

### Summary:

# Sudbury, Massachusetts; General Obligation

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### Credit Profile

US\$1.585 mil GO sch bnds unlt'd tax dtd 12/15/2011 due 08/20/2021

*Long Term Rating* AAA/Stable New

Sudbury GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Sudbury, Mass.' general obligation (GO) school 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, driven by 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 income levels compared with U.S. levels;
- 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 refund bond anticipation notes outstanding for the purpose of making energy conservation improvements to one of the town's schools.

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 5.3% as of September 2011, 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.

The town's property tax base has decreased over the past few years due to the effects of the nationwide housing market downturn, but the tax base is diverse, and market values remain extremely strong. Assessed value (AV) is primarily residential, at 93%, and the 10 leading tax payers account for just 4%. AV has decreased by 8% to \$3.8 billion in fiscal 2011. Nonetheless, market value remains extremely strong at \$219,394 per capita, which is indicative of the already strong real estate values of the town. The median home value is estimated to be roughly four times the national level.

The town's financial position has improved over the past three fiscal years as the town currently maintains a good level of reserves. Fundamentally, the town's main revenues are consistent and strong. Property taxes are the town's leading revenue source (77% of general fund revenues), and tax collections remain stable, with current-year collections typically exceeding 98% of the tax levy. Due to Sudbury's affluence, the town receives a relatively low 17% of general fund revenue from the commonwealth.

The town is projecting to report a budgetary surplus in 2011 as revenues and expenditures posted favorable variances. The town is estimating its unreserved undesignated general fund balance to increase by \$420,000, to \$1.6 million, and for its stabilization reserves to remain stable at \$1.9 million. In audited fiscal 2010, the town closed with an unreserved general fund balance of \$1.2 million, equivalent to 1.5% of expenditures. The stabilization fund closed with a 2010 balance of \$1.9 million. The combined balance of available reserves totaled \$3.1 million, or roughly 4% of expenditures. The town also maintains strong liquidity. The town reported 59 days' cash on hand in the general fund for the close of fiscal 2010.

In our opinion, town officials will continue to face budgetary challenges over the next few years, particularly as the revenue environment remains tepid. However, we believe management continues to make the appropriate budgetary adjustments in order to maintain structural balance without appropriating reserves below current levels. The town's 2012 budget totals \$85.2 million and is a 2.3% increase from 2011.

Standard & Poor's considers Sudbury's financial practices "good" under its Financial Management Assessment, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights include monthly budget monitoring reports that are 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. The town also budgets so that available reserves remain above 5% of general fund expenditures, a goal management believes it will achieve over the next few years.

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 1% and low on a per capita basis at roughly \$1,875. 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.

The town has roughly \$8.9 million in a community preservation fund, which is 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 \$15.3 million of GO debt that is paid from the fund.

As of July 1, 2009, Sudbury's other postemployment benefits (OPEB) unfunded actuarial accrued liability was \$36.4 million. In fiscal 2010, the OPEB annual required contribution (ARC), assuming a discount rate of 4%, was \$3.5 million (roughly 4% of budget), and the town's actual payment was \$782,694, or 22% 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 \$28.7 million. The town's fiscal 2010 pension contribution was \$2.6 million, roughly 3.5% of budgetary expenditures.

## Outlook

The outlook is stable. We do not expect that the rating will change within the two-year parameter of the outlook because we expect the town to continue 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, in order to maintain structural balance.

## **Related Criteria And Research**

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

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