

# RatingsDirect®

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## Summary:

# Acton, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$12.515 mil GO rfdg bnds (Unlimited Tax) ser 2013 due 08/22/2023

*Long Term Rating*

AAA/Stable

New

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating, and stable outlook, to the town of Acton, Mass.' series 2013 general obligation (GO) refunding bonds.

At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the town's existing GO debt. The outlook is stable.

The rating reflects what we view as the town's:

- Good location, with access to diverse labor markets throughout the Boston metropolitan statistical area (MSA);
- Very strong household income and per capita market values;
- Strong financial position supported primarily by reliable property taxes (with no appreciable funding interdependence with the federal government), coupled with good financial management practices; and
- Low debt burden with limited additional capital needs.

The town's full faith and credit GO pledge secures the bonds. We understand that officials will use proceeds to refund a portion of Acton's debt to achieve present value savings.

Acton, with an estimated population of 20,331, is 25 miles northwest of Boston. The town is a suburban, primarily residential community that enjoys good access to the greater Boston metropolitan statistical area's employment centers, including the Route 128 high-tech corridor. The town's desirable location has contributed to favorable economic indicators. Unemployment averaged 4.3% in 2012, well below both commonwealth and national rates. Household income levels are about double the national level. Median household and per capita effective buying income was 193% and 203% of U.S. level respectively.

The town's property tax base is sizable, with total assessed value (AV) at \$3.7 billion and a state equalized valuation of \$3.9 billion. Residential properties account for about 87% of those values. Before 2008, the tax base had seen solid growth due to property appreciation, demonstrated by a 2008 median home value that was more than three times the national level. However, consistent with national trends, values have decreased and growth has abated. AV has decreased by 7.7% since fiscal 2008, but values have since stabilized for fiscal 2012, and increased by 1% in fiscal 2013. Despite the decreases, we consider the town's per capita equalized value extremely strong at \$173,000. We also consider the tax base very diverse, as the 10 leading taxpayers account for only 4.4% of AV.

We believe Acton continues to have a favorable operating performance and growth in reserves. For fiscal 2014, the town adopted a balanced general fund budget totaled \$84 million, or a 2.5% increase from the previous year.

Management is still closing out fiscal 2013; officials report favorable budget-to-actual variances and expect to end the year with another surplus. Acton reported a net operating surplus of \$763,000 (1% of budget) in fiscal 2012, the fourth surplus in the past five audited years. Available general fund balance totaled about \$11 million, or what we consider a strong 13% of expenditures. General fund liquidity is sufficient, in our opinion, with the \$13 million of cash and investments reported on the general fund balance sheet equal to nearly 58 days' expenses. Property taxes are the main source of revenue, constituting about 85% of the 2012 general fund. Intergovernmental aid makes up about 9%. Current-year collections remain what we view as strong, typically exceeding 99%, providing Acton with a stable and predictable revenue source. The town has also locked in all labor agreements through fiscal years 2014 and 2015, providing a large degree of certainty in the planning process for future budgets.

Standard & Poor's considers Acton's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Acton's overall debt position is favorable, in our opinion. Including overlapping municipal and school debt and net of state school construction aid and the self-support of enterprise debt, we consider the town's debt burden low at \$1,274 per capita, or 1% of market value. Acton's debt service carrying charges have been very low, in our opinion, at 4% of total governmental expenditures in each of the past five fiscal years. Amortization of new and existing debt is slightly above average, with officials planning to retire 75% of principal in 10 years and 100% through 2031. In our opinion, the town's additional capital needs are limited; management does not plan to issue any new debt within the next two years.

Acton's other postemployment benefits (OPEB) unfunded actuarial accrued liability has declined significantly to \$31 million from \$57 million according to the latest actuarial study. The decline was mainly due to changes in discount rate to 6.25% from 4.50%. Another reason for the decline was due to the town's success in renegotiating the health insurance plan design and employee contribution rates. Acton also established an OPEB trust in fiscal 2012, and has been contributing about \$1 million per year to the trust since fiscal 2013. In fiscal 2012, the OPEB annual required contribution (ARC) was \$4.3 million (about 5% of budget), and the town's actual payment was \$1.4 million, or 33% of the ARC. For its pension liabilities, the town contributes to the Middlesex County retirement system. Acton is required to fully fund the ARC. The fiscal 2012 pension contribution was \$2.6 million, about 3% of total governmental expenditures. The system is currently 44% funded.

## Outlook

The stable outlook reflects Standard & Poor's view that management will remain proactive and make the necessary adjustments to produce balanced operations as it has historically demonstrated despite budgetary challenges related to slower revenue growth and higher fixed costs. The town maintains what we consider to be a strong reserve position, which, in our view, should provide near-term flexibility to help it manage through the current economic environment. Acton's location also provides a level of economic stability that will provide property tax revenue stability. As such, we do not expect that the rating will change within the two-year parameter of the stable outlook.

## Related Criteria And Research

- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of August 13, 2013)		
Acton Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Acton Twn GO</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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