

# RatingsDirect®

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## Summary:

# Lenox, Massachusetts; General Obligation

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## Summary:

# Lenox, Massachusetts; General Obligation

### Credit Profile

US\$4.65 mil GO mun purp loan of 2021 bnds ser 2021 dtd 11/15/2021 due 12/01/2041

*Long Term Rating* AAA/Stable New

Lenox GO mun purp ln bnds

*Long Term Rating* AAA/Stable Affirmed

## Rating Action

S&P Global ratings assigned its 'AAA' rating and stable outlook to Lenox, Mass.' roughly \$4.65 million general obligation (GO) municipal-purpose loan of 2021 bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

Lenox's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. Despite limitations imposed by the commonwealth's levy limit law, we did not make a rating distinction between the limited- and unlimited-tax GO pledges due to the town's operating flexibility under the levy limit. We rate the limited-tax GO debt on par with our view of Lenox's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of its overall ability and willingness to pay debt service.

Officials plan to use series 2021 bond proceeds to finance certain capital projects townwide.

### Credit overview

The rating reflects our view of Lenox's very strong economy and consistently balanced financial results that have led to maintaining very strong reserves during the past several fiscal years. Management adjusted the budget entering fiscal 2021 to limit financial exposure due to COVID-19 and the related recent recession. We understand it currently projects an audited operating surplus due to revenue and expenditures outperforming the budget.

We do not expect to revise the rating during the two-year outlook because management continues conservative budgeting into fiscal 2022 and we understand revenue and expenditures are above the target through first-quarter fiscal 2022, likely leading to the maintenance of very strong reserves and liquidity.

The rating reflects our opinion of the town's:

- Very strong local economy despite limited access to, what we view as, a broad and diverse metropolitan statistical area;
- Strong financial-management condition, under our Financial Management Assessment (FMA) methodology, indicating financial practices are strong, well embedded, and likely sustainable, with a myriad of codified policies and operations with a strong Institutional Framework;

- Balanced operations with very strong budgetary flexibility and liquidity; and
- Limited debt with participation in a pension system that could pressure expenses.

We rate the town higher than the nation because we think Lenox 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 bond debt service is at limited risk of negative sovereign intervention. In fiscal 2020, local property taxes generated 65% of town revenue, which demonstrated its lack of dependence on central government revenue.

### **Environmental, social, and governance (ESG) factors**

We have evaluated ESG risks relative to Lenox's economy, financial measures, management, and debt-and-long-term-liability profile and have determined they are in-line with its peers and sector standards. Lenox recently became a municipal-vulnerability-preparedness-program community; it has begun to address concerns raised during the process with the first phases addressing culvert and bridge work, done on a pay-as-you-go basis. With the town's robust capital planning, we expect resiliency-projects will be well embedded into future capital plans.

## **Stable Outlook**

### **Downside scenario**

While unforeseen, if high debt or other long-term liabilities were to place pressure on Lenox's financial performance, reducing reserves to lower levels, we could consider a negative rating action.

## **Credit Opinion**

### **A tourism-driven, seasonal economy, supported by increasing full-time residents**

Lenox is in western Massachusetts, south of Pittsfield, about 130 miles from Boston and approximately 40 miles from Albany, N.Y. The primarily residential community benefits from a seasonal economy with several resort spas including older large cottages and mansions, referred to as "Great Estates," playing a key role in the commercial base. It is also the permanent summer residence for the Boston Symphony Orchestra and home to a new 65-acre campus for Shakespeare & Co., a professional theatre company. Lenox also benefits from outdoor recreational activities and facilities that attract year-round visitors. Leading employers include Canyon Ranch, Hillcrest Center, and Cranwell Center. We note Berkshire County unemployment spiked during the pandemic and averaged 9.1% for calendar 2020; unemployment since then decreased to 6% as of September 2021.

### **Strong financial-management policies and practices underpin management**

In our opinion, budget assumptions are conservative, coupled with a three-year historical trend analysis and, at least, quarterly reporting of budget-to-actual results to the town board. The town also has formal five-year, long-term financial and capital-improvement plans; the capital plan identifies funding. Management also maintains formal debt-and investment-management policies with annual holdings-and-earnings reports to the board. Management also adheres to its formal reserve policy of maintaining free cash and stabilization funds at a combined 7% minimum of expenditures, which are part of unassigned fund balance.

**Strong budgetary performance with positive results expected for fiscal 2021**

Lenox expects strong fiscal year-end results after expected revenue outperforms the budget. In an abundance of caution, management rolled back revenue assumptions while continuing cost-saving efficiencies implemented in fourth-quarter fiscal 2020. We note Lenox received CARES funds in fiscal 2021 and that its goal is to spend the remaining balance by December 2021. The town expects an improved unassigned fund balance and stabilization fund. Based on a strong expected fiscal year-end 2021, we think budgetary performance will likely improve from slightly negative fiscal year-end 2020 results.

The fiscal 2022, \$25.9 million budget is in-line with previous fiscal years and roughly \$446,000 higher than fiscal 2021. The budget restores funding to several expenses, such as its full contribution to the other postemployment benefits (OPEB) trust. In addition, the town has been allocated \$1.4 million in American Rescue Plan Act of 2021 funds; how it plans to use those funds is still under review. Management reports that summer 2021 was incredibly busy and that hotel-and-meals taxes were at an all-time high.

Prior to fourth-quarter fiscal 2020, revenue was coming in stronger than previous fiscal years with hotel-and-meals taxes significantly outperforming the budget; however, COVID-19-related stay-at-home orders changed that with hotel revenue decreasing significantly and meal tax revenue slowing thereafter. To reduce the effect of the economic slowdown on Lenox, management reduced its workforce by a third, primarily in its library department with additional positions cut in town hall; implemented a spending freeze; and created an expenditure approval process. We note the town brought back a majority of those positions. Property taxes generate 65.6% of general fund revenue and intergovernmental aid accounts for 12.2%. We expect the town will likely continue to make necessary budgetary performance adjustments while balancing its retirement burden and possible large-scale capital projects.

Lenox consistently maintained, what we consider, very strong available reserves. It expects unassigned fund balance will likely improve to roughly \$4.6 million while the stabilization fund improves to \$727,307. Management does not currently plan to spend down reserves materially. We note the town has roughly \$3 million in additional tax levy flexibility, providing a cushion for operations. Management adheres to its formal reserve policy of maintaining free cash and stabilization funds at a combined 7% minimum of expenditures.

In addition to very strong reserves, Lenox maintains very strong liquidity. Investments are mainly in the short-term Massachusetts Municipal Depository Trust investment pool. It does not have exposure to variable-rate debt or contingent-liquidity risks. Therefore, we expect liquidity will likely remain very strong; we do not expect liquidity will likely change within the next two fiscal years.

**Manageable debt with increasing pension pressure as the system approaches full funding in fiscal 2028**

After the series 2021 issuance, Lenox will have roughly \$14.6 million in debt, a portion of which is self-supporting debt. While the five-year capital plan is a sizable \$102.3 million, the town needs to undertake feasibility studies; management is looking to replace the wastewater-treatment plant before looking into other identified projects. We note that additional debt plans are sizable and that further borrowing is likely to occur outside of our two-year outlook.

## Pension and OPEB highlights

We do not view pension and OPEB liabilities as a credit pressure for Lenox. While we think some assumptions used to build the pension's actuarially determined contribution reflect, what we view as, weak assumptions and methodologies that increase unexpected contribution-escalation risk, we expect short-term costs will likely remain manageable.

Although OPEB costs are payable on a pay-as-you-go basis, the town established an OPEB trust fund to prefund a small portion of the liability. At fiscal year-end 2020, the OPEB trust contained \$5.2 million in assets.

As of June 30, 2020, Lenox participates in:

- Berkshire County Contributory Retirement System, which was 83.8% funded, with a net pension liability of about \$3 million; and
- Lenox's defined-benefit plan that provides coverage for eligible retirees and their survivors, which was 23.52% funded, with a net OPEB liability of about \$17 million.

## Strong Institutional Framework

The Institutional Framework score for Massachusetts municipalities is strong.

	Most recent	--Historical information--		
		2020	2019	2018
<b>Very strong economy</b>				
Projected per capita effective buying income as a % of U.S.	163.1			
Market value per capita (\$)	256,923			
Population		5,122	5,053	4,984
County unemployment rate(%)		9.1		
Market value (\$000)	1,315,959	1,267,645	1,248,616	
Ten largest taxpayers as % of taxable value	12.1			
<b>Strong budgetary performance</b>				
Operating fund result as a % of expenditures		(1.9)	0.1	1.1
Total governmental fund result as a % of expenditures		1.4	1.9	1.5
<b>Very strong budgetary flexibility</b>				
Available reserves as a % of operating expenditures		24.5	24.0	27.0
Total available reserves (\$000)		6,336	5,893	6,403
<b>Very strong liquidity</b>				
Total government cash as a % of governmental fund expenditures		53.2	53.2	56.2
Total government cash as a % of governmental fund debt service		12,351.2	3,678.1	3,595.8
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Very strong debt and long-term liabilities</b>				
Debt service as a % of governmental fund expenditures		0.4	1.4	1.6
Net direct debt as a % of governmental fund revenue	19.1			
Overall net debt as a % of market value	0.4			

## Lenox, Massachusetts Select Key Credit Metrics (cont.)

	Most recent	--Historical information--		
		2020	2019	2018
Direct debt 10-year amortization (%)	68.7			
Required pension contribution as a % of governmental fund expenditures		3.4		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		5.5		

**Strong Institutional Framework**

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
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 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
- 2020 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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