

# **RatingsDirect®**

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## **Summary:**

## **Salem, New Hampshire; General Obligation**

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Credit Profile		
US\$9.88 mil GO bndds due 10/01/2044		
<i>Long Term Rating</i>	AAA/Stable	New
Salem Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Salem, N.H.'s series 2024 \$9.880 million general obligation (GO) debt.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt.
- The outlook is stable.

## Security

Salem's full-faith-and-credit pledge secures the town's GO bonds outstanding.

Officials intend to use the bond proceeds to finance the first phase of construction of a new police station and the Millville Lake dam rehabilitation project.

## Credit overview

The rating reflects Salem's history of positive operating results and extremely strong fund balance levels, underpinned by an affluent, growing economy with very strong income and wealth levels. While the town is mostly residential, with additional developments in the pipeline, it is also experiencing commercial and mixed-use growth. Salem has historically positive operations, with consistent surpluses over the last decade. Although the fiscal 2023 audit is not yet completed, the town is anticipating another year-end surplus after seeing an uptick in rooms and meals tax and vacancies. The town commits nearly \$4 million per year toward capital projects to help with smaller infrastructure and capital needs. Despite the transfers, officials have been able to manage the town's \$50 million budget, increasing fund balance to levels we consider extremely strong. Management is actively trying to reduce fund balance levels slightly by recognizing the extremely strong levels. Fiscal 2024 is tracking well, with exceptional variances in building permits as a result in a change in the master plan related to the Tuscan development, a new mixed-use expansion currently in development. Officials are expecting another surplus year-end result for 2024.

Subsequent to this issuance, Salem will have roughly \$39.1 million in direct debt outstanding. The town is currently undergoing phase 1 of development plans for a new police station, and plans to issue two additional tranches of debt in relation to the project. The total cost of the project is projected to be roughly \$38.6 million. Based on preliminary numbers, we estimate that upon completion of the project, debt service carrying costs will increase to 8% in fiscal 2026, from 1.4% in fiscal 2022. Moreover, we believe that even with the additional debt, the amount will still be

manageable within the town's budget. In our opinion, a credit weakness is Salem's large pension and other postemployment benefits (OPEB) obligation. While OPEB costs are currently low and the town has an OPEB trust set up to prefund its obligation, we believe costs are likely to grow.

The town participates in the following retirement plans:

- New Hampshire Retirement System (NHRs), which is 65.1% funded, with a proportionate share of the net pension liability equal to \$52.2 million as of fiscal 2022; and
- An OPEB for eligible retirees: at Jan. 1, 2022, its OPEB unfunded accrued liability totaled \$34.8 million, with a funded ratio of less than 1%.

The rating reflects our opinion of the town's:

- Very strong wealth and income metrics, with a growing economy supported by access to the broad and diverse Boston-Cambridge-Newton metropolitan statistical area (MSA), as shown by a 13.7% increase in taxable assessed value (AV) over the last year, to over \$7.7 billion;
- Strong financial policies and practices, highlighted by monthly budget-to-actual reports to the town council; detailed formalized five-year financial projections and five-year capital improvement plans, both of which are updated annually; maintenance of formal investment and debt management policies; and a reserve policy that calls for the unassigned fund balance to be sustained at 6%-10% of current-year budgeted expenditures, with a strong institutional framework score;
- Stable financial position and maintenance of very strong reserves, which is expected to continue over the outlook period; and
- Weakening debt and liability profile, with large additional debt plans looming and sizable unfunded pension and OPEB liabilities.

### **Environmental, social, and governance**

We assessed Salem's environmental, social, and governance (ESG) factors relative to the town's economy, management, financial measures, and debt and liability profile, and determined that they are neutral in our credit analysis. In addition, we understand Salem has enhanced its cyber security through regular training.

### **Ratings above the sovereign**

Salem's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013), the town has a predominantly locally derived revenue source, with independent treasury management from the federal government.

## **Outlook**

The stable outlook reflects S&P Global Ratings' expectation that the town will likely maintain structural balance and extremely strong reserves. In addition, we view other credit factors, such as the town's economy and management, as stable and unlikely to materially change within the two-year outlook period.

## Downside scenario

We could lower the rating if budgetary performance and reserves were to weaken, including, but not limited to, an increase in debt burden and annual costs, accounting for pension and OPEB.

### Salem, New Hampshire--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	141			
Market value per capita (\$)	273,490			
Population	29,709	29,503		
County unemployment rate (%)	2.3			
Market value (\$000)	8,355,948	7,780,941	6,845,018	
Ten largest taxpayers % of taxable value	9.6			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures	2.6	2.3	7.7	
Total governmental fund result % of expenditures	4.0	3.4	9.8	
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures	39.0	38.2	37.2	
Total available reserves (\$000)	19,675	19,081	16,694	
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures	121	100	52	
Total government cash % of governmental fund debt service	8,755	6,476	2,920	
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures	1.4	1.5	1.8	
Net direct debt % of governmental fund revenue	57			
Overall net debt % of market value	0.5			
Direct debt 10-year amortization (%)	49			
Required pension contribution % of governmental fund expenditures	9.3			
OPEB actual contribution % of governmental fund expenditures	2.5			
<b>Very strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits.  
Data points and ratios may reflect analytical adjustments.

## Related Research

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

## **Summary: Salem, New Hampshire; General Obligation**

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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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