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Ratings

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Summary:

Medway, Massachusetts; General Obligation

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Credit Profile		
US$1.49 mil GO mun purp loan of 2024 bnds dtd 09/24/2024 due 09/15/2054		
Long Term Rating	AAA/Stable	New
Medway Twn GO		
Long Term Rating	AAA/Stable	Affirmed
Medway Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Medway, Mass.' $1.49 million general obligation (GO) municipal-purpose loan.
- At the same time, we affirmed our 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

Security

The town's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the bonds. We rate the limited-tax GO debt on par with our view of Medway'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 its overall ability and willingness to pay debt service.

Officials plan to use series 2024 GO bond proceeds to fund land acquisitions, culvert designs, and water line improvement projects.

Credit overview

The rating incorporates our forward-looking view that Medway will maintain a stable credit profile buttressed by a stable tax base and by the maintenance of steady reserves as a result of consistent net operating surpluses. Following an $3.8 million surplus in fiscal 2023 that was due predominantly to investment income and conservative budgeting, the fiscal 2024 operating budget is in a good position, with an estimated $5 million net surplus. The fiscal 2025 budget is balanced and largely consistent with previous years, aside from expected increases in salaries. The town has been seeing an influx of battery storage facilities which it expects will contribute $2 million-$3 million in tax revenue annually by fiscal 2028.

The town plans to issue $8 million for various improvements over the next two years, most notably involving design and site preparations for an upcoming municipal building project. Over the longer term, it has identified the need for renovations and additions to its town hall and police station. Medway has experienced stable and steady development and is ultimately assuming continued property tax value growth, though at a lower growth rate. While fixed costs remain manageable, we will continue to monitor the extent to which the town's debt profile and pension and other postemployment benefit (OPEB) liability costs pressure the budget because, in our opinion, Medway's large pension and OPEB obligation with total retirement liabilities of $47 million, particularly due to the pension systems' low funding, could lead to escalating costs. Although the town is managing these costs, we think it has a limited ability to control future pension-liability growth.

The rating reflects our opinion of Medway's:

- Primarily residential economy with access to in the Boston-Cambridge-Newton metropolitan area, which we consider broad and diverse with current residential developments projects underway;
- Good financial policies and practices under our Financial Management Assessment methodology including five-year financial and capital plans, a reserve policy which calls for maintaining stabilization reserves between 5% and 10% of expenditures, and robust cyber-protection practices, coupled with a strong institutional framework score;
- Maintenance of very strong reserves and positive net performance; and
- Low overall net debt profile, coupled with large unfunded pension and OPEB liabilities.

Environmental, social, and governance

We have analyzed Medway's environmental, social, and governance (ESG) factors relative to the town's economy, management, financial measures, and debt and liability profile, and have determined all are credit neutral. Medway is about 35 miles away from the Atlantic coast and could be susceptible to chronic weather event risk. Its 2018 hazard mitigation plan includes mitigation projects, cost estimates, potential funding sources, and an estimated time frame to mitigate environmental risks.

Rating above the sovereign

We rate Medway 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 debt service on the bonds is at limited risk of negative sovereign intervention. In 2023, local property taxes generated 67% of governmental fund revenue, demonstrating a lack of dependence on central government revenue.

Outlook

The stable outlook reflects our opinion of Medway's continued strong budgetary performance leading to sustained very strong budgetary flexibility and liquidity. The town's proximity to Boston provides further rating support. We do not expect to change the rating during the two-year outlook period.

Downside scenario

We could lower the rating if financial performance were to materially deteriorate, leading to a reduction in very strong reserves, or if retirement costs were to continue to increase and pressure financial performance.

Medway, Massachusetts -- Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	160			
Market value per capita ($)	260,207			
Population		13,120	13,818	13,510
County unemployment rate(%)		3.1		
Market value ($000)	3,413,918	2,992,032	2,659,923	
Ten largest taxpayers % of taxable value	17.5			
Very strong budgetary performance				
Operating fund result % of expenditures		5.7	3.9	5.4
Total governmental fund result % of expenditures		5.5	6.0	3.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		39.0	34.6	31.7
Total available reserves ($000)		26,433	22,468	19,839
Very strong liquidity				
Total government cash % of governmental fund expenditures		58	54	31
Total government cash % of governmental fund debt service		1,106	896	502
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.2	6.1	6.2
Net direct debt % of governmental fund revenue	35			
Overall net debt % of market value	1.0			
Direct debt 10-year amortization (%)	64			
Required pension contribution % of governmental fund expenditures		4.4		
OPEB actual contribution % of governmental fund expenditures		2.2		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022