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Summary:

Masconomet Regional School District, Massachusetts; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

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Credit Profile

Masconomet Regional Sch Dist GO

Unenhanced Rating

AA+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its rating on Masconomet Regional School District, Mass.' general obligation debt to 'AA+' from 'AA'. The outlook is stable.

Ratings on regional school districts in Massachusetts are typically based on the credit quality of their respective member towns. We base the upgrade on what we consider the financial strength and stability of the three member towns of Boxford, Middleton, and Topsfield.

The upgrade reflects what we view as:

- The strong credit characteristics of the district's member towns;
- The district's stable financial position, with consistent general fund results and good cash reserves; and
- The district's low overall net debt burden coupled with limited capital needs.

The bonds are a general obligation of the school district. When debt service is not paid from other sources, the district pays principal and interest from sums that are annually apportioned to the member towns in accordance with the district agreement. Massachusetts' school districts do not have the ability to levy taxes directly; as per the district agreement, capital costs are apportioned on the basis of enrollment from the preceding year. We note the district agreement provides that all debt service with respect to the bonds is apportioned to member towns and that member towns have pledged their unlimited full faith and credit pledge.

Masconomet Regional School District (serving a combined population of about 23,394) is approximately 25 miles north of Boston. The district provides educational services for students in grades seven to 12 in Boxford, Middleton, and Topsfield. Currently, it operates one high/middle school and serves a student enrollment of approximately 2,100. The communities are primarily residential, relatively affluent, and benefit from a robust network of highway and commuter rail stations within close proximity to the economically diverse Boston economy. We consider income levels to be very strong, with median household effective buying income at 203% of national levels.

The majority of the district's revenues are from the assessments to member towns, accounting for 61% of total governmental funds revenue in fiscal 2013. The cost-sharing assessments result in apportionments, with Boxford, Middleton, and Topsfield at 37.4%, 34.9% and 27.7%, respectively, of total school costs. The district also received

some state aid, which accounts for approximately 33% of revenues.

As of fiscal year-end 2013, the district's unassigned general fund balance totaled 5% of general fund expenditures. This includes the excess and deficiency account, which was compliant with state statutes, at 3.5% expenditures, or 4.1% of budgeted operations as calculated by the state. The district is expecting a slight drawdown of the fund balance for fiscal 2014 due to unexpected special education and utilities costs. Management has indicated the district has budgeted for these expenses in fiscal 2015, and should be able to replenish the fund balance.

The district's debt burden is low, in our view, even with overlapping debt factored in by the member communities. Overall net debt is approximately \$2,000 per capita and 1.2% of market value. Direct debt totals \$16.5 million, while principal amortization is rapid, with 100% of principal debt scheduled to be retired within 10 years.

As for the district's long-term liabilities, pension and other postemployment benefit (OPEB) costs accounted for 4.6% of total governmental fund expenditures in fiscal 2013, which we consider manageable. The district participates in the Essex Regional Retirement System, and fiscal 2013 contributions were approximately \$382,000, and provides OPEB benefits to its retirees. As of the last actuarial valuation, the district reported a \$44.9 million liability. It has traditionally funded this on a pay-as-you-go basis, but it recently set up a trust fund to begin funding the liability for the long term. Fiscal 2013 showed a balance of a little more than \$250,000 in the trust. In 2013, its annual required contribution was approximately \$5.1 million, to which the district paid about \$1.2 million, or about 24%.

Outlook

The stable outlook reflects our view that the district will continue to maintain generally positive operating trends and good reserves. Moreover, we expect that the underlying communities will maintain sound financial positions. Therefore, we do not expect to change the rating within the two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011

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