

RatingsDirect®

Summary:

Southborough, Massachusetts; General Obligation

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Credit Profile

US\$3.6 mil GO bonds ser 2015 due 05/15/2035

Long Term Rating

AAA/Stable

New

Southborough GO rfdg bonds ser 2012 due 06/01/2023

Long Term Rating

AAA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services has raised its long-term rating on Southborough, Mass.' general obligation (GO) debt one notch to 'AAA' from 'AA+' based on the town's stable general fund performance, and strong flexibility supported by a very strong economy, and strong management conditions. The outlook is stable.

At the same time, Standard & Poor's has assigned its 'AAA' long-term rating, with a stable outlook, to the town's series 2015 GO bonds.

The 'AAA' rating reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Adequate budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 8.2% of operating expenditures;
- Very strong liquidity, with total government available cash of 19.7% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 7.4% and net direct debt that is 7.9% of total governmental fund revenue, and low overall net debt at less than 3.0% of market value and rapid amortization with 89.3% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

The town's full faith and credit GO pledge secures the bonds. We understand the town will use proceeds from this bond issue to finance a water main replacement.

Very strong economy

We consider Southborough's economy very strong. Southborough, with an estimated population of 9,813, is located in Worcester County in the Worcester, Mass., MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 216% of the U.S. level and per capita market value of \$228,787. Overall, the town's market value grew by 4.4% over the past year to \$2.2 billion in 2015. The county unemployment rate was 6.2% in 2014, down from 7.5% in 2013.

Southborough is in central Massachusetts, approximately 30 miles west of Boston along Interstate 495 and the Massachusetts Turnpike. The town's highway and commuter rail access to employment opportunities in the Boston MSA makes it an attractive location for both residents and businesses. Although primarily residential, Southborough has substantial open space and, due to its location, is home to several large employers. The largest employers are New England Center for Children (500-999 employees), Autonomy (250-499), and Ika Systems Corp. (250-499). The town is also home to St. Marks School, a private preparatory school, as well as the Fay School, a private elementary school.

The town's assessed value (AV) has experienced solid growth of 4.0% and 4.4%, in the past two fiscal years, respectively, and currently totals \$2.2 billion for fiscal 2015. Management expects to continue to see modest growth within the town in the next two fiscal years, which is in line with our regional forecast. While residential properties dominate the tax base, commercial properties represent a sizable 11% of AV. EMC Corp. is the largest taxpayer, accounting for about 2% of the town's tax levy (about 2% of AV). Overall, the tax base is very diverse, in our view, with the 10 leading taxpayers accounting for 7.3% of 2015 AV.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. The town maintains an investment policy, debt management policy, and policy regarding capital outlays and planning. The town also maintains a fund balance policy to limit reserves to no less than 5% of expenditures; reserves are measured by free cash and the town's stabilization fund. Nevertheless, the town's overall policy framework is well embedded and institutionalized. The debt management policy limits net general fund debt service to 8%-10% of general fund expenditures. Management also maintains a five-year long-term projection for revenues and expenditures, which it presents in its annual budget document. We understand the town regularly monitors revenues and expenditures and provides quarterly reports to the town's board of selectmen and finance committee.

Adequate budgetary performance

Southborough's budgetary performance is adequate in our opinion, with a minor general fund deficit of \$175,000 (0.4% of expenditures), as well as a slight deficit result across all governmental funds of \$709,000 (1.4%) in fiscal 2014, which was primarily driven by budgeted capital outlay for ongoing maintenance.

In fiscal 2014, the town settled a suit with the town of Northborough over the apportionment of its regional school district debt assessment. Consequently, Southborough will pay \$1.7 million over eight years in equal principal installments of \$212,375. We understand management has incorporated this payment into its budget with no material impact. The town's fiscal 2015 budget totals \$46.8 million, which is a slight increase over the fiscal 2014 budget, and includes a free cash appropriation of \$1.3 million. Management indicates the fiscal year is tracking on target for revenues and expenditures, and expects to close the year with similar results to fiscal 2014, despite a slight snow and ice deficit of \$160,000. The town believes the snow and ice deficit will be alleviated by departmental savings in other line items. The town's fiscal 2016 budget totals \$48.6 million, and includes a free cash appropriation of \$1.03 million. Management indicates it is working to reduce its reliance on free cash to support the operating budget and plans to use only 50% of free cash in its budget by 2017. The town also maintains \$1.87 million in unused levy capacity, equivalent to 3.9% of the 2016 budget.

Property taxes, accounting for about 75% of general fund revenue in fiscal 2015, are the town's leading revenue source; we believe this remains a very strong and consistent revenue source. Current-year property tax collections remain extremely healthy, in our view, with Southborough averaging a rate above 99% in the past five years. Intergovernmental aid, which has been stable, accounts for 17% of revenues. Overall, we believe the town's budgetary performance will remain at least adequate in the next two years. In our opinion, Southborough's general fund operations have been stable, and routine capital outlay has driven the town's total governmental funds performance. At the same time, the town's performance could potentially improve as it is expecting to reduce its reliance on free cash to balance the budget.

Strong budgetary flexibility

Southborough's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 11.6% of operating expenditures, or \$5.5 million. Our figure includes \$1.6 million in the committed fund balance, which has been appropriated in the fiscal 2015 budget. We believe this provides additional flexibility as the town does not plan to fully spend down the appropriation. According to management, the town's available reserve position at the close of fiscal 2015 should remain flat relative to fiscal 2014 results. Management indicates it does not have plans to spend down reserves, and the town is currently in compliance with its reserve policy at the close of fiscal 2014.

Very strong liquidity

In our opinion, Southborough's liquidity is very strong, with total government available cash of 19.7% of total governmental fund expenditures and 2.6x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

Very strong debt and contingent liability profile

In our view, Southborough's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.4% of total governmental fund expenditures, and net direct debt is 7.9% of total governmental fund revenue. Overall net debt is low at 0.4% of market value and approximately 89.3% of the direct debt is scheduled to be repaid within 10 years, which in our view are positive credit factors. We understand the town has \$5.5 million in new debt plans for various capital projects and the potential for a new public safety building authorization of \$18 million in fiscal 2020.

Southborough participates in the Worcester Regional Retirement System, which is 44% funded as of Jan. 1, 2012. The town continues to fund 100% of its annual required contribution (ARC). Contribution in fiscal 2014 amounted to \$1.1 million, or about 2.2% of budget. Southborough's other postemployment benefit (OPEB) unfunded actuarial accrued liability was \$28.8 million, and 0.17% funded as of July 1, 2013. The fiscal 2014 OPEB annual required contribution (ARC) was \$3.1 million (about 6% of governmental funds expenditures), and the town's actual payment was \$716,000, or 23% of the ARC. The town created an OPEB trust fund at the April 2013 town meeting, and the current fund balance is \$55,008; management added \$272,500 in fiscal 2015, and will budget \$250,000 in 2016. Southborough's combined pension and OPEB contributions totaled \$1.8 million or 3.6% of total governmental fund expenditures in 2015.

Strong institutional framework

We view the institutional framework score for Massachusetts municipalities as strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Southborough's very strong economy with access to the Worcester, Mass. MSA, which we believe lends stability to the local tax base. The town's strong management conditions with good financial management policies and practices provides further rating stability. We believe management will continue to make the necessary budget adjustments to maintain an adequate budgetary performance, and strong budgetary flexibility. As such, we do not expect to change the rating within the two-year parameter of the outlook period. While not likely, a trend of weak budgetary performance or a significant decline in available reserves could result in a downgrade.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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