

RatingsDirect®

Summary:

Barnstable, Massachusetts; General Obligation

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Credit Profile

US\$33.515 mil GO mun purp loan of 2024 bnds due 06/01/2044

<i>Long Term Rating</i>	AAA/Stable	New
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Barnstable GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its AAA' rating to the Town of Barnstable, Mass.' \$33.515 million general obligation (GO) municipal-purpose bonds, series 2024.
- S&P Global Ratings also affirmed its 'AAA' long-term rating on the town's existing GO debt.
- The outlook on the long-term rating is stable.

Security

Barnstable's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the bonds. We have not made a rating distinction between the town's general creditworthiness and its limited- and unlimited-tax GO debt.

Officials intend to use bond proceeds to provide new money and refund outstanding bond anticipation notes (BANs) issued for various capital projects.

Credit overview

Barnstable benefits from its central location on Cape Cod, and over several years has seen robust tax base growth and economic development, providing it the flexibility to invest in capital projects and manage long-term liabilities. Budgetary performance remains strong with the town reporting its tenth consecutive general fund operating surplus, and available reserves are at their highest and on a percentage basis well above the median for 'AAA' rated communities in the commonwealth. It is anticipating balanced operations for fiscal 2024, with revenue and expenditures again outperforming budgetary estimates.

Although we think Barnstable's debt plans, along with its long-term retirement liabilities, will result in higher costs over time, the town has ample operating flexibility given its strong growth prospects and wealthy tax base. In addition, it maintains strong financial management policies, and planning is robust.

Additional rating factors include our opinion of Barnstable's:

- Very strong economy and tax base, which is among the largest in the commonwealth, albeit with some exposure to physical risks given its coastal location;
- Comprehensive set of formalized financial policies and practices and strong institutional framework;
- History of strong financial performance, with the maintenance of very strong reserves; and

- Manageable debt burden and contingent liability profile.

Environmental, social, and governance

Barnstable is a coastal community along the Atlantic Ocean with exposure to climate change and sea-level rise. The town is managing these risks through various coastal resiliency initiatives and rising-sea-level mitigation projects. It regularly undertakes community resilience planning and has adopted a Hazard Mitigation Plan, with key initiatives included in its annual capital planning. We analyzed Barnstable's social and governance risks relative to the town's credit factors and determined that these risks are credit neutral within our analysis.

Outlook

The stable outlook reflects our view that the town will maintain its strong overall financial performance throughout the two-year outlook horizon, supported by a strong economic base and manageable fixed-cost debt burden.

Downside scenario

We could lower the rating if costs suddenly increase at a faster pace than expected, pressuring the budget and lowering reserves to levels below those of similarly rated peers.

Credit Opinion

Coastal residential community on Cape Cod, with strong wealth and income indicators

Barnstable is at the center of Cape Cod, with 100 miles of shoreline and a population that increases to more than 120,000 in the summer. About 89% of the tax base is residential, followed by commercial properties at 10%. Although primarily residential, Barnstable serves as a retail, transportation, and services hub for the entire Cape and its nearby islands. The town continues to experience solid residential and commercial development activity, contributing to consistent building permit revenue and tax base growth. Due to the desirability of the area, its real estate environment has been robust, with strong appreciation in values leading to very low tax rates comparatively. While economic performance has been solid the past few years, we anticipate it will potentially slow in the next couple of years. (See "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024, on RatingsDirect.) Nevertheless, the regional economy in Barnstable County has become more diversified and has proved resilient in past economic downturns.

Comprehensive set of formalized financial policies and practices

Barnstable prepares its budgets based on 10 years of historical information and an evaluation of economic indicators. In our opinion, budgetary assumptions have been conservative, with consistent annual positive variances both in revenue and expenses. The town also has an open budget website that provides real-time budget-to-actual information, and it shares quarterly investment reports with the finance director. Barnstable has written comprehensive debt, investment, and reserve policies. The town's reserve policy includes a minimum unassigned reserve fund balance equal to 4% of expenditures. Finally, it annually prepares and updates a robust five-year financial forecast and a five-year capital improvement plan with funding sources identified.

The institutional framework score for Massachusetts municipalities is strong.

History of strong financial performance, with the maintenance of very strong reserves

The town was able to produce another strong operating result in fiscal 2023, maintaining its available reserves above \$57 million, its highest level ever, accounting for roughly 35% of expenditures, including its stabilization accounts. Barnstable receives most of its general fund revenue from property taxes and intergovernmental aid, at 74% and 9%, respectively, and collections remained in line with previous years. In addition to the general fund, the town maintains nine enterprise fund operations and the Comprehensive Wastewater Management Plan operating budget. The enterprise funds have all been performing well, and all maintain solid reserve and liquidity balances.

The 2024 general fund budget totals \$181.5 million, a 7.9% increase over the previous year--with school costs and employee benefits generating the largest share of the increase. The town increased the property tax levy by 3.5%, to approximately \$145 million. The budget does not assume any unscheduled draws on reserves and overall remains consistent with the previous year. Management indicates budget-to-actual results are currently on target, and will continue to monitor some key revenue items throughout the year, including local receipts.

Manageable debt burden and pension and other postemployment benefit (OPEB) liabilities

Following this bond issue, Barnstable has about \$178 million of total direct debt outstanding. We expect the town will issue additional debt in the next several years for various capital improvements, most notably for a major sewer-related project that will eventually convert town residents to a municipal from a septic sewer system. Barnstable, like other Cape communities, is under pressure to comply with federal regulation to reduce nitrogen levels in area waterways. Mitigation strategies include sewer expansion, effluent mitigation, dredging, abandoned cranberry bog conversion, aquaculture, alternative-septic systems, permeable reactive barriers, and stormwater treatment. While we expect the town's debt profile will likely remain adequate to strong, we believe debt metrics could potentially weaken, depending on future sewer-related debt. Management intends to finance these strategies through debt exclusion overrides, sewer assessments, sewer and tax rate increases, and commonwealth or federal funding.

Pension and OPEB highlights include:

- Pension and OPEB liabilities will likely remain a long-term credit pressure due to lower funding and our expectation that costs will likely increase;
- The town contributes to the Barnstable County Retirement Association, which is 64% funded, with a proportionate share of the town's net pension liability at \$120 million, assuming a 6.9% discount rate as of fiscal 2023;
- The retirement system's funding schedule increases costs by 5.8% annually through 2036 assuming current market conditions; and
- Barnstable maintains a net OPEB liability of \$97.9 million. On June 30, 2023, the OPEB plan was 8.6% funded.

Rating Above The Sovereign

Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), we rate Barnstable higher than the sovereign because we believe the town

can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention.

Barnstable, MA -- Key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Strong economy				
Projected per capita EBI % of U.S.	132			
Market value per capita (\$)	553,713			
Population			44,291	43,496
County unemployment rate(%)			4.7	
Market value (\$000)	24,524,519	21,870,831	17,364,497	15,978,500
Ten largest taxpayers % of taxable value	3.0			
Strong budgetary performance				
Operating fund result % of expenditures		5.3	1.8	3.0
Total governmental fund result % of expenditures		16.0	5.8	9.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		34.8	31.3	29.1
Total available reserves (\$000)		67,918	57,448	53,990
Very strong liquidity				
Total government cash % of governmental fund expenditures		61	41	33
Total government cash % of governmental fund debt service		1,557	1,009	818
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.9	4.0	4.0
Net direct debt % of governmental fund revenue	57			
Overall net debt % of market value	0.7			
Direct debt 10-year amortization (%)	60			
Required pension contribution % of governmental fund expenditures		5.4		
OPEB actual contribution % of governmental fund expenditures		2.9		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 17, 2024)

Ratings Detail (As Of May 17, 2024) (cont.)

Barnstable GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Barnstable GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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