S&P Global Ratings

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Summary:

Sandwich Town, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$3.85 mil GO mun purp loan bnds ser 2016 due 11/01/2036		
Long Term Rating	AA+/Stable	New
Sandwich Twn GO		
Long Term Rating	AA+/Stable	Affirmed
Sandwich Twn GO rfdg bnds (Bank Qual)		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Sandwich Town, Mass.' series 2016 municipal-purpose loan general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the bonds, subject to Proposition 2 1/2 limitations. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit and the current GO rating on the town. Officials intend to use series 2016 bond proceeds to retire the town's bond anticipation notes.

The rating reflects our opinion of the following factors for the town, including its:

- Strong economy, with projected per capita effective buying income at 122% of the national level and market value per capita of $185,860;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but break-even operating results at the total governmental fund level in fiscal 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 6.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 12% 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 position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 30.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.4% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Strong economy

We consider Sandwich's economy strong. The town, with an estimated population of 20,570, is located in Barnstable County. The town has a projected per capita effective buying income of 122% of the national level and per capita market value of $185,860. Overall, the town's market value grew by 3.8% over the past year to $3.8 billion in 2016. The county unemployment rate was 6.3% in 2015.

Sandwich is approximately 60 miles south of Boston, where it occupies 43.04 square miles. Cape Cod Bay borders the town on the north, and Barnstable is to the east. The town is primarily a residential community with an extremely strong and diverse property tax base. Assessed value (AV) has grown during the previous two fiscal years by 5.3% after a long period of declines. The tax base is very diverse with the 10 leading taxpayers accounting for 6.7% of AV. Residential properties account for about 88% of AV and commercial and industrial properties account for a modest 7%.

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 and other local governments in the region largely look to property taxes to meet rising expenditures.

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 good focus on financial and capital planning, evidenced by its five-year capital-needs budget, which it updates annually. Management identifies funding sources for each project and submits the plan as part of the town manager's report to the town council. Sandwich uses some forecasting techniques to identify future revenue and expenditures, which it uses to compliment the capital budget. Management performs budget assumptions conservatively and monitors budget-to-actual performance monthly. The town's formal investment policies mirror state guidelines, and the town treasurer monitors holdings monthly.

We note that the town lacks formal debt management policies and that it does not maintain formal reserve and liquidity policies. It maintains a minimum target for stabilization reserves, which it will look to increase to $2.5 million over the next five fiscal years and maintain it there.

Strong budgetary performance

Sandwich's budgetary performance is strong in our opinion. The town had slight deficit operating results in the general fund of 0.6% of expenditures, but a balanced result across all governmental funds of negative 0.1% of expenditures in fiscal 2015.

For fiscal 2016, management is projecting the general fund will close with a $1 million surplus. Management saw positive variances in total revenue with motor vehicle excise taxes and building permits outperforming the budget. Officials balanced the fiscal 2017 operating budget at $73.1 million, a 6.3% increase over fiscal 2016 due largely to increased debt service payments.

Property taxes generate 74% of general fund revenue and intergovernmental aid accounts for 19%. Tax collections have traditionally been consistent and, what we view as, strong. In addition, we believe the state aid environment is stable. Currently, we expect operating performance to remain strong and in-line with performance during past fiscal years.

Adequate budgetary flexibility

Sandwich's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 6.8% of operating expenditures, or $5.2 million.

We note available reserves have remained stable at these levels for several fiscal years. Management is projecting fiscal 2016 will close with an increase to available reserves, but we believe that the increase will likely be modest and that available reserves will likely remain less than 8% of expenditures. We would expect the town to maintain reserves at these levels over the next several fiscal years as expenditure demands increase and it manages the long-range capital budget.

Very strong liquidity

In our opinion, Sandwich's liquidity is very strong, with total government available cash at 12% of total governmental fund expenditures and 2.8x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Our opinion is that liquidity will likely remain very strong since there is no significant deterioration of cash balances planned or expected. Furthermore, we note the town does not have any contingent liquidity risk from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, Sandwich 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 4.3% of total governmental fund expenditures, and net direct debt is 30.7% of total governmental fund revenue. Overall net debt is low at 0.7% of market value, and approximately 82.4% 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 $26.7 million of total direct debt outstanding. For now, we expect the town's debt service carrying charge will decrease over the next few fiscal years due to its rapid amortization. We acknowledge the town has identified several long-range capital needs related to road improvements, schools, and a potentially new public-safety building. The board of selectmen has not made any affirmative decisions that we believe would currently deteriorate debt measures.

Sandwich's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.1% of total governmental fund expenditures in fiscal 2015. Of that amount, 3.4% represented required contributions to pension obligations, and 2.7% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2015.

Sandwich participates in the Barnstable County Retirement System. Pension costs are currently manageable. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement nos. 67 and 68, the town's proportionate share of the net pension liability was about $32.3 million with 60% funded as of fiscal 2015. Due to the low funded ratio, we believe this will likely remain a growing cost over the next few fiscal years.

The town's long-term OPEB liabilities are an additional long-term credit consideration. As of June 30, 2014, the OPEB unfunded actuarial accrued liability was $74.4 million with an assumed rate of return of 4.5%, down from $103.5 million in fiscal 2010. The town established an OPEB trust fund with a balance of $209,000 in fiscal 2016.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Sandwich's very strong liquidity and low debt, coupled with strong management practices. We believe Sandwich's strong economy and reliance on property taxes provide additional stability, which translates to stable budgetary performance. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

Over time, we believe we could raise the rating if available reserves were to continue to grow, resulting in budgetary flexibility improving to levels we consider in-line with the town's higher-rated peers, coupled with the town committing to maintaining reserves at these levels.

Downside scenario

While unlikely to occur due to the improving tax base, any sustained fund balance deterioration or budgetary performance could lead us to lower the rating.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.