

RatingsDirect®

Summary:

DRAFT: Groton Town, Massachusetts

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DRAFT

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DRAFT: Groton Town, Massachusetts

Credit Profile

US\$4.2 mil GO mun purp loan bnds ser 2014 dtd 08/01/2014 due 10/01/2035		
<i>Long Term Rating</i>	AAA/Stable	New
Groton Twn GO ridg bnds		
<i>Long Term Rating</i>	AAA/Stable	Upgraded
Groton Twn GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its rating on the town of Groton, Mass.' general obligation (GO) debt one notch to 'AAA' from 'AA+' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

At the same time, Standard & Poor's assigned its 'AAA' rating and stable outlook to the town's series 2014 bonds.

The town's full-faith-and-credit pledge secures the bonds. Officials intend to use bond proceeds to retire bond anticipation notes issued for the design and construction of a new Groton Electric Light Department building and current refund a portion of the town's series 2003A bonds.

The rating reflects our opinion of the following factors for the town, specifically its:

- Very strong economy, benefiting from its participation in the broad and diverse Boston-Cambridge-Newton metropolitan statistical area (MSA);
- Strong budgetary flexibility with fiscal 2013 available reserves of 12.9% of general fund expenditures;
- Strong budgetary performance with operating surpluses in each of the past three fiscal years;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Very strong management conditions with "strong" financial management policies under our Financial Management Assessment (FMA) methodology; and
- Very strong debt and contingent liabilities, supported by low overall net debt as a percent of market value.

Very strong economy

Groton's local economy is, in our view, very strong with projected per capita effective buying income of 196.5% of the national average. Market value is approximately \$139,496 per capita. Moreover, we believe residents benefit from Groton's participation in the broad and diverse Boston-Cambridge-Newton MSA, which we view as a credit strength. Groton is 35 miles northwest of Boston with direct access via U.S. Route 2 to leading employment centers in the commonwealth; we recognize this makes the town an attractive location for leading regional employers. Leading town employers include:

- Deluxe Forms (600 employees),
- Groton-Dunstable Regional School District (430),
- Hollingsworth & Vose (235),
- Seven Hills (180), and
- Groton School (170).

Middlesex County unemployment continues to decrease; according to the U.S. Bureau of Labor Statistics, county unemployment was 5.6% in 2013.

We understand home values for the Boston metropolitan area are increasing. Overall assessed value (AV) has increased by 0.3% to \$1.5 billion for fiscal 2014. Management expects AV to continue to grow over the next few years. The property tax base is very diverse with the 10 leading taxpayers accounting for about 3% of AV.

Strong budgetary flexibility

With available reserves of 12.9% of operating expenditures in fiscal 2013, we consider budgetary flexibility strong. Groton has consistently produced positive operating results that have, in turn, improved operating flexibility over the past several fiscal years. Fiscal 2013 closed with an unassigned general fund balance of \$3.7 million and an assigned fund balance of \$77,309. Officials are projecting available reserves will remain stable in fiscal 2014. In addition, despite the budget gap related to the school district in fiscal 2013, Groton was able to maintain reserves.

Strong budgetary performance

In our view, overall budgetary performance is strong with surpluses of 0.5% for both the general fund and total governmental funds in fiscal 2013. The general fund surplus marks Groton's fifth consecutive surplus. Management attributes positive operating results to an improving economy, bolstering local receipts; very strong management conditions; and, what we regard as, conservative budgeting of both revenue and expenditures. Property taxes generate 86% of general fund revenue; in our view, collections have been very healthy at 99% of the levy. Intergovernmental aid accounts for 3.3% of general fund revenue, so the town is not overly susceptible to AV fluctuations. We expect Groton's operating performance to remain stable as long as management remains prudent in managing future costs.

Based on our macroeconomic forecasts (please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published July 8, 2014, on RatingsDirect), credit conditions in the New England region are improving slightly, which should cater to a stable budgetary environment. For fiscal 2014, Groton officials are projecting balanced operating results. In addition, the fiscal 2015 budget totals \$33.7 million, an increase of about 4.6% from the fiscal 2014 budget.

Very strong liquidity

In our opinion, very strong liquidity supports Groton's finances with available cash of 27% of total governmental funds expenditures and debt service of 5x.

Very strong management conditions

In our view, Groton's management conditions are very strong with "strong" financial management practices under our FMA methodology, indicating practices are strong, well embedded, and likely sustainable. Assessment strengths include management's:

- Strong revenue and expenditure assumptions included in the budgeting process,

- Strong oversight in terms of monitoring progress compared to the budget during the year,
- Long-term capital plan that it reviews and reprioritizes annually, and
- Formal financial forecasting.

Very strong debt and contingent liabilities profile

In our opinion, Groton's debt and contingent liabilities profile is very strong with debt service of 4.7% of total governmental funds expenditures and net direct debt of 45.9% of total governmental funds revenue. After accounting for its proportionate share of overlapping debt associated with the regional school district, overall net debt is 2% of market value, which we consider low.

A long-term credit consideration involves Groton's pensions and other postemployment benefits (OPEBs). The combined annual pension and OPEB cost accounted for 4.7% of total government expenditures in fiscal 2013. For pensions, Groton contributes to the Middlesex Retirement System, which is currently just 44% funded. The town funds 100% of the annual required contribution (ARC). In fiscal 2013, its ARC to the system was \$1.3 million, or about 4% of expenditures. As of June 30, 2013, the OPEB unfunded actuarial accrued liability was \$7.1 million. In fiscal 2013, the OPEB ARC was \$917,899, or roughly 3% of the budget. Groton's actual contributions were \$200,960 in fiscal 2013, or about 23% of the ARC. The town budgeted for roughly \$182,000 of OPEB costs in fiscal 2014.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts municipalities strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Groton's very strong economy and very strong management conditions that have resulted in very strong budgetary performance. The outlook also reflects our opinion of Groton's very strong liquidity and strong budgetary flexibility. If operating performance were to deteriorate, leading to a significant decrease in available fund balance, we could lower the rating. Currently, we believe steady economic development should continue and should aid tax base growth, providing additional future tax revenue, while Groton maintains a stable budgetary environment. For these reasons, we do not expect to change the rating within the two-year outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Summary:

Groton Town, Massachusetts; General Obligation

Credit Profile

US\$3.86 mil GO mun purp loan bnds ser 2014 dtd 08/01/2014 due 11/01/2033

✓ *Long Term Rating* AAA/Stable New

Groton Twn GO rfdg bnds

✓ *Long Term Rating* AAA/Stable Upgraded

Groton Twn GO

✓ *Unenhanced Rating* AAA(SPUR)/Stable Upgraded

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