

# RatingsDirect®

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## Summary:

# Sandwich, Massachusetts; General Obligation; Note

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### Credit Profile

US\$9.62 mil GO BANs (Unlimited Tax) dtd 03/08/2018 due 03/08/2019		
<i>Short Term Rating</i>	SP-1+	New
US\$6.015 mil GO mun purp loan ser 2018 due 02/15/2038		
<i>Long Term Rating</i>	AA+/Stable	New
Sandwich Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Sandwich Twn GO rfdg bnds (Bank Qual)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Sandwich, Mass.' municipal-purpose loan of 2018 general obligation (GO) bonds and affirmed its 'AA+' long-term rating, with a stable outlook, on the town's existing GO debt.

S&P Global Ratings also assigned its 'SP-1+' short-term rating to the town's bond anticipation notes (BANs).

Officials plan to use series 2018 bond proceeds to permanently finance current BANs outstanding, maturing on Feb. 16, 2018, and BAN proceeds to fund police and fire-station improvements.

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 Sandwich's general creditworthiness, reflected in the rating on the unlimited-tax GO bonds. We note the town has voted to exempt bonds and BANs from Proposition 2-1/2 limitations.

The short-term rating reflects our view of the application of our criteria for evaluating and rating BANs. In our view, the town maintains a very strong capacity to pay principal and interest when the BANs come due. Sandwich sustains a low market-risk profile because it maintains strong legal authority to issue long-term debt to take out the BANs and it issues debt frequently and provides ongoing disclosure regularly to market participants.

The long-term rating reflects our opinion of the town'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 (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total-governmental-fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 9.4% of operating expenditures;

- Very strong liquidity, with total government available cash at 23.2% of total-governmental-fund expenditures and 5.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 32.3% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 83.3% of debt scheduled to be retired within 10 years, but a large pension and other-postemployment-benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

### **Very strong economy**

We consider Sandwich's economy very strong. The town, with an estimated population of 20,573, is in Barnstable County in the Barnstable Town MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 128% of the national level and per capita market value of \$200,174. Overall, market value grew by 5.1% over the past year to \$4.1 billion in fiscal 2018. The county unemployment rate was 4.7% in 2016.

Sandwich is approximately 60 miles south of Boston, where it occupies 43 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. The tax base is very diverse with the 10 leading taxpayers accounting for 5.7% of assessed value (AV). Residential properties account for about 88% of AV while commercial and industrial properties account for a modest 7%.

### **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 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 commonwealth guidelines, and the town treasurer monitors holdings monthly.

We note the town lacks formal debt-management, reserve, and liquidity policies. Management 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 surplus operating results in the general fund of 1.8% of expenditures but a slight deficit result across all governmental funds of 0.8% of expenditures in fiscal 2017.

Management saw positive variances in total revenue with motor-vehicle excise taxes and local receipts outperforming the budget. Officials balanced the fiscal 2018 budget at \$72.4 million, a 1% decrease over fiscal 2017 due largely to

decreased debt-service payments. Management is projecting the general fund will close with a surplus in-line with fiscal 2017.

Property taxes generate 75% of general fund revenue and intergovernmental aid accounts for 23%. 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.

We believe future pension and OPEB costs could become a budgetary pressure due to below-average funding ratios and, what we view as, aggressive assumptions. As long-term liability expenses increase, management is actively making budgetary adjustments to absorb this growing expense. We note that Sandwich is funding the actuarially determined contribution and that it plans to begin prefunding OPEB. We also believe adjustments to more-conservative assumptions could materially affect annual contributions, pressuring the bottom line, particularly if economic or business conditions worsen.

### **Strong budgetary flexibility**

Sandwich's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2017 of 9.4% of operating expenditures, or \$7.4 million.

Over the previous two fiscal years, Sandwich has grown reserves to, what we consider, strong levels. Management is projecting fiscal 2018 will close with an increase to available reserves. Management does not currently plan to spend down fund balance. We expect fund balance to remain, at least, strong.

### **Very strong liquidity**

In our opinion, Sandwich's liquidity is very strong, with total government available cash at 23.2% of total-governmental-fund expenditures and 5.4x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

Through positive budgetary performance, Sandwich has improved its cash balance. Liquidity will likely remain very strong because there is no significant deterioration of cash balance 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 conservative in its use of investments.

### **Strong debt-and-contingent-liability profile**

In our view, Sandwich's debt-and-contingent-liability profile is strong. Total-governmental-fund debt service is 4.3% of total-governmental-fund expenditures, and net direct debt is 32.3% of total-governmental-fund revenue. Overall net debt is low at 0.8% of market value and approximately 83.3% of 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 \$39.5 million of total direct debt outstanding. For now, we expect the debt service carrying charge will decrease over the next few fiscal years due to rapid amortization. The town currently expects to issue an additional \$12 million in debt over the next two years to finance water and sewer improvements.

In our opinion, Sandwich's large pension and OPEB obligation, without a plan in place we think will sufficiently

address the obligation, is a credit weakness. Sandwich's combined required pension and actual OPEB contribution totaled 8.9% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 3.6% represented required contributions to pension obligations and 5.3% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2017. The funded ratio of the largest pension plan is 58.1%.

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, Sandwich's proportionate share of the net pension liability was about \$41.6 million with 57.3% funded at Dec. 31, 2016, based on an assumed rate of return of 7.625%. We believe this weak funding ratio is due to numerous years of underfunding, aggressive assumptions, and weak market performance. Due to the funded ratio, we believe contributions will likely continue to rise over the next few fiscal years. While the town is currently managing these costs, we believe it has a limited ability to control future pension-liability growth.

Sandwich's long-term OPEB liabilities are an additional long-term credit consideration. At July 1, 2016, the OPEB unfunded actuarial accrued liability was \$88.6 million. The town has traditionally funded OPEB through pay-as-you-go financing. It paid \$2.6 million, or 5.3% of expenditures, which was 36.2% of the annual required contribution, in fiscal 2017. The town's OPEB trust currently has a balance of \$336,000. While we consider the practice of prefunding the OPEB liability positive, Sandwich's large and growing pension and OPEB liabilities could pressure the budget over the next few years.

### **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 with strong management practices. We believe Sandwich's very strong economy and reliance on property taxes provide additional rating stability, which translates to stable budgetary performance.

### **Upside scenario**

Over time, we could raise the rating if Sandwich were to continue to manage and address its long-term liabilities and if available reserves were to continue to grow, resulting in budgetary flexibility improving to levels in-line with higher-rated peers, with management committing to maintaining reserves at these levels.

### **Downside scenario**

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

- 2017 Update Of Institutional Framework For U.S. Local Governments

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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