	4,256	3,754
Net direct debt (\$000s)	443,220	344,382	357,369	309,337
Direct debt 10-year amortization (%)	48			
Pension and OPEB cost % of revenues		7.0	8.0	7.0
NPLs per capita (\$)		2,238	824	1,185
Combined NPLs (\$000s)		180,591	69,210	97,678

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPL--Net pension liabilities.

Ratings Detail (As Of February 4, 2025)

Somerville GO		
Long Term Rating	AAA/Stable	Affirmed
Somerville GO		
Long Term Rating	AAA/Stable	Affirmed
Somerville GO		
Long Term Rating	AAA/Stable	Affirmed
Somerville GO BANs		
Short Term Rating	SP-1+	Affirmed

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