

February 5, 2009

Summary:

Harwich, Massachusetts; General Obligation

Primary Credit Analyst:

Victor Medeiros, Boston (1) 617-530-8305; victor_medeiros@standardandpoors.com

Secondary Credit Analyst:

Henry W Henderson, Boston (1) 617-530-8314; henry_henderson@standardandpoors.com

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Credit Profile		
US\$8.75 mil GO bnds ser 2009 dtd 02/15/2009 due 02/15/2029		
<i>Long Term Rating</i>	AA+/Stable	New
Harwich GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Harwich GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services raised its standard long-term rating and underlying rating (SPUR) on Harwich, Mass.' general obligation (GO) debt one notch to 'AA+' from 'AA' based on our opinion of the town's strong financial position, complemented by what we consider a strong and stable revenue source, and good financial management. The outlook is stable.

In addition, Standard & Poor's assigned its 'AA+' standard long-term rating, and stable outlook, to the town's series 2009 GO bonds.

In our opinion, the ratings also reflect the town's:

- Residential community with a limited local economy that is seasonal, second-home in nature, and tied to the tourism and retail industries;
- Extremely strong wealth levels with an equalized value of more than \$428,000 per capita -- \$174,000 including the estimated summer population; and
- Moderate to low debt burden, coupled with an above-average repayment schedule.

The bonds are a GO of the town, for which its full faith and credit is pledged. Harwich officials will use bond proceeds to fund the construction of the police station.

Harwich is on the southeast corner of Cape Cod, about 80 miles from Boston. Estimates have the town's year-round population at 12,449. Because a substantial portion of Harwich's summer residents own second homes in the town, the population doubles during the summer months. Over the years, Harwich has been evolving from a seasonal community to a more year-round community; but it continues to depend on second-home owners and summer visitors to drive the local economy. We view the economy as seasonal in nature with retail trade, accommodations, and food services accounting for 50% of the town's roughly 3,050 jobs.

Since 2003, the town's full market value has increased by 57% due, in large part, to its high-end residential waterfront development and strong growth in real estate values. Assessed value totaled \$5.2 billion in fiscal 2009, increasing slightly over the previous year. The property tax base's makeup is overwhelmingly residential, accounting for 93% of assessed value, while commercial properties account for just 6%. Despite some regional softening of real

estate values, we believe, given the town's location and desirability along the Cape Cod waterfront, the town's tax base should remain stable into the future. The town's year-round market value of \$428,057 per capita is one of Massachusetts' highest levels and a good reflection of the town's real estate wealth. Even if you include the estimated summer population, the town's per capita market value remains, in our opinion, extremely strong.

In our opinion, Harwich's financial position is sound and supported by good to strong reserves. The last audit, for fiscal year-end June 30, 2007, indicated a small \$356,000 net general fund decrease, or 0.8% of budget, and a \$3.8 million ending unreserved general fund balance, or 9.0% of expenditures.

The town also maintains a separate stabilization fund that provides additional operating flexibility. At fiscal year-end 2007, the stabilization fund had a \$939,000 balance; between the unreserved general and stabilization funds, available reserves totaled \$4.9 million, or, in our opinion, a strong 10.7% of expenditures.

The 2008 audit is not yet available; but town officials estimate the unreserved, undesignated general fund balance will decrease by roughly \$700,000 over the previous year. Despite the estimated decrease in the town's undesignated general fund, the stabilization fund increased to \$1 million, which is the highest balance the town has maintained over the past five fiscal years.

The fiscal 2009 budget of \$44.6 million is balanced and is less than a 1% increase over the previous year. The town faces some near-term budgetary challenges, in particular as intergovernmental aid and more economic sensitive revenues moderate. We, however, believe management has a demonstrated record of making the necessary budget adjustments and has sufficient operating flexibility to produce near-term balanced operating results.

The local property tax, which we view as a stable revenue source, generates nearly 68% of total operating revenues. Tax collections are, in our view, strong and have been above 99% of the tax levy annually in each of the past five years despite the large number of seasonal homes; according to management, current estimates indicate no deviation from that level.

Standard & Poor's considers Harwich's financial management practices "good" under its financial management assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

We believe the town's debt burden is moderate to low. With this issuance, overall net debt is \$2,912 per capita, or, in our opinion, a very low 0.7% of market value. Debt service expenditures were, in our opinion, a moderate 9% of total operating expenditures in fiscal 2007. We view debt amortization as rapid with officials retiring 78% of all existing principal outstanding over 10 years. The town's capital improvement plan is budgeted for roughly \$63.3 million of capital spending through fiscal 2015. The town's largest capital need over the next five years is the potential of a new high school; plans are currently in the preliminary stage. The town does not currently have any authorized debt.

Outlook

The stable outlook reflects Standard & Poor's opinion that the town's extremely strong residential property tax base, coupled with a strong tax collection history, should ensure continued stable property tax collections, which are the town's primary revenue source. The stable outlook also reflects our assumption that management will continue to make the necessary budget adjustments to maintain what we consider a good reserve position as it has

demonstrated historically.

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