S&P Global
Ratings

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Summary:

Norfolk, Massachusetts; General Obligation; Note

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Table Of Contents

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Credit Profile		
US$25.9 mil GO mun purp loan of 2024 bnds ser 2024 dtd 04/10/2024 due 04/01/2054		
Long Term Rating	AA+/Stable	New
Norfolk Town GO BANs		
Short Term Rating	SP-1+	Affirmed
Norfolk Twn GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Norfolk Twn GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Norfolk, Mass.' approximately $25.9 million 2024 general obligation (GO) municipal purpose loan bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's GO bonds outstanding and its 'SP-1+' short-term rating on the town's GO bond anticipation notes (BANs) outstanding.
- The outlook, where applicable, is stable.

Security

The town's full faith and credit, subject to limitations under Proposition 2-1/2, secures the debt outstanding. Voters exempted a portion of debt service on the current issuance from Proposition 2-1/2 levy limitations. We do not make a rating distinction between the limited- and unlimited-tax GO pledges because of Norfolk's resource flexibility under the levy limit.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Norfolk maintains a very strong capacity to pay principal and interest when the notes come due. The town has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

Credit overview

Norfolk's credit profile is characterized by a growing tax base with greater than 10% growth in each of the past two years and high underlying wealth and income metrics, with generally conservative financial management practices leading to consistently balanced financial operations. Reserves have historically lagged those of state peers and continue to constrain upward rating movement, and retirement liabilities could increasingly pressure the budget. The town is highly reliant on property taxes (77% of fiscal 2023 general fund revenue) to fund operations, with collections consistently above 98% of the current-year levy and providing a predictable revenue base. Education costs accounted for about 55% of 2023 operating expenditures, consistent with prior years, but with teacher contracts settled through fiscal 2026 and stable state education aid, we do not expect material expenditure volatility or growth in the near term. The fiscal 2023 (June 30)balanced operating results reflect the multiyear trend of revenue and expenditures outperforming the budget. Management reports that fiscal 2024 revenue and expenditure are also aligned with the budget. The fiscal 2025 budget process is underway, but we do not expect material change in the final budget relative to the recent adopted one and we expect near-term financial trends will mirror recent results.

The town, in conjunction with the Collins Center at the University of Massachusetts, recently finalized a new five-year financial plan, which outlines base assumptions and identifies potential financial gaps in future years. Management expects to update the plan annually and we will evaluate its integration into its budgeting; should management continue updating and incorporating the plan into its budget development process, it could improve our view of its financial management policies.

Norfolk participates in a multiple-employer pension plan, which as of the Dec. 31, 2022 measurement date was 69% funded and the town had a proportionate share of the net pension liability of about $17.5 million. The plan uses a 7.75% discount rate, which is among the highest in the state, and is significantly above the 6% discount rate we believe mitigates cost volatility in public-sector pension plans, which in addition to the level-percent basis, could lead to material cost growth. The town also operates a single-employer other postemployment benefit (OPEB) plan, which as of the 2023 audit, was 0.8% funded, with a $32.3 million net OPEB liability. As with many Massachusetts municipalities, Norfolk expects to redirect resources to fund OPEBs once the pension plan is fully funded; in the interim, we expect the OPEB liability and annual cost to increase.

The rating further reflects our view of the town's:

- Stable residential tax base, with participation in the broad and diverse Boston metropolitan area;
- Well-embedded financial policies and practices, including the use of multiple years of trend data when projecting revenues; regular budget-to-actual monitoring; a five-year capital improvement plan; and a debt policy that limits the financing term to the useful life of the asset, the ratio of net debt to total assessed value to 1.5%, and general fund nonexempt debt to 10% of general fund revenues, and requires 50% of principal outstanding to be repaid within 10 years, as well as a policy of holding 5%-10% of general fund revenue in reserves, along with a strong institutional framework score; and
- Limited future debt and capital needs, but with a large pension and OPEB liability and expectations that costs are likely to increase. For more on our view of the state's pension plans, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.

Environmental, social, and governance

We analyzed the town's environmental, social, and governance (ESG) factors relative to its economy, management, financial measures, and debt and liability profile. We view ESG risks as being neutral in our credit rating analysis.

Outlook

We do not anticipate changing the rating within the outlook period, as we expect the town to maintain at least balanced operations over the next several years.

Downside scenario

We could consider a negative rating action if the town's budgetary flexibility or liquidity levels decrease due to imbalanced operations or discretionary use of funds.

Upside scenario

We could raise the rating if the town demonstrates sustained maintenance of its budgetary flexibility at very strong levels, combined with economic metrics improving to levels on par with those of 'AAA' rated entities, along with improvement in retirement liability funded ratios and continued annual adoption of its capital and financial plans.

Norfolk, MA -- Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	158			
Market value per capita ($)	212,865			
Population			12,329	12,004
County unemployment rate(%)			3.3	
Market value ($000)	2,624,411	2,366,261	2,038,053	
Ten largest taxpayers % of taxable value	3.6			
Strong budgetary performance				
Operating fund result % of expenditures		1.2	2.6	4.2
Total governmental fund result % of expenditures		3.0	3.5	5.4
Strong budgetary flexibility				
Available reserves % of operating expenditures		11.8	11.4	11.1
Total available reserves ($000)		5,986	5,425	5,171
Very strong liquidity				
Total government cash % of governmental fund expenditures		73	44	43
Total government cash % of governmental fund debt service		1,648	876	836
Adequate management				
Financial Management Assessment	Standard			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.5	5.0	5.2
Net direct debt % of governmental fund revenue	80			
Overall net debt % of market value	2.2			
Direct debt 10-year amortization (%)	45			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		2.2		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

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