

RatingsDirect®

Summary:

Sudbury, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$4.07 mil GO rfdg bnds ser 2013 dtd 01/15/2013 due 01/15/2025

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Sudbury, Mass.' general obligation (GO) refunding bonds and affirmed its 'AAA' long-term rating on the town's existing GO parity debt. The outlook is stable.

The ratings reflect our opinion of Sudbury's:

- Strong economic measures, based on the town's convenient access to the deep and diverse Boston metropolitan statistical area (MSA);
- Extremely strong per-capita market values and very strong household incomes compared with the U.S.;
- Stable financial position and good financial management practices; and
- Low debt burden with manageable future capital needs.

The town will use proceeds from this issuance to advance refund its series 2004 bonds, and current refund its series 2005 bonds for interest rate savings.

Sudbury, with a population of about 17,000, is a very affluent suburb 20 miles west of Boston. The town's local economy is limited and mainly residential, but its economic indicators are extremely strong and stable due to its participation within the Boston MSA. Unemployment, at 4.3% as of December 2012, remains below state and national rates, and the median household effective buying income is among the highest in the commonwealth at 259% of the U.S. level.

Based on our regional forecasts, we anticipate unemployment remaining steady and for employment growth to be modest through 2014. Gains will be varied and across multiple industries, though professional, scientific and technical services, financial services, and health care will be the largest sources of growth.

Given its proximity to Boston and other large employment centers in the region, Sudbury's total assessed valuation (AV) has stabilized after a 8.6% decrease from its peak valuation in 2008. In 2013, it was \$3.86 billion, and the corresponding market value per-capita market value was an extremely strong \$217,000. Residential properties comprise 93% of AV and values in the town have stabilized. Our latest forecasts show the region's median home price will continue to gain traction through 2014. We continue to believe, however, recovery in the overall real estate market will be a long process.

Despite the slow-growing economy, Sudbury's financial position remains good, in our view. We believe experienced management, bolstered by good financial policies and a stable revenue profile, has contributed to strong, consistent financial operations over the past few years. The town closed audited fiscal 2012 with a \$1.1 million general fund

surplus, equal to 1.3% of general fund expenditures. This marks its fourth consecutive general fund surplus, second above 1% of budget. Overall, the town's total fund balance was \$13.6 million, or roughly 16% of expenditures. The unassigned and assigned general fund balances closed the year at \$5.6 million (6.5% of general fund expenditures and transfers) and \$1.4 million (1.7%), respectively.

The town's fiscal 2013 budget totals \$80.7 million and represents an increase in expenditures of 2.8% compared with the fiscal 2012 budget. With Sudbury's property tax levy making up more than 79% of total revenues, the town benefits from the diversity and strength of its tax base. We anticipate current-year collections to remain strong and consistent at 99% of the tax levy. Intergovernmental aid, including school state aid, accounts for 14.4% of revenue. The expectation is for state aid to largely come in as budgeted. Motor vehicle excise taxes and other local revenues represent about 5% of revenues, and the town has traditionally been very conservative in estimating receipts. On the whole, we believe the town's financial position will remain largely unchanged from fiscal 2012.

Standard & Poor's considers Sudbury's financial practices "good" under its Financial Management Assessment, indicating practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights include monthly budget monitoring reports presented to the board of selectmen and the finance committee, formal investment policies, and a five-year capital improvement plan that identifies funding for all projects.

Including overlapping debt from the Lincoln-Sudbury regional school district, the town's overall net debt position relative to market value is, in our opinion, low at 0.8% and low on a per-capita basis at roughly \$1,746. Amortization of principal is rapid, with 90% of long-term debt due to be retired by 2022 and 100% by 2031. We believe the rapid amortization schedule is favorable given that the carrying charge is low at 5% of expenditures.

Sudbury has roughly \$6.5 million in a community preservation fund, funded by a 3% surcharge on property tax bills. The fund is used to offset debt service for projects that were open space acquisitions or for historical preservation. We estimate that the town has roughly \$12.9 million of GO debt paid from the fund.

The town continues to work closely with collective bargaining units to help lower health care costs, a major cause of budget growth. Just recently, the town moved its employees and retirees over to the State Group Insurance Commission. This step, along with other reforms, has provided the community significant cost savings, and has also lowered its other postemployment benefit (OPEB) liability. As of July 1, 2011, Sudbury's OPEB unfunded actuarial accrued liability was \$34.2 million. In fiscal 2012, the OPEB annual required contribution (ARC), assuming a discount rate of 3.5%, was \$3.6 million (roughly 4% of budget), and the town's actual payment was \$893,648, or 24% of the ARC.

For its pension liabilities, the town contributes to the Middlesex County retirement system. Sudbury's share of the estimated unfunded liability is roughly \$35.3 million. The town's fiscal 2013 pension contribution was \$3.1 million, roughly 3.8% of budgetary expenditures.

Outlook

The outlook is stable. We do not expect the rating will change within the two-year parameter of the outlook because

we expect Sudbury to maintain available reserves at current levels. We believe the town's diverse tax base and economic fundamentals lend strength to property tax collections, which are the town's primary revenue source. Moreover, we believe that management will continue to make timely budgetary adjustments, as has been demonstrated, to maintain structural balance.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- U.S. State And Local Government Credit Conditions Forecast, Jan. 17, 2013

Ratings Detail (As Of March 4, 2013)

Sudbury GO

Long Term Rating

AAA/Stable

Affirmed

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