

RatingsDirect®

Summary:

Sandwich, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$12.15 mil GO rfdg Bnds (Federally Taxable) ser 2013 B due 07/15/2020		
<i>Long Term Rating</i>	AA/Stable	New
US\$1.86 mil GO rfdg Bnds (Bank Qual) ser 2013 A due 07/15/2022		
<i>Long Term Rating</i>	AA/Stable	New
Sandwich Twn GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Sandwich, Mass.' series 2013A and B general obligation (GO) refunding bonds and affirmed its 'AA' ratings on the town's outstanding GO bonds. The outlook on all the ratings is stable.

In our opinion, the ratings reflect:

- Access to the diverse regional economic base of southeastern Massachusetts and the greater Boston metropolitan statistical area (MSA);
- Strong wealth and household incomes;
- Extremely strong per-capita market values despite a lower assessed value (AV) compared with years past;
- An operating surplus in 2012, and an available reserve position that has ranged from good to strong over the past several years; and
- A moderate debt burden.

Currently, offsetting factors to a higher rating are the recent operating pressures reflecting higher school costs and other assessments.

The town's full faith and GO pledge secures the bonds. Proceeds will be used to refund portions of the town's outstanding 2005 GO bonds.

Sandwich, with an estimated population of 20,136, is 60 miles south of Boston on Cape Cod. Residents have access to the economies of Boston and Providence, R.I., contributing to the town's high wealth and low unemployment. Household incomes are very strong: The median household effective buying income was 140% of the national level in 2012, and the 2012 unemployment rate remained below average at 6.1%.

The town is primarily a residential community with an extremely strong and diverse tax base. Despite a softer real-estate environment that has reduced AVs over the past few years, we believe market valuations remain extremely strong. Total AV decreased to \$3.6 billion in fiscal 2013, down 19% from its peak in 2007. Nevertheless, the per-capita market value of the community was \$174,031 per capita, which we still view as extremely strong. The tax base is very

diverse as the 10 leading taxpayers comprise 8% of AV. About 87% of the AV is residential properties, while the commercial and industrial base is a modest 6% of AV.

Looking ahead, we anticipate tepid employment growth in New England through 2014. However, we acknowledge that unemployment in the commonwealth has been comparatively lower than nationally and we believe it should be stable through the medium term. Moreover, the broader New England residential real estate market has shown improvement as our data indicate that median home prices have strengthened, and economic development has gained some steam. Nevertheless, it is uncertain when the rebound will be reflected in the town's AV.

Despite a tough budgetary environment, reflecting increasing school costs and other fixed obligations, Sandwich's financial position remains good to strong. The town closed audited fiscal 2012 with a \$790,000 general fund surplus, equal to 1.2% of general fund expenditures. The surplus was the result of strong expenditure controls and conservative revenue estimates leading to a favorable operating variance of 2%. The surplus increased the total general fund balance to \$6.3 million, or roughly 9.1% of expenditures. The unassigned and assigned general fund balances closed at \$5.9 million, or 8.8% of general fund expenditures, while general fund cash and equivalents increased to \$9.7 million, equivalent to 51 operating days' cash.

Sandwich's 2013 operating budget totals \$63.7 million, essentially flat from the prior year. In our opinion, the town's primary revenue sources are stable overall. Property taxes account for 70% of revenues while intergovernmental aid accounts for 22%. Property tax collections remain strong and stable, averaging 97% of the current-year tax levy. Education is the largest expenditure, accounting for 49% of the budget, along with employee benefit costs (20%) and public safety (12%). Based on management's current forecasts, revenues are in line with expectations and general fund expenditures are within budgeted estimates. As such, we anticipate reserves remaining in line with prior years.

Based on a review of several key financial practices, Standard & Poor's considers Sandwich's management practices "good" under its Financial Management Assessment methodology, indicating that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Highlights include a good focus on planning and forecasting. The town performs five-year budget projections to identify revenue and expenditure trends and address operating stresses. Sandwich maintains a five-year capital plan that management reviews yearly. Town officials budget conservatively, using prior trends, and monitor the budget regularly, providing monthly reports to the board of selectmen. The town does not maintain a formal debt management policy or reserve policy.

Sandwich's debt burden is low. The overall debt burden is a low 0.8% of total market value, or \$1,422 per capita. These ratios factor in the overlapping debt of the county and water district. Debt service carrying charges were moderate to low at 6% of operating expenses in 2012. Amortization is above average, with officials planning to retire 92% of principal by 2024 and 100% by 2030. Additional borrowing needs are manageable. The town has roughly \$14.7 million of authorized unissued debt consisting largely of \$6.5 million for the construction of a waste water treatment plant, and \$5.4 million for a school roof project.

As for long-term liabilities, Sandwich's other postemployment benefit (OPEB) unfunded actuarial accrued liability was \$85.6 million. In fiscal 2012, the OPEB annual required contribution (ARC) was \$7.1 million, and the town's actual

payment was \$2.7 million, or 38% of the ARC. The town has recently established an irrevocable trust fund, but has not begun funding it beyond its normal costs.

For its pension liabilities, the town contributes to the Barnstable County retirement system. Sandwich's share of the estimated unfunded liability is roughly \$33.2 million. The town's fiscal 2013 pension contribution was \$2.8 million, roughly 3.5% of budgetary expenditures.

Outlook

We do not expect that the rating will change within the two-year parameter of the stable outlook because we expect Sandwich to maintain a good reserve position. We believe the town's diverse tax base and economic fundamentals lend strength to property tax collections, the town's primary revenue source. Moreover, we believe that management will continue to make timely expenditure adjustments to maintain structural balance despite revenue growth remaining modest for the next two years. Credit factors that could lead to negative rating actions include a considerable decrease to reserves.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- U.S. State And Local Government Credit Conditions Forecast, April 4, 2013

Ratings Detail (As Of May 23, 2013)

Sandwich Twn GO

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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