

# RatingsDirect®

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## Summary:

# Bolton Town, Massachusetts; General Obligation

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### Credit Profile

US\$2.835 mil GO bnds dtd 09/27/2019 due 10/01/2028

*Long Term Rating* AAA/Stable New

Bolton Twn GO rfdg bnds

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Bolton, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

We rate Bolton higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario due to its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2018, local property taxes generated 90% of general fund revenue, which demonstrated a lack of dependence on central government revenue. (For further information, please see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

Officials will use series 2019 municipal-purpose loan bond proceeds, totaling roughly \$2.8 million, to refund several maturities of the town's series 2009 GO bonds.

The town's full-faith-and-credit pledge secures the series 2019 bonds and debt outstanding. The electorate voted on bond maturities to be refunded and excluded from Proposition 2 1/2 limitations.

The rating reflects our opinion of Bolton's extremely strong property tax base that continues to grow within the Boston metropolitan statistical area (MSA), supporting positive budgetary performance that has led to maintenance of strong reserves, despite a robust pay-as-you-go capital improvement plan (CIP). The town has a manageable debt profile, in our view, with no significant debt plans. We believe Bolton's long-term liabilities are manageable, despite our expectation that pension costs are likely to rise.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund but a slight operating deficit at the total governmental-fund level in fiscal 2018;
- Strong budgetary flexibility, with available fund balance in fiscal 2018 at 14.3% of operating expenditures;

- Very strong liquidity, with total government available cash at 21.6% of total governmental-fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability profile, with debt service carrying charges at 7.7% of expenditures and net direct debt that is 34.3% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 85% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Bolton's economy very strong. The town, with an estimated population of 5,169, is in Worcester County in the Worcester MSA, which we consider broad and diverse. The town has a projected per capita effective buying income at 202% of the national level and per capita market value of \$204,462. Overall, market value grew by 3.7% during the past year to \$1.1 billion in fiscal 2019. County unemployment was 3.9% in 2017.

Bolton is in eastern Massachusetts, about 25 miles west of Boston, bordered on the north by the town of Harvard, on the west by the towns of Lancaster and Clinton, on the south by the towns of Berlin and Hudson, and on the east by the town of Stow. The primarily residential town is close to Interstate 495 and several state routes. The 20-square-mile town has a commercial presence. The town's leading employers are:

- Nashoba Regional School District,
- Paragon Communications, and
- International Golf Club.

The town has direct access to the broad and diverse Boston MSA.

### **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.

Highlights include management's:

- Conservative budgeting,
- Strong budgetary monitoring, and
- Long-term financial and capital plans.

Management submits monthly reports on budget-to-actual results to the board of selectmen with adjustments made when needed. The town plans to implement a five-year forecast for all long-term financial needs. We expect this will be complete in 2021. Management maintains a five-year CIP it updates semiannually that identifies project funding sources. The town follows commonwealth guidelines for its investment policy. Management provides the board with monthly treasurer's reports and full investment returns through an annual audit.

Bolton maintains its own formal debt and reserve policies under its financial management principles. The debt policy

outlines the scenarios in which the town can issue debt and limits the amount of debt relative to total governmental expenses. The reserve policy calls for maintaining a minimum general stabilization fund balance and free cash at 3%-5% of expenses.

### **Strong budgetary performance**

Bolton's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund at 0.6% of expenditures but slight deficit results across all governmental funds at 0.7% in fiscal 2018. General fund operating results have been stable during the past three fiscal years with a negative 0.5% of expenditures in fiscal 2017 and 0.2% in fiscal 2016.

We have adjusted the town's performance based on capital expenses incurred prior to grant funds received from the commonwealth. Historically, Bolton has maintained strong budgetary performance. The town's performance in fiscal 2018 was no exception with revenue outpacing budgeted levels, due primarily to excise tax receipts. On the expense side, budgeting practices, once again, proved conservative with savings in a significant portion of expenses. Public works generated the largest savings.

The adopted fiscal 2019 budget totals \$23.5 million, a 1.9% increase over fiscal 2018. Current expectations are for positive fiscal year-end 2019 results. The fiscal 2020, \$24.9 million budget is a \$1.3 million increase from fiscal 2019. Management reports there are no significant revenue or expenditure assumption deviations. We expect budgetary performance will likely remain strong due to historical performance and, what we consider, consistently conservative budgeting.

### **Strong budgetary flexibility**

Bolton's budgetary flexibility is strong, in our view, with available fund balance in fiscal 2018 at 14.3% of operating expenditures, or \$3.3 million.

The town expects to maintain, if not increase, available reserves and refrain from using its stabilization funds for ongoing operations. With conservative financial practices and practical reserve maintenance, we think budgetary flexibility will likely remain strong, if not increase to levels we consider very strong.

### **Very strong liquidity**

In our opinion, Bolton's liquidity is very strong, with total government available cash at 21.6% of total governmental-fund expenditures and 2.8x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

Bolton is a market participant, issuing debt over the past 15 years, including GO bonds and bond anticipation notes (BANs). The majority of the town's investments are in highly liquid, low-risk securities. Bolton has no variable-rate or direct-purchase debt. We expect the town's liquidity profile to remain very strong.

### **Very strong debt-and-contingent-liability profile**

In our view, Bolton's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 7.7% of total governmental-fund expenditures, and net direct debt is 34.3% of total governmental-fund revenue. Overall net debt is low at 2.3% of market value and about 85% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Bolton has \$8.3 million of debt outstanding, including \$1.2 million of BANs; it will retire \$870,124 of BANs on Oct. 1, 2019. Only \$78,000 is subject to Proposition 2 1/2 limitations. The town does not currently have significant plans for medium-term debt.

Bolton's combined required pension and actual other-postemployment-benefits (OPEB) contribution totaled 2.7% of total governmental-fund expenditures in fiscal 2018: 1.5% represented required contributions to pension obligations and 1.2% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2018.

Bolton contributes to a cost-sharing, multiple-employer, defined-benefit plan administered by the Worcester County Retirement System and reported in accordance with Governmental Accounting Standards Board (GASB) Statement Nos. 67 and 68. The GASB funded ratio was 46.4% and Bolton's proportionate share of the net pension liability was about \$6 million as of Dec. 31, 2017. Currently, Bolton is making its full contractually required contribution and has done so for at least the past four years. As the retirement system moves toward a fully funded status, we anticipate that pension contributions will continue to rise. However, we do not expect this to be a significant cost pressure since the town has operational flexibility if costs were to sharply increase.

Bolton offers post-employment benefits to those that qualify. The town pays these contributions on a pay-as-you-go basis. As of June 30, 2018, the town's unfunded actuarial accrued liability is approximately \$1.9 million. However, the town does have a trust fund for its OPEB obligations of \$614,151.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion Bolton will likely maintain strong reserves, supported by strong management. We believe Bolton's participation in the broad and diverse Boston MSA lends additional rating stability. Therefore, we do not expect to change the rating within the outlook's two-year period.

If management were to draw down reserves to maintain balanced operations due to fixed cost pressure, however, we could lower the rating.

## **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
- 2018 Update Of Institutional Framework For U.S. Local Governments

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