S&P Global Ratings

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Summary:

Sudbury, Massachusetts; General Obligation

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Credit Profile		
US$36.81 mil GO mun purp loan of 2024 bnds ser 2024 dtd 02/06/2024 due 02/01/2053		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Sudbury, Mass.' approximately $36.81 million series 2024 general obligation (GO) bonds.
- The outlook is stable.

Security

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limits, secures the bonds; a portion of the debt is exempt from the limit. We rate the limited-tax GO debt on par with our view of Sudbury's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource-fungibility limitations supporting our view of the town's overall ability and willingness to pay debt service. A portion of the town's existing debt has been exempted from Proposition 2 1/2 limitations.

Officials plan to use series 2024 bond proceeds to take out BANs issued to fund the construction of a community center, fire-station addition, and roadway-and-bridge improvements.

Credit overview

The rating reflects our opinion of Sudbury's strong local economy. The tax base is primarily residential with commercial-and-industrial properties making up less than 5% of the tax base. Market value has grown by 28% during the past three years due primarily to residential development. A 275-unit multifamily development is underway, and the mixed-use Meadow Walk development is complete. The town does not currently expect additional large developments, and we expect future tax base growth will be primarily due to appreciation and improvement of existing properties.

Sudbury ended fiscal 2022 with a fund-balance reduction due to appropriations for capital. We have adjusted available reserves to include the committed portion of fund balance because Sudbury could make this amount available to support operations, if necessary, by a vote at a town meeting. Fiscal 2023 draft audit results reflect a surplus of about $1.2 million, supported by revenue that was $2.1 million overbudget, due substantially to building permit revenue and expenditures that were $1.2 million underbudget due partially to vacant positions during the year. The town made additional use of reserves for capital purposes in fiscal 2023; however, available fund balance, including committed reserves it can make available, remains very strong.

Officials adopted the fiscal 2024 budget as a level service budget. The town expects to generate surplus results again due to higher-than-expected new growth supporting strong property tax revenue, coupled with its overall conservative approach to budgeting. The town is early in the fiscal 2025 budgeting process, and it expects no new services or positions with sufficient revenue growth to offset pressure from escalating compensation and other costs. We expect budgetary performance and flexibility will likely remain stable during the next few fiscal years.

Including the series 2024 bonds, Sudbury will have about $62.8 million in total direct debt outstanding. The town expects future borrowing for town hall improvements and school-roof replacements; these borrowings will occur in 2026 at the earliest. The town hall project has an unknown cost, and the roof project could entail up to $10 million in borrowing. We do not consider pension and other postemployment benefit (OPEB) contributions an immediate credit pressure for Sudbury. Sudbury participates in Middlesex County Retirement System--a cost-sharing, multiple-employer, defined-benefit pension plan that covers eligible employees--which is 52.6% funded, with a net pension liability of $66.8 million. We think the pension system's low pension funding and permissive assumptions will likely lead to contribution volatility, particularly if assumptions are not met; however, Sudbury has flexibility to absorb higher costs due to tax base strength and its demonstrated willingness to make budgetary adjustments to maintain balance. Sudbury maintains a trust to offset its OPEB liability, which, as of June 30, 2023, contained $13.8 million, resulting in a 21.5% fiduciary net position. While we consider Sudbury's prefunding of the OPEB liability a positive, pension and OPEB liabilities could pressure the budget during the next few fiscal years.

The rating reflects our view of Sudbury's:

- Very high income with steady tax base growth, benefiting from participation in the broad, diverse Boston metropolitan statistical area;
- Strong reserves with balanced finances;
- Well-embedded strong financial-management practices, policies under our Financial Management Assessment (FMA) methodology--including debt and reserve policies and annually updated financial forecast and capital plan--and strong Institutional Framework score; and
- Manageable fixed costs with no plans for additional debt during the next few years with large long-term retirement liabilities and a growing OPEB trust.

Environmental, social, and governance

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

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Sudbury's very strong economy and adherence to adopted policies will likely help support sustained budgetary performance and reserves.

Downside scenario

We could lower the rating if expenditure growth from higher fixed or other costs were to lead to sustained budgetary imbalances and multiyear draws on reserves.

Rating above the sovereign

We rate the town's GO bonds above the sovereign because we think it can maintain better credit characteristics than the nation in a stress scenario based on 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 reflets our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.

Sudbury, Massachusetts--key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	224.5			
Market value per capita ($)	321,991			
Population			19,100	19,113
County unemployment rate(%)			4.6	
Market value ($000)	6,150,021	5,198,465		
10 leading taxpayers as a % of taxable value	5.1			
Strong budgetary performance				
Operating fund result as a % of expenditures		(0.7)	2.5	1.7
Total governmental fund result as a % of expenditures		0.8	4.1	(9.7)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		17.7	18.3	16.3
Total available reserves ($000)		20,697	21,545	18,386
Very strong liquidity				
Total government cash % of governmental fund expenditures		35.6	33.0	23.1
Total government cash % of governmental fund debt service		1,319.5	929.9	759.5
Very strong management				
Financial Management Assessment	Strong			
Strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		2.7	3.5	3.0
Net direct debt as a % of governmental fund revenue	49.0			
Overall net debt as a % of market value	1.1			
Direct debt 10-year amortization (%)	51.0			
Required pension contribution as a % of governmental fund expenditures		4.4		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		2.0		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022