

RatingsDirect®

Summary:

Sudbury, Massachusetts; General Obligation; Note

Primary Credit Analyst:

Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

Secondary Contact:

Lauren Freire, New York (1) 212-438-7854; lauren.freire@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Sudbury, Massachusetts; General Obligation; Note

Credit Profile

US\$11.25 mil GO BANs (Lot B) taxable ser 2020B dtd 07/01/2020 due 01/27/2021

<i>Short Term Rating</i>	SP-1+	New
--------------------------	-------	-----

US\$5.91 mil GO BANs (Lot A) tax exempt ser 2020A dtd 07/01/2020 due 01/27/2021

<i>Short Term Rating</i>	SP-1+	New
--------------------------	-------	-----

Rating Action

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

The BANs are secured by the town's full faith and credit. We understand that voters exempted the entirety of both lots from the limitations of Proposition 2-1/2. Despite limitations imposed by the commonwealth levy limit law, we do not make a rating distinction between the town's unlimited- and limited-tax GO pledges on its debt outstanding, as the ad valorem tax securing the limited-tax obligation is not derived from a measurably narrower property tax base and financial resources are fungible, supporting our view of the town's overall ability and willingness to pay debt service.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Sudbury maintains a very strong capacity to pay principal and interest when the BANs come due. The town maintains what we view as 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.

A portion of the proceeds from lot A (\$3.66 million) together with all of the proceeds from lot B will renew BANs that mature in July. The remainder of the proceeds from lot A (\$2.25 million) will fund authorized capital projects throughout the town.

Credit overview

Despite S&P Global Ratings' view that the economic effects of COVID-19 and the recession could pressure credit quality, as discussed in our report "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," published April 2, 2020 on RatingsDirect, we believe Sudbury's stable financial position funded primarily with property taxes is mostly resilient against revenue loss. Furthermore, with its financial reserves equal to \$16.5 million, or 15% of expenditures, at fiscal year-end 2019, we believe the town has flexibility to absorb modest changes in its budgetary performance in fiscal 2021 stemming primarily from one-time expenditures associated with its COVID-19 response. Over the longer term, the stable outlook reflects our view of the town's close proximity to Boston, strong financial management and planning practices that are instrumental in early identification of out-year budget gaps, and ongoing efforts to reduce long-term liabilities through annual appropriations into a dedicated trust fund for

retiree postemployment benefits.

We rate the town's GO bonds above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on the locally derived pledged revenue for bondholders and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.

The long-term rating reflects our opinion of Sudbury's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.5% of total governmental fund expenditures and 7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.7% of expenditures and net direct debt that is 28.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 66.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

We believe Sudbury benefits from social risks that are below those of the sector, given its wealth and income demographics that are above 225% of the nation, as this could translate to greater capacity for residents to afford revenue enhancements that might be required to maintain budgetary balance during a period of fiscal stress. Furthermore, we analyzed the town's environmental and governance risks relative to its economy, budgetary outcomes, and debt and liability profile and believe they are in line with those of the sector.

Stable Outlook

Downside scenario

While unlikely during the outlook period, should revenue loss stemming from recessionary pressure and expenditure growth from higher fixed costs lead to sustained budgetary imbalances and multiyear draws on reserves, we could revise the outlook to negative or lower the rating.

Credit Opinion

Very strong economy

We consider Sudbury's economy very strong. The town, with an estimated population of 19,627, is located in Middlesex County in the Boston-Cambridge-Newton metropolitan statistical area, which we consider broad and diverse. The town has a projected per capita effective buying income of 249% of the national level, which we view as extremely high and a positive credit factor, and per capita market value of \$242,018. Overall, the town's market value grew by 1% over the past year to \$4.8 billion in 2020.

Sudbury is a wealthy suburb of Boston located in Middlesex County and is bordered by the towns of Wayland to the east, Framingham to the south, and Marlborough to the west. The town's 24.4-square-mile area is almost fully developed, but construction activity includes the recently complete mixed-use Meadow Walk development. The development includes a large resident component and various retail outlets, including Whole Foods. The residential portion represents the town's second-largest taxpayer at \$58.6 million, or 1.2%, of the town's total assessed valuation. Furthermore, the town is fulfilling its affordable housing requirement through a 275-unit apartment complex under construction.

Although Middlesex County's unemployment rate was 2.3% in 2019 and below that of the nation, it did reach nearly 7.0% in 2009 and 2010 during the prior economic downturn. We believe that the rapidly evolving economic conditions as a result of COVID-19 will continue to affect the labor market (see "U.S. Biweekly Economic Roundup: With Unprecedented Job Losses, Unemployment Soars," published May 8, 2020), and that this could affect residents of Sudbury. Despite this concern, we believe the employment diversity within Boston and the surrounding region could help mitigate the effects of social distancing and other decisions made to safeguard the community from COVID-19 on the unemployment rate. As a result, we will monitor the longer-term effects of the recession on the town's overall economic trends.

Strong management

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

The town has historically utilized a conservative, multiyear forecast to formulate its budget, and employs econometrics to make revenue projections and an outside consultant to assist with expenditure determinations. The town considers about five years of historical data when developing the budget, which it reviews monthly following adoption to ensure year-to-date trends are consistent with expectations. A five-year capital improvement plan identifies funding for all projects, and management updates the document annually. Management also prepares a three-year financial projection and provides quarterly reports to the town selectmen. Finally, the town aims to maintain a stabilization fund balance equal to no less than 5% of expenditures. (In fiscal 2019 the town maintained 3% of expenditures in the committed reserve.) There is no formal debt management policy other than maintaining a debt schedule with 50% of principal amortized during 10 years.

The town's multipronged approach to protecting its systems against cybersecurity threats includes annual employee training, various software products to help prevent data breaches, and use of cloud-based data storage to ensure recovery should the town's technology become compromised. We believe this comprehensive methodology indicates

the strength of the town's management team.

Strong budgetary performance

Sudbury's budgetary performance is strong, in our opinion. We believe the town's stable revenue profile and conservative budget projections will continue to lead to strong budgetary results despite the budgetary challenges stemming from economic uncertainty in fiscal 2021. The town had operating surpluses of 2.0% of expenditures in the general fund and of 3.3% across all governmental funds in fiscal 2019. General fund operating results of the town have been stable over the past three years, with results of 0.8% in 2018 and 1.3% in 2017.

For analytical consistency, we adjust the town's audited financial statements to reflect transfers into and from the general fund and remove one-time capital expenditures funded with bond proceeds.

The town's budget is primarily funded with property taxes (79%) while intergovernmental revenue accounts for the second-largest portion of revenue (about 15%), of which half is allocated to the town as a passthrough to support teacher retirement costs.

The management team anticipates minimal deterioration in revenue in fiscal 2020, as it has collected nearly 100% of its budgeted projections. Furthermore, expenditures related to the town's COVID-19 response (about \$250,000) are modest and are likely to be reimbursed by either the state through its Coronavirus Aid, Relief, and Economic Security (CARES) Act allocation or the Federal Emergency Management Agency. Also, given the closure of school facilities for the last few months of the school year and other expenditure savings, town officials project a significant reduction in school district costs that have not been captured as part of the year-end preliminary results.

The fiscal 2021 budget is equal to about \$106.6 million, or a 4% increase over the prior year. Although management anticipates no revenue pressure related to the recession, there are some risks associated with costs for reopening the school facilities in the fall. The town is awaiting final guidance from the state to understand the scope of expenditures and responsibilities required to keep students and staff safe. However, we believe the town has flexibility to incorporate these costs into the budget without a material change in its budgetary performance, as the town could pause its other postemployment benefit (OPEB) trust fund contribution equal to \$600,000 in fiscal 2021. Although we do not view this as a long-term solution, it provides flexibility to reallocate appropriations, if necessary.

Fiscal 2019 ended with a surplus consistent with the town's long history of conservative operations. In particular, health care benefit expenditures were approximately \$600,000 below budget, reflecting 10 years of plan modifications to achieve cost savings and shift higher employee contributions to new employees when retirements occur. Revenue also trended above budget for various sources, contributing to the significant surplus at year end.

Very strong budgetary flexibility

Sudbury's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 15% of operating expenditures, or \$16.5 million.

We have adjusted available reserves to include the committed portion of the fund balance as this amount could be made available to support operations, if necessary, by a vote at a town meeting. With annual budgetary outcomes that have produced a surplus over the past several years, the town's nominal flexibility has gradually improved. Despite the challenges arising from the pandemic and recession, we believe management's conservative planning efforts will

support this historical trend. Furthermore, management's formalized policy to maintain a stabilization fund of no less than 5% of total projected general fund operating revenue for the next fiscal year helps ensure that its budget can absorb emergencies or unexpected interruptions in operations. Given the town's incremental increase in its budget as well as the potential higher expenditures associated with the school district operations in fiscal 2021, we believe reserves may fall to less than 15% of expenditures but remain strong despite the uncertainty.

Very strong liquidity

In our opinion, Sudbury's liquidity is very strong, with total government available cash at 25.5% of total governmental fund expenditures and 7x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary given the town's regular issuance of debt over the past 20 years. The town's maintenance of very strong liquidity as well as its conservative investment decisions insulates its operations from any near-term disruption in cash flow stemming from its decision to delay the fourth-quarter property tax due date to June 1 (from May 1). Furthermore, the town's lack of contingent liquidity risks, including privately placed loans that could contain provisions that accelerate debt service payments following certain events, supports our view that liquidity will remain very strong.

Very strong debt and contingent liability profile

In our view, Sudbury's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.7% of total governmental fund expenditures, and net direct debt is 28.9% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 66.1% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The town has \$17.7 million of long term debt outstanding that matures by 2035. The two current series of BANs represent the only short-term debt outstanding, and the amortization rate accounts for a level 20-year payment schedule. Management expects to issue long-term debt to permanently finance the BANs in January 2021. Although the town has two other capital projects in the planning stages that could be approved at a town meeting later this calendar year, we anticipate that the town will maintain a conservative debt profile given the rapid amortization and substantial decline in annual debt service costs beginning in fiscal 2022.

Pension and OPEB liabilities

- We believe pension and OPEB contributions are not an immediate source of credit pressure for Sudbury given the relatively modest combined contribution costs at 5.6% of total governmental expenditures in fiscal 2019.
- However, we believe the pension system's low pension funded ratio and permissive assumptions will likely lead to contribution volatility, particularly if assumptions are not met, but Sudbury has flexibility to absorb higher costs given the strength of its tax base and its demonstrated willingness to make budgetary adjustments to maintain balance.
- The town is required to fund OPEBs only on a pay-as-you-go basis and annually contributes an excess amount to a dedicated trust.

Sudbury participated in the following plans as of June 30, 2019:

- Middlesex County Retirement System (MCRS), a cost-sharing, multiple-employer, defined-benefit pension plan that covers eligible employees. The plan's funded ratio is 46.4% and the town's net pension liability is \$63.9 million.
- A defined benefit health care plan for retired employees with a net OPEB liability of about \$58.3 million

The town made its full annual required pension contribution in 2019. MCRS uses a 7.5% discount rate. We believe this discount rate is high for municipal systems and could lead to volatility in contributions should market performance not meet expectations. Although Massachusetts requires all pension systems to achieve full funding no later than 2040, the system is expected to be fully funded by fiscal 2035. We generally view closed, short amortization schedules as positive, but for MCRS to meet its adopted funding schedule and achieve full funding in 2035, higher contributions are required. Furthermore, the system did not meet our static funding metric in the most recent year or our minimum funding progress calculation, indicating that it is not addressing current costs or reducing the unfunded liability.

Sudbury maintains a dedicated trust to offset its OPEB liability, which at Dec. 31, 2019 contained \$8.4 million, resulting in a fiduciary net position of close to 12%. While we consider Sudbury's prefunding of the OPEB liability a positive, its large and growing pension and OPEB liabilities could pressure the budget over the longer term.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 12, 2020)		
Sudbury GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Sudbury BANs (lot A) dtd 10/08/2019 due 07/02/2020		
<i>Short Term Rating</i>	SP-1+	Affirmed
Sudbury GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.