

RatingsDirect®

Summary:

Sherborn, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$3.158 mil GO mun purp loan bnds ser 2013 dtd 03/11/2013 due 05/15/2027

| | | |
|--------------------------|------------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | New |
| Sherborn GO | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| Sherborn GO | | |
| <i>Unenhanced Rating</i> | AAA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Sherborn, Ma.'s series 2013 general obligation municipal purpose loan. At the same time, Standard & Poor's affirmed its 'AAA' underlying and long-term ratings on the town's existing debt.

The ratings reflect what we view as Sherborn's:

- Residential nature and access to the Boston metropolitan statistical area;
- Extremely strong wealth and income levels;
- Strong reserve levels supported by a history of stable financial performance; and
- Rapid amortization and limited capital needs.

The town's full faith and credit pledge secures the bonds. We understand that proceeds from the current issue will be used to refund a portion of Sherborn's debt outstanding to achieve present value savings and for capital improvements. The town is 18 miles southwest of Boston and its 4,100 residents are spread over nearly 17 square miles; large, heavily wooded lots predominates. Sherborn is primarily a residential community with almost no commercial or industrial components. Similar to its neighboring town of Dover and some other suburbs to the west of Boston, Sherborn has very high income levels. Its median household income is 255% of the U.S. level. Although the town has no major employers but the town itself, the location provides convenient access to employment throughout the greater Boston area. Sherborn's unemployment rate was 3.2% as of November 2012 and has historically been below county, commonwealth, and national levels.

Sherborn's tax base has seen an 8% overall decline since fiscal 2008 due to the national recession. Assessed value (AV) for 2013 is \$1.1 billion; this equates to a market value of \$1.2 billion or what we consider an extremely strong \$298,000 per capita. The town's tax base is almost entirely residential; the top 10 taxpayers account for a very diverse 5% of total AV.

The town's financial position is good, in our view, and financial reserves have been consistent despite the slow national

economy. For fiscal 2013, management adopted a balanced budget. Year-to-date results showed Sherborn will end fiscal 2013 with at least break-even operations. For fiscal 2012, unaudited results showed general fund balance declined by about \$39,000 to \$2.6 million or what we consider a strong 10.7% of expenditures.

In fiscal 2011, Sherborn implemented Governmental Accounting Standards Board (GASB) Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. The town reported a \$457,000 general fund drawdown in fiscal 2011 driven mainly by rate stabilization. Audited results reported a total available fund balance of \$2.3 million or 9.6% of expenditures. While \$420,000 million of the total fund balance is committed, it can be assigned to any municipal purpose with a supermajority vote of the town's Board of Selectmen. Property taxes are the town's leading general fund revenue source (84% of general fund revenues), and tax collections remain stable, with current-year collections at about 98% of the tax levy. State aid accounts for 4% of revenues. The town receives less than 5% of federal revenues for operation.

Sherborn's management practices are considered to be "standard" under Standard & Poor's Financial Management Assessment. This indicates that the town maintains adequate policies in most, but not all, key areas.

Including the town's share of the regional school district it participates in, Sherborn's overall net debt is low as a share of market value, at 1.6%, but moderate per capita, at \$4,800. Carrying charges were low, averaged 6% for the most recent fiscal years, and amortization is rapid with 90% of principal to be retired in 10 years, and 100% by 2027. The town has a five-year capital improvement plan, which includes a \$7.5 million of improvements. Most of the town's debt (including the overlapping debt of the regional school district) is exempt from the Proposition 2 1/2 levy limits.

A long-term credit consideration is Sherborn's pension and other postemployment benefit (OPEB) liability. The town's OPEB unfunded actuarial accrued liability was \$9.9 million, or 38% of total governmental expenditures, as of June 30, 2010. The OPEB annual required contribution (ARC) was \$690,000 (about 3% of total governmental expenditures), and the town's actual pay-as-you-go contribution was \$305,000, or 44% of the ARC. Sherborn has established an OPEB stabilization fund and the current balance is about \$400,000. For its pension liabilities, the town contributes to the Middlesex County retirement system. Its fiscal 2012 pension contribution was \$549,000, about 2% of total governmental expenditures. The pension funding ratio is at 47%.

Outlook

The stable outlook reflects our expectation that Sherborn's continued good fiscal management will allow it to maintain strong general fund reserves commensurate with its formal policy throughout the economic cycle. We do not expect to change the rating within the two-year outlook time frame as the town's overall debt levels and pension and OPEB obligation will likely remain manageable. Sherborn's access to the greater Boston economy provides further stability to the rating.

Related Criteria And Research

- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- USPF Criteria: GO Debt, Oct. 12, 2006

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