

# RatingsDirect®

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## Summary:

# Sutton, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$25.71 mil GO mun purp loan ser 2017 due 06/01/2038

*Long Term Rating*

AA+/Stable

New

Sutton Twn GO

*Long Term Rating*

AA+/Stable

Upgraded

## Rationale

S&P Global Ratings raised its long-term rating on the Town of Sutton, Mass.' general obligation (GO) bonds to 'AA+' from 'AA'. The outlook is stable.

We base the upgrade on improving reserve levels, an expanding tax base, and consistently strong operating performance.

At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the town's series 2017 bonds. The outlook is stable.

We understand the 2017 bond proceeds will be used to construct a new police station and refund 2007 and 2011 bonds for approximately \$1.3 million in net present value savings. The town's full faith and credit pledge secures the bonds.

Massachusetts Proposition 2 1/2 limits property tax increases to 2.5% each year. However, residents can override this limit through a vote. Sutton voted to exclude debt service related to the police station from the provisions of Massachusetts Proposition 2 1/2. The 2011 refunding is also excluded.

The remaining bonds are subject to Proposition 2 1/2 and we, therefore, consider them a limited GO. Due to the town's revenue-raising ability, we have not made a rating distinction between the limited and unlimited nature of the pledge.

The 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 balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2016 level of 15.0% of operating expenditures;
- Very strong liquidity, with total government available cash at 16.6% of total governmental fund expenditures and 148.3% of governmental debt service, and access to external liquidity we consider strong;

- Strong debt and contingent liability profile, with debt service carrying charges at 11.2% of expenditures and net direct debt that is 106.7% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 67.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Sutton's economy very strong. The town, with an estimated population of 9,300, is located in Worcester County in the Worcester, MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 151% of the national level and per capita market value of \$143,598. Overall, the town's market value grew by 6.7% over the past year to \$1.3 billion in 2017. The county unemployment rate was 3.9% in 2016.

Sutton is primarily a residential town 35 miles west of Boston and 10 miles southeast of Worcester. The Massachusetts Turnpike (Interstate 90) and interstates 290 and 395 are within 10 miles of the town and provide good access to several diverse employment centers. Sutton's largest employers, other than the town itself, include Atlas Global (406 employees), Market 32 (200), and Blackstone National Golf Club (75).

For the past several years, Sutton has been undergoing a building boom. Both of the town's golf courses have added 30-plus new luxury condominiums; a new retail center anchored in a Market 32 opened on Route 146; and one of the mill buildings in Manchaug, in the south of town, is being redeveloped into condominiums and a restaurant. Given the number of parcels available for development and a high level of interest, we expect Sutton's tax base to continue to expand.

### **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.

Sutton has a formal reserve policy, setting a goal of holding 8% of general fund operating revenues in its stabilization fund. The town also has policies guiding its free cash, debt management, and investments. The debt management policy adopts state statute in that debt cannot exceed 5% of equalized value. Furthermore, the debt management policy limits debt service expenditures (not including debt excluded from Proposition 2 1/2) to 10% of the annual operating budget, while maintaining "level principal" debt amortization schedules. Sutton maintains long-term capital and long-term financial plans, both of which extend five years out and are updated annually. The capital plan is detailed and specifies how capital will be funded. In general, we believe town management budgets conservatively, as evidenced in consistent better-than-budget operating results. We note that management references 10-15 years of historical data to inform budgetary assumptions. Reporting on budget-to-actuals and investments are done periodically, but management consults performance weekly.

### **Strong budgetary performance**

Sutton's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of negative 0.3% of expenditures, and surplus results across all governmental funds of 3.1% in fiscal 2016. General fund operating results of the town have been stable over the last three years, with a result of 0.7% in 2015 and a result of

1.0% in 2014.

Fiscal 2017 is expected to be another strong year for Sutton. Revenues from new growth, combined with conservative estimates, yielded \$800,000 for the general fund balance. The 2018 budget totals \$31.9 million, and is a 2.8% increase over the previous year. The 2018 budget does not include any appropriation from reserves, but makes a one-time pay down a portion of debt outstanding.

Sutton's primary revenue source is property taxes, which make up 69% of the revenue base, followed by state aid, which accounts for 21%. Based on ongoing development in the town, which is adding to the tax base, as well as a demonstrated history of balanced operating results, we expect our evaluation of Sutton's performance to remain at least strong.

### **Very strong budgetary flexibility**

Sutton's budgetary flexibility is very strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2016 level of 15.0% of operating expenditures, or \$4.5 million.

The town has a general stabilization fund that targets a balance of 8% of general fund revenues. As of 2016, the balance was \$2 million, or 7.9% of revenues. In addition, Sutton has a separate capital stabilization fund and a special education tuition fund, with a balance of \$295,961 and \$201,641, respectively. Management expects to increase these funds over the next few years. We believe this is feasible given anticipated new revenues from the growth of the town's tax base.

### **Very strong liquidity**

In our opinion, Sutton's liquidity is very strong, with total government available cash at 16.6% of total governmental fund expenditures and 148.3% of governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We expect Sutton's liquidity profile to remain very strong. The town retains strong access to external liquidity with regular entry into the bond market to fulfill any capital project needs. In addition, we note that Sutton does not have any variable-rate debt or direct-purchase debt, and limited exposure to any contingent liquidity risks.

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

In our view, Sutton's debt and contingent liability profile is strong. Total governmental fund debt service is 11.2% of total governmental fund expenditures, and net direct debt is 106.7% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 67.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issue, the town will have \$36.7 million in general obligation debt outstanding, most of which has been excluded from the levy limit. Included in that amount is \$671,000 in bond anticipation notes, payable May 2018, and \$701,000 of sewer debt that we view as self-supporting. The town does not have any immediate plans to issue additional debt, but could issue beyond our two-year outlook horizon for sewer projects, roadway improvements, and an athletic track. Based on its limited capital needs, we expect our view of the town's debt profile to remain strong.

The town's combined required pension and actual other postemployment benefits (OPEB) contributions were 3.9% of

total governmental fund expenditures in 2016. Of that amount, 2.6% represented required contributions to pension obligations, and 1.3% represented OPEB payments. Sutton made its full actuarial determined contribution to the regional retirement system in 2016.

Sutton participates in the Worcester Regional Retirement System, a cost-sharing, multi-employer system. In 2016, the town paid \$847,894. Its share of the net pension liability was \$13.4 million. We note that the system uses a discount rate of 7.75%, which we believe is high and which masks the true scale of the liability. As of 2016, the system had a funded level of 44.5%, which is among the lowest in the nation.

The town pays OPEB on a pay-as-you-go basis. In addition to these pay-as-you-go costs, Sutton created an OPEB trust, which it funds through annual appropriations of \$100,000, overlay surplus, and cell tower revenue. The fiscal 2017 trust balance was \$821,117.

Sutton is also working to reduce its liability through changes in its health plan. As of June 30, 2016, the unfunded liability was \$16 million.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects Sutton's consistent operating performance, which has yielded a positive growth in reserves in recent years. It also reflects the town's stable tax base and access to regional employment centers in Boston, Worcester, and Providence, as well as limited capital needs. We do not expect to change our outlook in the next two years.

### **Upside scenario**

We could raise the rating if economic indicators improve to levels comparable with that of higher rated credits and if the town strengthens its financial reporting practices and policies. Furthermore, for an upgrade we would also have to see a reduction in the town's retirement liabilities outstanding.

### **Downside scenario**

We could lower the rating if operating performance were to become unbalanced, leading to a draw on reserves.

## **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.

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