Summary:
Sherborn, Massachusetts; General Obligation

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Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AAA' rating to Sherborn, Mass.' series 2018 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. While we understand voters have chosen to exclude the series 2018 bonds from the primary levy limit of Proposition 2-1/2, we still view the town's pledge as limited due to the levy ceiling, which caps levy increases at 2.5% of total taxable property. We rate the town's existing limited-tax GO debt on par with our view of Sherborn's general creditworthiness, reflected in the rating on the unlimited-tax GO bonds. We understand officials plan to use bond proceeds for various capital improvement projects.

Sherborn's GO bonds are eligible for a rating above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the town has a predominately locally derived revenue source with 85% of general fund revenue from property taxes; it also has independent taxing authority and treasury management from the federal government.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.8% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 28.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 85.9% of debt scheduled to be retired in 10 years; and
• Strong institutional framework score.

**Very strong economy**
We consider Sherborn's economy very strong. The town, with an estimated population of 4,240 over about 17 square miles, is an affluent residential community in Middlesex County, approximately 18 miles southwest of Boston. It is in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 264% of the national level, which we view as extremely high and a positive credit factor, and per capita market value of $294,469. Overall, market value grew by 6.9% over the past year to $1.2 billion in 2018. The county unemployment rate was 3.0% in 2016.

Routes 16 and 27 serve the town and commuter rail service to Boston is available from neighboring Natick. Approximately 95% of the town's tax base is residential, followed by commercial at 2%. There is no taxpayer concentration as the leading taxpayers account for 4.8% of assessed value (AV).

The town currently has several developments underway. These include a multimillion-dollar mixed-use development, as well as 15- and 25-unit high-end residential developments that will also contain an affordable housing component. In addition, a developer has proposed a large 175-unit multifamily residential development. Officials indicate this project is at least three-to-five years out from completion but is expected to have a notable effect on the town's AV. We therefore expect the town's economy to remain very strong.

**Adequate management**
We view the town's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Management is, in our opinion, conservative in its revenue and expenditure assumptions, supported by a minimum three-year-historical trend analysis. Management regularly monitors Sherborn's budget performance and presents monthly reports to the Board of Selectmen. The town maintains a formal long-term financial plan that is updated annually, as well as a formal 10-year capital improvement plan that identifies funding sources and is updated annually. A basic, informal debt management policy exists, as well as a formal investment policy with holdings and earnings reported to the board annually. The town does not have a formal reserve policy or reserve targets.

**Strong budgetary performance**
Sherborn's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.4% of expenditures, and surplus results across all governmental funds of 2.2% in fiscal 2017. General fund operating results of the town have been stable over the last three years, with results of 3.0% in 2016 and 3.2% in 2015.

Fiscal 2017 results include adjustments for recurring transfers. According to management, the fiscal 2017 general surplus was primarily due to conservative budgeting and good control on expenditures. As a result, the town had positive variances in revenue items such as licenses and permits, and excise taxes. It also saw savings in public works, debt service, and education costs, among other expenditures. Prior to this, the town posted a general fund surplus of about $767,000 in fiscal 2016 and $816,000 in fiscal 2015.

The fiscal 2018 budget totals $26.9 million, which represents a 4% increase over the prior year, and includes a fund
balance appropriation of $160,000 for tax stabilization purposes. Officials indicate budget-to-actuals are currently tracking favorably and currently expect to end fiscal 2018 with another general fund surplus. Therefore, we expect the town's budgetary performance to remain strong. Property taxes account for 85% of general fund revenues, followed by intergovernmental at 8%. Tax collections remain strong, averaging 99% over the past three years.

**Very strong budgetary flexibility**
Sherborn's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 16% of operating expenditures, or $4.5 million.

The town has maintained very strong budgetary flexibility over the past three years. For fiscal 2017, available reserves slightly decreased as the town shifted about $758,000 from assigned and unassigned fund balance to a restricted, non-spendable account for a discounted prepayment of its fiscal 2018 retirement contribution, which netted cost-savings. Management, however, does not plan to draw down on reserves and expects to end fiscal 2018 with an increase in available reserves. Therefore, we expect the town's budgetary flexibility to remain very strong.

**Very strong liquidity**
In our opinion, Sherborn's liquidity is very strong, with total government available cash at 15.8% of total governmental fund expenditures and 3.3x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

The town is a regular market participant that has issued debt frequently over the past several years, including GO bonds. Sherborn has no variable-rate or direct-purchase debt. Most of the town's investments consist of certificates of deposits, equities, and mutual funds. We expect the liquidity profile to remain very strong.

**Very strong debt and contingent liability profile**
In our view, Sherborn's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.8% of total governmental fund expenditures, and net direct debt is 28.1% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 85.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, Sherborn will have about $9 million in total direct debt. Officials indicate the town does not plan to issue any additional debt in the next two-to-three years.

Sherborn's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.7% of total governmental fund expenditures in 2017. Of that amount, 2.8% represented required contributions to pension obligations, and 1.9% represented OPEB payments. The town made its full annual required pension contribution in 2017.

Sherborn contributes to a cost-sharing, multiemployer, defined-benefit plan administered by the Middlesex County Retirement System. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about $10.7 million with a funding ratio of 45.5% as of Dec. 31, 2016, based on an assumed rate of return of 7.75%. We believe this below-average funding ratio is a result of numerous years of underfunding, aggressive assumptions, and weak market performance.
Sherborn also provides OPEBs for eligible retirees and has set up a trust to pre-fund the liability, which we view as positive. As of June 30, 2016, the most recent actuarial valuation reported a $9.3 million OPEB liability. The town's OPEB trust currently has a balance of $773,244. The town added $100,000 to the fund in fiscal 2018 and plans to do so again in fiscal 2019. It also maintains an OPEB stabilization fund with a balance of $132,028. While we expect retirement costs to increase, primarily as a result of the retirement system's low funded ratio, we currently view the town's costs and liabilities as manageable. However, should pension and OPEB costs increase and pressure the budget, our assessment of the town's debt and contingent liability profile could weaken.

Strong institutional framework
The institutional framework score for Massachusetts municipalities is strong.

Outlook
The stable outlook reflects S&P Global Ratings' opinion of the town's historically strong budgetary performance and very strong budgetary flexibility and economy, bolstered by its very high wealth and income indicators and access to the Boston MSA. Its very strong liquidity and debt and contingent liability profile further support the rating. We expect management to continue to at least adhere to its financial management policies and procedures and manage the budget accordingly to maintain its very strong reserve levels. While unlikely, should the town's reserves decrease because of negative budgetary performance, we could lower the rating. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Related Research

• S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.