

Research Update:

# Groton, MA Bond Anticipation Notes Assigned 'SP-1+' Short-Term Rating; Other Ratings Affirmed

May 27, 2025

## Overview

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Groton Town, Mass.' about \$28.5 million bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing general obligation (GO) debt.
- S&P Global Ratings also affirmed its 'SP-1+' short-term rating on the town's BANs outstanding.
- The outlook on the long-term rating is stable.
- The rating reflects the application of our "Methodology For Rating U.S. Governments," published Sept 9, 2024.

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## Rationale

### Security

Groton's full-faith-and-credit pledge secures the BANs. The debt is subject to Proposition 2 1/2 limitations, for some purposes, with the bulk of the authorization Proposition 2 1/2-exempt. We have not made a rating distinction between the town's limited-tax GO pledge and general creditworthiness. Despite limitations imposed by the commonwealth levy limit law on a portion of the bonds, the tax limitation imposed on the town's ability to raise revenue and the fungibility of those resources are already embedded in our analysis of Groton's financial and economic conditions.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Groton maintains a very strong capacity to make principal and interest payments when the BANs come due. The town maintains a low market risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer that regularly provides ongoing disclosure to market participants. BAN proceeds will be used to provide temporary financing for various projects.

## Credit highlights

The 'AAA' rating is supported by the town's affluent and growing economic base, sizable reserves available for contingencies, and manageable fixed costs. Groton continues to experience residential and commercial development. Multiple projects are in various stages of the planning process, and town officials expect ongoing new growth and increases in building permits and other associated fees. Of note, are the new buildings in town, one of which is a 200-unit apartment building that is fully permitted. Groton follows the commonwealth's zoning laws allowing for state grants to fund future infrastructure projects.

Groton's positive operations continue, spurred by the town's conservative budgeting strategy. Departmental, excise, and investments revenues were significantly overbudget, in fiscal 2024. Groton anticipates positive fiscal 2025 results, driven by its conservative budgeting; we also note the town is looking to continue funding several pay-as-you-go projects using stabilization funds. We note reserves could oscillate from 14%-15% of revenues, but we expect Groton will maintain reserves more than policy levels. The town put forth two potential overrides for its fiscal 2026 budget, one for the regional school and one for public safety costs, and both were defeated. Both the school and town will adjust their budgets accordingly. We expect that Groton will make necessary budget adjustments to maintain balanced operations, as it has in the past.

The 'AAA' rating further reflects our view of the following:

- A robust economic base outside of Boston, resulting in above-average county economic output metrics. Groton's local incomes are comparably stronger than those of similarly rated county and national peers, providing further credit uplift on the underlying tax base strength.
- Well-embedded financial management framework that supports town operations, with an emphasis on long-term financial and capital planning. In addition to the formal reserve policy, a formal investment policy and formal debt management policy with affordability guidelines and other targeted debt metrics guide overall operations. The town has measures in place to mitigate cyber security risks.
- Groton anticipates positive results for 2025, based on current revenue/expenditure trends. It has proposed its fiscal 2026 budget, which includes conservative estimates for revenues and expenses, while also explicating speaking to long-term and current cost pressures on town operations.
- A debt and liability profile that remains manageable despite increasing debt service costs. Similar to other municipalities in Massachusetts, Groton's net direct debt per capita is elevated. In addition, net pension liabilities when including the town's net other postemployment benefit (OPEB) liability are slightly above average when compared with those of national peers, but below state averages. After this issuance, the town will have about \$81.0 million in debt outstanding. A portion of Groton's debt is considered self-supporting by the town's enterprise funds.
- While contribution costs for the Middlesex County Retirement System (net pension liability is \$23.6 million, 55% funded) will likely escalate as the system works toward full funding, we believe the town has the operational flexibility to absorb these costs. Groton continues to transfer funds to its OPEB trust, and its funded ratio is 13.12%, with a net OPEB liability of \$9.02 million, and its electrical department's OPEB liability is \$574,360 and 74.2% funded.
- Massachusetts municipalities have a predictable operating framework with some statutory flexibility to raise local-source revenue for operations, despite commonwealth limits on

property tax levy growth. For more information on our assessment of Massachusetts municipalities, see "Institutional Framework Assessment: Massachusetts Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

We have analyzed environmental, social, and governance factors relative to Groton's economy, management, financial measures, and debt and liability profile; we view them all as neutral in our credit analysis.

Rating above the sovereign

Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions, Nov. 19, 2013," published Nov. 19, 2013, we rate Groton higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Groton's solid operations, supported by a robust financial policy and practice framework. The town's growing local economy provides additional rating stability.

Downside scenario

We could lower the rating if budgetary pressure were to result in a reserve drawdown or if longer-term debt were to become substantially more leveraged, coupled with increasing fixed costs associated with debt-service requirements or long-term liabilities.

Groton Town, Massachusetts--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.65
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	3.25

Groton Town, Massachusetts--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	--	--	180	182
County PCPI % of U.S.	--	--	155	156

## Groton Town, Massachusetts--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Market value (\$000s)	2,809,409	2,738,373	2,503,884	2,110,364
Market value per capita (\$)	250,259	243,931	223,043	171,938
Top 10 taxpayers % of taxable value	--	2.5	3.1	2.9
County unemployment rate (%)	--	3.6	3.0	3.1
Local median household EBI % of U.S.	--	--	201	186
Local per capita EBI % of U.S.	--	--	187	177
Local population	--	--	11,226	12,274
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	49,985	46,768	42,858
Operating fund expenditures (\$000s)	--	49,688	46,802	42,712
Net transfers and other adjustments (\$000s)	--	408	526	237
Operating result (\$000s)	--	705	492	383
Operating result % of revenues	--	1.4	1.1	0.9
Operating result three-year average %	--	1.1	1.3	0.7
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	15.3	14.3	15.1
Available reserves (\$000s)	--	7,627	6,707	6,466
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	6.6	5.8	4.2
Net direct debt per capita (\$)	7,165	7,137	6,321	4,201
Net direct debt (\$000s)	80,429	80,124	70,965	51,560
Direct debt 10-year amortization (%)	51	32	--	--
Pension and OPEB cost % of revenues	--	5.0	5.0	6.0
NPLs per capita (\$)	--	2,109	2,147	1,562
Combined NPLs (\$000s)	--	23,675	24,098	19,172

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US\$28.618 mil GO BANs dtd 06/20/2025 due 02/12/2026	
Short Term Rating	SP-1+
Ratings Affirmed	
Local Government	
Groton Twn, MA Bond Anticipation Notes	SP-1+
Groton Twn, MA Limited Tax General Operating Pledge	AAA/Stable
Groton Twn, MA Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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