

### Summary:

## Scituate, Massachusetts; General Obligation

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### Credit Profile

US\$9.756 mil GO muni purp loan of 2011 due 03/15/2031

*Long Term Rating*

AA/Stable

New

## Rationale

The 'AA' long-term rating assigned to the town of Scituate, Mass.' series 2011 general obligation municipal purpose bonds reflects Standard & Poor's Ratings Services' opinion of the town's:

- Very strong income and property wealth levels and proximity and access to the diverse Boston metropolitan statistical area (MSA) employment base;
- Improved financial management practices and good combined stabilization and general fund financial position; and
- Low overall net debt burden and modest future capital needs.

The town's full faith and credit pledge secures the bonds. The town will use proceeds to refund outstanding bond anticipation notes issued for various capital improvement projects.

Scituate is an affluent, seacoast community located in Plymouth County roughly 25 miles southeast of Boston. The town's 2009 population was estimated at 17,836 and increases during the summer months to roughly 30,000. The community is primarily residential and benefits from two commuter rail stations that provide direct access to Boston. The town's income levels are high, with median household and per capita effective buying income equal to 156% and 158% of national levels, respectively. The unemployment rate of 7.1% remains favorable as it is below commonwealth and national averages.

High home values in the town are reflected in a median net worth that is 318% of the national level. While regional real-estate values have softened over the past few years, the town's assessed value (AV) remains, in our opinion, extremely strong, totaling \$3.8 billion in 2011. AV equates to a per capita market valuation of \$210,867, which, in our view, reflects the town's relative affluence. It should be noted that the community is somewhat seasonal, as second homes constitute roughly 10% of AV.

A new emphasis by management on improving financial management practices has, in our opinion, helped the community manage through a difficult budgetary environment over the past few years. Fundamentally, the town's main revenues are consistent and strong. Property taxes are the town's leading revenue source (69% of general fund revenues), and tax collections remain stable, with current-year collections at roughly 98% of the tax levy. State aid accounts for 23% of revenues, and recent projections by the state indicate that intergovernmental aid should be relatively stable in 2012.

The town finished fiscal 2010 with an improvement to the unreserved general fund of \$1.0 million, increasing the balance to \$1.7 million, or, in our view, an adequate 2.8% of expenditures. Including the \$2.2 million reported in the town's stabilization fund, which is an additional reserve available for use by a two-thirds vote at town meeting;

total available reserves increased to \$3.9 million, or a good 6.5% of general fund expenditures. The improvement to the unreserved general fund is attributed to more conservative revenue and expenditure assumptions, but also due to the town appropriating less in reserves to fund the budget. Fiscal 2011 operating expenditures totaled \$54.9 million, a 2.7% increase from fiscal 2010 levels, and management expects overall reserves to remain in line with 2010 levels.

Based on a review of several key financial policies, Scituate's financial management practices are considered "standard" under our Financial Management Assessment (FMA) methodology, indicating that the finance department maintains adequate policies in some, but not all, key areas. The town recently hired an experienced town administrator who, in a relatively short period of time, improved several financial management practices. The town is thorough in its budget preparation and forecasting processes and conservative in nature, with assumptions borne out by variance analyses. Along with the budget, management also now produces a five-year capital improvement plan that identifies funding sources and is linked to the town's multiyear forecast. The capital improvement plan outlines which projects will be funded each year through the budget and also establishes guidelines for debt borrowing.

State statutes guide the town's investment policies and practices. The town, however, lacks reserve policy targets and goals and does not have any formalized debt management policies.

Including this bond issue, and net of self-supporting enterprise debt, we view the town's overall debt burden to be low at \$1,619 per capita, or 0.8% of market value. The town's debt service carrying charge of 4% is also low, and amortization of principal debt is relatively aggressive, with 74% of outstanding principal retired in 10 years. Future capital needs are modest for the town, so we believe fixed debt ratios will remain manageable for the intermediate term.

The town's other postemployment benefits (OPEB) unfunded actuarial accrued liability was \$49.5 million as of June 30, 2010. The OPEB annual required contribution (ARC), assuming an investment rate return of 4.0%, was \$5.3 million (roughly 9.0% of general fund expenditures), and the town's actual pay-as-you-go contribution was \$1.6 million, or 30% of the ARC. For its pension liabilities, the town contributes to the Plymouth County retirement system. The town's fiscal 2011 pension contribution was \$3.1 million, roughly 5.0% of budgetary expenditures.

## Outlook

The stable outlook reflects Standard & Poor's expectation that the town will likely maintain its structural balance over the next two fiscal years, thereby preserving current reserve levels. The town has strong wealth and income measures that we believe ensure the continued stability of property tax collections, which are the town's main revenue sources. Continued improvement to the town's reserve levels, particularly in light of management's improved financial management procedures, could lead to a positive rating action over time. On the other hand, a considerable decrease to the town's financial position and an unwillingness of management to make corrective budgetary adjustments could subsequently lead to downward pressure on the current rating opinion.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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