S&P Global
Ratings

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Summary:

Revere, Massachusetts; General Obligation; Non-School State Programs

Primary Credit Analyst:
Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Secondary Contact:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

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Credit Profile		
Revere GO		
Long Term Rating	AA/Stable	Upgraded
Underlying Rating for Credit Program	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating on Revere, Mass.' general obligation (GO) debt one notch to 'AA' from 'AA-'. The outlook is stable.

The rating action reflects our opinion of the city's improved market value and budgetary performance. We believe budgetary flexibility factors have improved due to recent strong economic performance.

The city's full-faith-and-credit pledge, subject to Proposition 2 1/2 limits, secures the bonds. We rate the limited-tax GO debt on par with our view of Revere's general creditworthiness, reflected in the rating on the unlimited-tax GO bonds.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 26.8% of total-governmental-fund expenditures and 11.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 2.4% of expenditures and net direct debt that is 31.3% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other-postemployment-benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Strong economy

We consider Revere's economy strong. The city, with an estimated population of 53,157, is in Suffolk County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 103.5% of the national level and per capita market value of $94,795. Overall, market value grew by 9.4% over the past year to $5 billion in fiscal 2017. The county unemployment rate was 3.4% in 2016.

Revere is home to the first public beach in the nation, formerly known as "Coney Island of New England," with thousands of visitors in the summer taking advantage of the various amusements. Although the beachfront deteriorated in the 1950s and a number of businesses left, the city has witnessed a renewed interest recently with developers attracted to its access to Boston and Logan International Airport, as well as access to public transportation.

Overall, the city expects to complete about 2,500 new apartments over the next three years. Recent developments include:

- Vanguard at Waterfront Square, a 194-unit, transit-oriented rental community poised to expand to 900 residences, as well as offices, hotels, and retail; and
- Broadway Central Business District's revitalization, which received a MassWorks grant to improve sidewalks, lighting, and crosswalks along Broadway to attract new businesses.

Revere has also launched a planning process to determine the best way to develop two large tracts of land: Suffolk Downs and Wonderland Greyhound Park. Once developed, these parcels will likely further contribute to the city's economy.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Management remains conservative with its approach to budgeting. Management calculates revenue and expenditure assumptions using historical trends, and it performs budget monitoring frequently with monthly budget updates to the city council. Currently, the city has a five-year forecast regarding long-term financial plans; however, it has not yet formalized the plan, which is inconsistently reviewed and produced. Revere's five-year capital improvement plan identifies funding sources of a few projects but focuses more on immediate projects.

The city is working with Edward J. Collins Jr. Center to develop more-comprehensive, long-term financial and capital plans, as well as formalizing official debt-management and reserve policies. The city currently follows commonwealth guidelines regarding investments, and management provides the city council with monthly reports on investment holdings and earnings.

Strong budgetary performance

Revere's budgetary performance is strong, in our opinion. The city had operating surpluses of 3.7% of expenditures in the general fund and 4.9% of expenditures across all governmental funds in fiscal 2017.

Management credits its aggressive collection of delinquent-tax accounts as the main source of the surplus. Motor vehicle and other excise tax collections also performed well.

For the past three fiscal years, Revere has appropriated surplus revenue toward its budget each year; it, however, has successfully reduced its reliance on the appropriation of reserves to balance the budget. Management has requested each department reduce budgets by 5% each year. So far, operating results for fiscal 2018 have been performing in-line with the budget. We believe results should compare with previous levels due to no sudden changes to the city's base-line assumptions.

For fiscal 2019, while in the initial stages of budget adoption, the city has historically appropriated some reserves into the budget; it has been able to regenerate these reserves through positive budget variances. We also note the city is in labor contract negotiations, and management is aware of keeping any changes within Proposition 2 1/2 limits so as not to weaken budgetary results. Property taxes generate 44% of revenue while state aid accounts for 48%.

Very strong budgetary flexibility

Revere's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 19% of operating expenditures, or $33.8 million.

Although the city does not have a formal reserve policy, Revere has maintained available fund balance of more than 15% of expenditures for the past three fiscal years. The city also follows an informal policy of transferring all free cash into the stabilization fund at fiscal year-end, as well as depositing 15% of all revenue received from auctions, land sales, and such into the fund.

Management wants to reduce the city's dependence on revenue appropriation, and it hopes to eliminate this practice during the next two fiscal years to three fiscal years.

We believe Revere's budgetary flexibility will likely remain very strong with management's continuous efforts to reduce overspending and tighten expenditure control.

Very strong liquidity

In our opinion, Revere's liquidity is very strong, with total government available cash at 26.8% of total-governmental-fund expenditures and 11.3x governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

The city does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, we do not expect deterioration in liquidity over the next two fiscal years. Therefore, we expect Revere to maintain its very strong liquidity profile. We believe Revere's portfolio is not aggressive in its use of investments.

Adequate debt-and-contingent-liability profile

In our view, Revere's debt-and-contingent-liability profile is adequate. Total-governmental-fund debt service is 2.4% of total-governmental-fund expenditures, and net direct debt is 31.3% of total-governmental-fund revenue. Overall net debt is low at 1.3% of market value, which is, in our view, a positive credit factor.

Following this issuance, Revere will have approximately $132 million in total direct debt outstanding. The city does not currently expect to issue additional debt over the next several years.

Revere has also entered into a consent agreement with the U.S. Environmental Protection Agency (EPA) to bring sewer infrastructure to approved levels. Although management has not yet determined the cost of the project, the city has authorized approximately $70 million of sewer system work. The current deadline set by the EPA requires all work to be done by 2022. We believe revenue generated by the city's sewer department will cover all repair costs; therefore, the debt will be self-supporting. Management is aware of the deadline and that rates will increase sharply, creating a burden on ratepayers. The city has been successfully working with the EPA to extend the deadline, acknowledging work already done.

In our opinion, Revere's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. Revere's combined required pension and actual OPEB contribution totaled 8.6% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 5.4% represented required contributions to pension obligations and 3.1% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2017. The funded ratio of the largest pension plan is 57%.

Revere maintains its own pension plan: Revere Retirement System. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the city's proportionate share of the net pension liability was about $98.4 million, with 57% funded as of fiscal 2017, based on an assumed rate of return of 7.6%. Due to the funded ratio, we believe contributions will likely continue to rise over the next few fiscal years. While the city is currently managing these costs, we believe it has a limited ability to control future pension-liability growth.

Revere also provides OPEB to retirees. At June 30, 2017, the most recent actuarial valuation, management reported a $205.9 million OPEB liability. The city has traditionally funded OPEB through pay-as-you-go financing. It paid $6.4 million, or 3.1% of expenditures, which was 43.4% of the annual required contribution, in fiscal 2017. Revere's large pension and OPEB liabilities could pressure the budget over the next few fiscal years.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Revere's strong budgetary performance and strong underlying economy, supported by its access to the Boston MSA. We believe Revere's very strong liquidity and planned maintenance of very strong budgetary flexibility further support the rating. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

We could raise the rating if management were to maintain very strong budgetary flexibility at levels we consider comparable with higher-rated peers through consistent positive financial performance while reducing its long-term retirement liabilities and debt, coupled with improved economic indicators in-line with higher-rated peers.

Downside scenario

If budgetary performance were to deteriorate, if reserves were to decrease, or if the debt-and-contingent-liability profile were to weaken due to additional debt issuance or increased retirement costs, we could lower the rating.

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
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 30, 2018)		
Revere GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Underlying Rating for Credit Program	AA/Stable	Upgraded
Revere GO		
Long Term Rating	AA/Stable	Upgraded
Underlying Rating for Credit Program	AA/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.