

RatingsDirect®

Summary:

Acton, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US\$5.315 mil GO mun purp loan bnds ser 2024 dtd 03/28/2024 due 03/15/2039		
Long Term Rating	AAA/Stable	New
Acton Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Town of Acton, Mass.' \$5.315 million series 2024 general obligation (GO) municipal purpose loan bonds.
- At the same time, we affirmed our 'AAA' rating on the town's long-term GO debt outstanding.
- The outlook is stable.

Security

The town's full faith and credit pledge, subject to the limitations of Proposition 2 1/2, secures the bonds and GO debt and bond anticipation notes outstanding. Despite commonwealth levy limit laws, we did not make a rating distinction between Acton's limited-tax debt and the town's general creditworthiness because our analysis of Acton's financial and economic conditions already includes the statutory limitation imposed on the town's revenue-raising ability. Bond proceeds will be used to finance a variety of capital projects.

Credit overview

Fiscal 2023 net operating performance realized some favorable budget variances due to vacancies and local receipts which trended stronger than forecast. Health care costs have increased materially for fiscal 2024 resulting in an advance loan from the Town of \$451,000 followed by a mid-year 22.8% premium increase. Year to date, the town anticipates expenditure savings generated by a hiring freeze and effectively managing expenditures will result in an ability to absorb these costs without the use of reserves. Therefore, Acton is exploring the need for additional funding and health care alternatives for fiscal 2025 budget. The town is proposing a \$6.6 million levy override to offset health care and special education cost increases. The town intends to maintain free cash, a portion of the assigned general fund balance, at 3%-5% in line with their reserve goal. We anticipate total available reserves (assigned and unassigned on a generally accepted accounting principles basis) will remain relatively stable and strong during the next two years.

Acton reports ongoing developments include a multi-phase 230-unit multifamily development; a car dealership; , a 37-unit age-restricted housing development; and retail and warehouse space. We expect that the town's proximity to Boston and other employment centers, along with a strong school system, will continue to influence a similar pace of assessed value growth in the next two years. The tax base increased nearly 15% in 2023 (compared with an annualized average of 5% during the three years prior) in part due to appreciation of market values and also moderation of a tax

abatement with Insulet, a medical device manufacturer.

Following this issuance, the town has approximately \$28.4 million in total direct debt (including capital leases) of which we consider about \$8.9 million self-supporting enterprise debt. Acton has preliminarily identified needs for electric improvements, sidewalks, stormwater and a Department of Public Works facility during the next few years though it is too early for cost estimates. In our view the town's Middlesex County Retirement System pension plan is inadequately funded at about 53% of the total liability or \$56.4 million. Although the town has contributed more than the actuarially determined contribution (ADC) in four of the past five fiscal years and fixed costs are a manageable portion of the budget, we believe that there is potential for volatility in annual costs given the somewhat elevated discount rate assumption of 7.1%. Acton's approved funding schedule will fully fund the system by 2037. In addition, the town's other postemployment benefit (OPEB) liability is 43% funded or about \$13.5 million per the fiscal 2023 audit. Acton has funded more than the ADC for the OPEB liability in each of the past five fiscal years.

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

- High income levels, primarily residential tax base, and access to a broad and diverse metropolitan statistical area;
- Good financial policies and practices under our Financial Management Assessment methodology that include long-term financial forecasts, annually updated 10-year capital improvement plan, quarterly reporting of budget-to-actual performance, and reserve policy to maintain 3%-5% cash, coupled with a strong institutional framework score;
- Stable net operating performance and strong reserve levels that could be pressured in future years due to rising health care costs; and
- Low overall debt profile with some additional debt plans. In our view pension and OPEB liabilities might not be an immediate source of credit pressure; however, funding levels are low and our expectation is that costs will increase.

Environmental, social, and governance factors

We analyzed Acton's environmental, social, and governance risks relative to the town's economy, management, financial measures, and debt and liability profile, and determined that all are neutral in our credit analysis. The town maintains climate action, municipal vulnerability, stormwater management, comprehensive emergency, and hazardous management plans for guidance in contingencies. In addition, Acton annually funds culvert and stormwater infrastructure improvements as flood mitigation efforts.

Outlook

The stable outlook reflects Acton's consistent financial results, coupled with a robust local economy. We do not expect to change the rating during the outlook period.

Downside scenario

If the town reduces reserves due to planned or unplanned expenditures, or if retirement costs rise significantly due to the plan's low funded ratio and optimistic assumptions, we could lower the rating.

Rating Above The Sovereign

Acton's GO bonds are eligible to be rated above our rating on the sovereign, because we think the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), Acton has a predominately locally derived revenue source, with property taxes generating 92% of general fund revenue. It also has independent taxing authority and treasury management from the federal government.

Acton, Massachusetts--Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	209			215
Market value per capita (\$)	251,475	235,457	204,929	194,322
Population (no.)			24,902	24,411
County unemployment rate(%)		2.6	3.1	4.5
Market value (\$000)	6,262,232	5,863,343	5,103,142	4,743,584
Ten largest taxpayers % of taxable value	3.5	3.7	4.2	4.1
Strong budgetary performance				
Operating fund result % of expenditures		0.6	0.3	0.8
Total governmental fund result % of expenditures		2.0	(1.0)	2.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		11.2	11.2	10.0
Total available reserves (\$000)		12,485	11,974	10,278
Very strong liquidity				
Total government cash % of governmental fund expenditures		22	19	19
Total government cash % of governmental fund debt service		756	617	867
Strong management				
Financial Management Assessment	Good	Good	Good	Good
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.9	3.1	2.2
Net direct debt % of governmental fund revenue	16	23	26	27
Overall net debt % of market value	1.4	1.7	2.0	2.3
Direct debt 10-year amortization (%)	68	63	68	73
Required pension contribution % of governmental fund expenditures		4.3	3.9	3.9
OPEB actual contribution % of governmental fund expenditures		1.6	1.5	1.6
Strong institutional framework				

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

Related Research

- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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