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McGRAW HILL FINANCIAL

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Summary:

Sandwich, Massachusetts; General Obligation

Primary Credit Analyst:
Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

Secondary Contact:
Timothy W Little, New York (212) 438-7999; timothy.little@standardandpoors.com

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Summary:

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Credit Profile		
US$4.811 mil GO mun Purp loan bnds ser 2015 dtd 06/15/2015 due 06/15/2035		
Long Term Rating	AA+/Stable	New
Sandwich Twn GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Sandwich, Mass.' series 2015 general obligation (GO) municipal purpose bonds. Standard & Poor's also affirmed its 'AA+ long-term rating on the town's existing GO debt. The outlook is stable.

The town's full faith and credit pledge, subject to Massachusetts Proposition 2-1/2 secures the bonds. Proceeds will be used to fund school-related costs as well as beach re-nourishment.

The rating reflects Sandwich's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2014 of 6.8% of operating expenditures;
- Very strong liquidity, with total government available cash of 14.3% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 4.5% of expenditures and net direct debt that is 29.9% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 85.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Sandwich's economy very strong. The town, with an estimated population of 20,536, is located in Barnstable County in the Barnstable Town, MA MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 127% of the national level and per capita market value of $179,379. Overall, the town's market value grew by 1.5% over the past year to $3.7 billion in 2015. The county unemployment rate was 7.0% in 2014.

The town is primarily a residential community with an extremely strong and diverse tax base. Despite a softer real-estate environment that has reduced assessed values (AVs) over the past few years, we believe market valuations remain high and are beginning to increase. 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, based on our regional forecasts, we expect the regional economy to remain stable. Recent data indicate that the region's median home prices will continue to improve, and that housing starts will remain positive. This is important because Sandwich, along with other local governments in the region, largely looks to property taxes to meet rising expenditure demands.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment 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 of management policies include a good focus on financial and capital planning evidenced by its five-year capital needs budget, which is updated annually. Funding sources for each project are identified and the plan is submitted as part of the town manager's report. The town does use some forecasting techniques to identify future revenue and expenditure trends to complement the capital budget. Budget assumptions are done conservatively and monitoring of budget-to-actual performance is done monthly. The town's formal investment policies mirror state guidelines, and the town treasurer monitors holdings on a monthly basis.

We note the town lacks formalized policies in the areas of debt management nor does it maintain a formal reserve and liquidity policy. It does maintain a minimum target for stabilization reserves.

Strong budgetary performance

Sandwich's budgetary performance is strong in our opinion. The town had operating surpluses of 2.3% in the general fund and 3.5% across all governmental funds in fiscal 2014.

For fiscal 2015, management indicates the general fund is anticipated to close with balanced operations. While there was a projected $500,000 snow and ice deficit, management saw positive variances in total revenues compared to the budget and expects to close the deficit without having to use budgetary reserves. On the contrary, the town created an other postemployment benefit (OPEB) trust fund to begin funding that liability, and is anticipates to add to stabilization reserves, which should improve available reserves.

Currently, we expect operating performance to remain strong and in line with performance in years past. At the same time, we believe there will be budgeting challenges due to increasing fixed costs associated with long-term liabilities, but management has done well in managing those cost increases through careful planning and prudent budgetary practices. In our view, a recovery in local fees and taxes due to an improving economy and proactive budget management will likely allow for stable operations.

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%). Recently, these costs have been manageable and accommodated through the increase in the tax levy. The town has not sought a Proposition 2-1/2 override and, based on current growth trends, believes it won't need to do so for the time being. Based on management's current forecasts, revenues are in line with expectations and general fund expenditures are within budgeted estimates.

Based on our macroeconomic forecasts (see "U.S. Credit Conditions Forecast," published April 2, 2015, on RatingsDirect), credit conditions in New England should remain stable, which should translate to ancillary revenue and taxable levy growth coming in as expected.

Adequate budgetary flexibility

Sandwich's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2014 of 6.8% of operating expenditures, or $5.0 million.

Our calculation include unassigned and assigned fund balance on a GAAP basis. We note the town's available reserves have remained stable at these levels for several years. Management projects fiscal 2015 will close with an increase to available reserves, but we believe the increase would be modest and available reserves would remain less than 8% of expenditures. We would anticipate the town maintaining reserves at these levels over the next several years as expenditure demands increase, and as the town manage its long-range capital budget.

Very strong liquidity

In our opinion, Sandwich's liquidity is very strong, with total government available cash of 14.3% of total governmental fund expenditures and 3.1x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

Our opinion is that liquidity will remain very strong as there is no significant deterioration of cash balances planned or anticipated. Further, we note the town does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. Also, the town is not aggressive in its use of investments.

Very strong debt and contingent liability profile

In our view, Sandwich's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.5% of total governmental fund expenditures, and net direct debt is 29.9% of total governmental fund revenue. Overall net debt is low at 0.8% of market value and approximately 85.5% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issue, Sandwich will have roughly $26.5 million of total direct debt outstanding. We expect for now that the town's debt service carrying charge will decrease over the near term given its rapid amortization. We acknowledge it has identified several long-range capital needs related to road improvements, schools, and potentially a new public safety building. No affirmative decisions have been made by the board of selectman at this time which we believe would deteriorate debt measures.

Sandwich's combined pension and OPEB contributions totaled 6.0% of total governmental fund expenditures in 2015. Of that amount, 3.5% represented contributions to pension obligations and 2.6% represented OPEB payments. The town made its full annual required pension contribution in 2015.

For pensions, the town participates in the Barnstable County Retirement System. Pension costs are currently manageable. The pension system, which is a cost-sharing multiemployer defined-benefit pension plan is only 50.5% funded, and due to the low funded ratio, we believe this will likely remain a growing cost over the next few years. An additional long-term credit consideration is the town's long-term OPEB liabilities. As of July 1, 2012, the town's OPEB unfunded actuarial accrued liability was $74.4 million, which is down from 103.5 million reported in 2010. The town has recently set up an OPEB trust fund and plans on applying some monies into the trust each year as voted in town meeting.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Sandwich's very strong economy and liquidity factors. A consideration of a positive rating action over time would involve the town continuing to improve and sustain its budgetary performance and flexibility at strong levels, as well as remaining proactive in mitigating the long-term costs pressures stemming from its long-term liabilities.

While unlikely in our two-year outlook due to the town's stable budgetary environment, significant declines in Sandwich's financial performance and flexibility would negatively pressure the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of June 15, 2015)		
Sandwich Twn GO		
Long Term Rating	AA+/Stable	Affirmed
Sandwich Twn GO rfdg bnds (Bank Qual)		
Long Term Rating	AA+/Stable	Affirmed
Sandwich Twn GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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