S&P Global
Ratings

RatingsDirect®

Summary:

Nashua, New Hampshire; General Obligation

Primary Credit Analyst:
Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

Secondary Contact:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Table Of Contents

Summary:

Nashua, New Hampshire; General Obligation

Credit Profile		
US$69.91 mil GO bnds ser 2021 due 09/01/2046		
Long Term Rating	AAA/Stable	New
Nashua GO		
Long Term Rating	AAA/Stable	Affirmed
Nashua GO bnds (federally taxable) ser 2020 due 12/01/2045		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Nashua, N.H.'s series 2021 general obligation (GO) bonds and affirmed its 'AAA' long-term rating on the city's existing GO debt. The outlook is stable.

The city's full-faith-and-credit pledge secures the bonds. Officials intend to use series 2021 bond proceeds to fund various capital improvement and construction projects.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), we rate Nashua higher than 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 bond debt service is at limited risk of negative sovereign intervention. In 2019, local property taxes generated 75% of revenue, which demonstrated a lack of dependence on central government revenue.

Credit overview

The city has a history of outperforming its budget due to conservative budgetary assumptions and careful in-year monitoring. This has led to the maintenance of very strong available reserves, in particular since 2015. Additionally, we view the city's low reliance on state aid, along with its high reliance on local property taxes, as positive factors that lead to rating stability. The city expects fiscal 2021 year end results to have outperformed the budget in the positive by approximately $6 million. Its 2022 budget, totaling $291 million had no material changes from previous budgets and we expect the city to maintain continued financial flexibility over at least the medium term. Over the longer term, pension and benefit costs could pressure the budget, although we do not believe they pose an immediate budgetary pressure. We do not expect to change the rating within the outlook period.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 60.7% of total governmental fund expenditures and 7.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 7.7% of expenditures and net direct debt that is 40.9% 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
- Very strong institutional framework score.

Environmental, social, and governance (ESG) factors

We consider the city's social risks in line with those of the sector. We view Nashua's governance risks as being generally in line with those of peers, although pension funding discipline and assumption choices will likely lead to elevated costs for the city. We view the city's environmental risks as higher than average for the sector, due to the potential for flooding and winter-weather events. However, we believe management is working to mitigate these risks through its full-time Office of Emergency Management, which develops plans for hazard mitigation, weather emergencies, and disaster recovery. The office works year-round with city departments and community stakeholders to identify and develop mitigation projects, emergency plans, and education for residents.

Stable Outlook

Downside scenario

Should the city's financial performance deteriorate, due to rising fixed costs or variable revenues and expenditures in the current health and economic environment, leading to fund balance drawdowns, we could lower the rating.

Credit Opinion

Very strong economy

We consider Nashua's economy very strong. The city, with an estimated population of 89,727, is located in Hillsborough County in the Manchester-Nashua, N.H. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 124% of the national level and per capita market value of $132,406. Overall, the city's market value grew by 8.2% over the past year to $11.9 billion in 2020. The county unemployment rate was 7.0% in 2020.

Nashua serves as a key state commercial and industrial center, and it is also a dominant regional hub for retail trade due to New Hampshire's lack of a statewide sales tax and direct access to several Massachusetts communities. In addition to the strong retail base, technology and health care remain major industries. Leading private employers include: BAE Systems, Southern New Hampshire Medical Center, St. Joseph Hospital & Trauma Center, and Oracle Corp. Nashua continues to add to its already established and diverse economy with multiple residential and commercial developments underway. Management reports that construction has not slowed due to the pandemic, and had minimal commercial closures. We expect that as the state's major economic center, with a diverse employment base, commercial and residential investment is likely to continue over the long run.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Prudent budgeting practices include conservative revenue and expenditure assumptions and consistent budget monitoring. Management analyzes, at least, five years of historical trends and incorporates them when formulating the budget. Long-term financial plans include management performing a three-year forecast for revenue and expenditures and maintaining a formal six-year capital improvement plan (CIP) it updates annually, including short- and long-term projects, that identifies project funding.

The city's formal debt-management policy is more stringent than state guidelines, and its investment policy mirrors those guidelines. Nashua has moved its investment and budget-to-actual reporting to the board of aldermen to an online format, with real time updates; we understand these are regularly reviewed at board meetings. The city's formal reserve policy requires maintaining unassigned fund balance at a minimum 10% of the operating budget, which it adheres to currently. The board can amend the budget consistent with state law.

Strong budgetary performance

Nashua's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 0.8% of expenditures, and surplus results across all governmental funds 1.7% in fiscal 2020. General fund operating results have been stable, at 2.2% in 2019 and 1.5% in 2018.

Our assessment of performance includes data adjustments for recurring transfers and one-time revenues and expenditures.

Over the past several years, the city has produced positive operating results, due to conservative assumptions and careful in-year monitoring of revenues and expenditures. For fiscal 2021, an increase in state education and general aid was used to address capital needs and add to capital reserves. The budget excluded certain capital projects, which we expect management to include in future budgets or through grants. Management did not make material revenue adjustments in the 2021 budget, but received unbudgeted federal recovery funds: approximately $15 million from state and federal resources, as well as $8 million in American Rescue Plan Act funds. The city expects to receive an additional $8 million in ARPA funds in May 2022. The city has not yet solidified plans on what it will allocate the ARPA funds and has until December 2024 to commit the entirety of the funds.

The city's fiscal 2022 budget is $290 million, with no significant or unexpected changes to revenues or expenditures compared with previous budgets. Given the stable revenue profile, with property taxes accounting for about 75% of general fund audited revenue annually and an average 99% collection rate over the past few years, along with the city's history of outperforming the budget, we believe management will adjust the budget to maintain at least break-even results.

Very strong budgetary flexibility

Nashua's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 22% of operating expenditures, or $62.7 million.

We included in our view of available fund balance committed general fund reserves, which management can make available for general operating use with board approval. Nashua has historically maintained very strong reserves, despite an annual appropriation of reserves to balance the budget. We expect reserves to remain very strong.

Very strong liquidity

In our opinion, Nashua's liquidity is very strong, with total government available cash at 60.7% of total governmental fund expenditures and 7.9x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

Nashua's frequent debt issuance of GO bonds demonstrates its strong access to external liquidity. In addition, the city does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The city does not currently have aggressive investments; most investments are in governmental funds, mainly federal government obligations and certificates of deposit. At this time, we do not expect a material change in the city's cash position or market access that could weaken our view of its liquidity profile.

Strong debt and contingent liability profile

In our view, Nashua's debt and contingent liability profile is strong. Total governmental fund debt service is 7.7% of total governmental fund expenditures, and net direct debt is 40.9% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, which is in our view a positive credit factor.

Following this issue, Nashua will have about $392 million of total direct debt, of which we consider nearly $256 million self-supporting enterprise or component unit debt. In addition to the investment and debt issuances for standard capital investment, we understand the city is undertaking a middle school construction project for which it is expected to issue additional debt in the coming years. While the city should receive state aid consistent with aid on its current school debt, it could weaken our view of the city's debt profile should debt service dramatically increase as a percent of total governmental fund expenditures.

Pension and other postemployment benefits

In our opinion, a credit weakness is Nashua's large pension and OPEB obligation.

- While the city's largest pension plan uses an actuarial contribution, we believe it has limited ability to control cost trajectory and some of the assumptions could lead to volatile costs.
- The city provides OPEBs for eligible retirees, although the majority of the total OPEB liability of about $49.5 million is accounted for through an implicit rate subsidy. We do not view direct OPEB costs as a credit or budgetary pressure.

As of June 30, 2020, the city participated in the following defined-benefit plans:

- New Hampshire Retirement System: 58.7% funded, $321 million proportionate share of the net pension liability (NPL)

- Public Works Employees' Retirement System: 85.5% funded, $7.4 million NPL

Nashua's combined required pension and actual OPEB contributions totaled 7.8% of total governmental fund expenditures in 2020. Of that amount, 7.0% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The city made its full required pension contribution in 2020. The funded ratio of the largest pension plan is 58.7%.

The New Hampshire Retirement System accounts for about 94% of the city's total pension liability. The discount rate was recently dropped to 6.75% from 7.5%, which increased the unfunded liabilities. In addition, due to the low funding ratio, which stems from past underfunding of contributions, aggressive assumptions, and weak market performance, we expect contributions will likely continue to increase during the next few fiscal years, although we recognize that the system is removing some risk by lowering its discount rate. The city has a limited ability to control pension-liability growth. Over the long-term, we believe its large proportionate share of the pension liability and low funding could lead to rising costs that could pressure long-term budget.

Very strong institutional framework

The institutional framework score for New Hampshire municipalities is very strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021