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Summary:

Acton, Massachusetts; General Obligation; Note

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Credit Profile		
US\$13.695 mil GO muni purp loan bnds ser 2021A dtd 03/15/2021 due 03/15/2050		
<i>Long Term Rating</i>	AAA/Stable	New
US\$1.1 mil GO land acquis bnds (taxable) ser 2021B dtd 03/15/2021 due 03/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
Acton Twn GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Acton, Mass.' 2021 general obligation (GO) bonds, series A and 2021 GO land acquisition bonds, series B. At the same time, we affirmed our 'AAA' rating on the town's long-term GO debt outstanding and our 'SP-1+' short-term rating on the town's bond anticipation notes (BANs) outstanding. The outlook is stable.

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

Credit overview

After several years of planned drawdowns, Acton's operating performance has stabilized in fiscal years 2019 and 2020, which we expect to continue through fiscal 2021. Despite the lower reserve position relative to fiscal 2015 highs, we believe the town's overall credit quality remains commensurate with that of similarly rated peers. In particular, its very strong economy, stable tax base, very low fixed costs, and forward-looking financial planning policies and practices provide continued stability at the 'AAA' rating.

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, on RatingsDirect), the town has a predominately locally derived revenue source with property taxes generating 90% of general fund revenue. It also has independent taxing authority and treasury management from the federal government.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2020, which closed with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 9.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.3% of total governmental fund expenditures and 7.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 24.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of the pandemic to health and public safety, we consider the town's social risks in line with those of the sector. We analyzed Acton's environmental and governance risks relative to the town's economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If the town further reduces reserves on a GAAP basis, 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.

Credit Opinion

Very strong economy

We consider Acton's economy very strong. The town, with a population of 22,162, is in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 215% of the national level and per capita market value of \$214,041. Overall, market value grew by 1.9% over the past year to \$4.7 billion in 2021. The county unemployment rate was 2.3% in 2019.

The town is primarily residential, with residential properties accounting for 89% of total assessed value (AV). Residential market values have grown by 96% over the last five years, and the town reports ongoing developments (including 40 units of senior affordable housing), with the expectation of 3%-5% growth in residential development per year. Commercial development includes 16 new lots and a 120,000-square-foot space currently under construction. Furthermore, the town reports solar panel construction currently in the permitting stage. We expect that its proximity to Boston and other employment centers, along with a strong school system, will continue to influence residential AV

growth beyond the immediate recessionary period. The town did not report any hindrance as a result of COVID-19, with no major employers closing and tax collection remained in line with prior years at 99%. Furthermore, it reported that Insulet Corp. took the lead as a local employer, increasing the number of employees to 1,000 from 800. We expect the growing tax base will continue to support our assessment of the town's very strong economic metrics.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The town coordinates financial and capital planning with its regional school district--one of the major expense drivers--through the Acton Leadership Group (ALG), which includes members of the school committee and the board of selectmen. This group produces the three-year financial projection that generates budget development. The town reviews the past five years to develop budgetary revenue and expenditure assumptions for the upcoming fiscal years. Quarterly budget-to-actual reports are presented to the finance committee and board, and the ALG reviews the town and school district financial performance throughout the year. Acton's investment management policy follows state guidelines and statutory limitations. The capital improvement plan (CIP) committee studies requests and proposals. The CIP covers five years (includes funding sources) and is included in the budget document. The town has an informal reserve policy, with a formal draft policy under review. The draft policy would require state-defined free cash and stabilization reserves to be maintained between 3%-8% of current expenditures, which is in line with past informal practices. Acton has no formal debt management plans.

Adequate budgetary performance

Acton's budgetary performance is adequate, in our opinion. The town had balanced operating results in the general fund of negative 0.3% of expenditures, and slight surplus results across all governmental funds of 0.9% in fiscal 2020.

Following three years of operating deficits, Acton reported balanced operating results for the second year in fiscal 2020. As the town works to reduce its use of budgeted reserves, we expect operating performance to remain stable, although it could face revenue pressure if new growth revenues are unable to keep pace with rising school and retirement costs, or if the town is unable to absorb reductions in intergovernmental aid or excise taxes stemming from the economic contraction.

Local property taxes are the predominant source of general fund revenue, accounting for approximately 92% of all operating revenues. The town has a collection rate of about 99.0%, which was not disrupted during the COVID-19 pandemic. Excise taxes account for about 3.7% of general fund revenues, while intergovernmental aid is about 2.7%.

In fiscal 2020, the town was able to generate break-even results due to state aid coming in as planned and a consistent tax collection rate. To offset potential losses from the pandemic, the town only filled essential vacant positions, and reduced overall expenses by \$1.4 million to plan for potential revenues losses, of which there were none. Furthermore, it received \$2 million in CARES Act funding to cover the associated pandemic costs.

Similar results are expected for fiscal 2021; the town expects a decline in interest income, although we consider it immaterial since it only makes up \$106,000 in the budget. Furthermore, the town has instituted a freeze on hiring and

discretionary spending, and is prepared to make additional cuts if needed through employee attrition and possibly staff reductions in divisions with less demand for services. Given its stable performance over the last few years and consistent track record overall, we believe that it will continue to generate at least adequate results.

Strong budgetary flexibility

Acton's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 9.7% of operating expenditures, or \$9.4 million.

The town's planned use of reserves for nonrecurring costs over the last five years has resulted in a modest year-on-year decline in fund balances for fiscal 2020 to 9.7% as a percentage of expenditures from 10.3% in fiscal 2019. We understand that management plans to replenish any reserves used. If revenues decline, management intends to limit capital spending to maintain current fund balance levels. Given management's deliberate approach to managing fund balances, we expect our view of budgetary flexibility to remain strong.

Very strong liquidity

In our opinion, Acton's liquidity is very strong, with total government available cash at 19.3% of total governmental fund expenditures and 7.8x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We adjusted the town's cash levels to account for funds that we do not believe are readily available. In our view, Acton has strong access to external liquidity if necessary, demonstrated by its issuance of GO debt over the past 20 years. It does not have any contingent liquidity risk from financial instruments, with payment provisions that change on the occurrence of certain events. The town elected to adopt the one-month delay in fourth-quarter tax collections for fiscal 2020 which did not materially affect cash flow. If the state permits further collection delays and the town adopts the measure, it could pressure cash flow. We understand management is not exploring cash-flow borrowing at this time and expect management will ensure consistent cash flow for debt service and operations. We do not expect the town to close 2021 with materially weakened cash levels or an inability to access external markets.

Very strong debt and contingent liability profile

In our view, Acton's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 24.9% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, and approximately 66.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, the town has approximately \$31.4 million in total direct debt (including capital leases) of which we consider about \$5.8 million self-supporting enterprise debt. We understand management is in the process of reviewing the CIP, which will incorporate a long-term bonding strategy and potentially additional debt which is currently undetermined. Given the town's track record of stable performance and strategic approach, we do not expect this to materially change our view of the debt profile.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate source of credit pressure for Acton despite low funding levels and our expectation that costs will increase.

- Because the town's pension actuarially determined contribution (ADC) is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the town's revenue base and our expectation that management will factor rising costs into the budget.
- OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. The town is prefunding liabilities, which we believe is positive.

Acton participated in the following plans as of June 30, 2020:

- Middlesex County Retirement System: 49.5% funded with a \$140 million net pension liability.
- A defined-benefit health care plan that provides both explicit and implicit subsidies to retirees until age 65: 27.07% funded with a net OPEB liability of about \$16 million.

Acton's combined required pension and actual OPEB contributions totaled 5.8% of total governmental fund expenditures in 2020. Of that amount, 4.1% represented required contributions to pension obligations, and 1.7% represented OPEB payments. The town made 100% of its annual required pension contribution in 2020. As of fiscal 2020, it is meeting its static funding requirements, in our opinion, but continues to fall short of its minimum funding progress. There is an actuarial plan in place to reach full funding and contributions are expected to increase by approximately 6.5% through fiscal 2024 and then by 4% each year thereafter, due to an increasing amortization basis. Full funding is expected within a closed 17 years. With a discount rate of 7.5%, we see some risk of market volatility, but primarily the risk of cost escalation is due to a faster-than-payroll increasing contribution schedule that aggressively defers contributions.

The town also offers OPEBs to eligible retirees. As of June 30, 2020, its net OPEB liability was approximately \$16.1 million. For the fourth consecutive year, Acton continues to contribute in excess of the OPEB actuarial contribution in 2020. We understand it expects to annually contribution approximately the ADC, although it has not formally adopted a policy to do so. While we view the pension plan funded ratio as low, we believe the town is making meaningful strides in addressing its OPEB liability. Furthermore, retirement costs remain low. We do not believe fixed costs will pressure the town's budget in the near term.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of February 22, 2021)			
Acton Twn GO			
Long Term Rating	AAA/Stable		Affirmed

Ratings Detail (As Of February 22, 2021) (cont.)

Acton Twn GO BANs

Short Term Rating

SP-1+

Affirmed

Many issues are enhanced by bond insurance.

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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