

RatingsDirect®

Summary:

Barnstable, Massachusetts; General Obligation

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Credit Profile

US\$11.71 mil GO mun purp loan of 2019 bnds due 02/15/2039

<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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Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Barnstable, Mass.' series 2019 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on Barnstable's existing GO debt.

We understand the town is concurrently issuing \$2.1 million of bond anticipation notes we will not rate.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we rate Barnstable higher than the nation 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. In 2018, local property taxes generated 70% of revenue, which demonstrated a lack of dependence on central government revenue.

The town's full-faith-and-credit pledge secures the bonds with a portion of bonds subject to Proposition 2 1/2 limitations. We rate the limited-tax-GO debt on par with our view of Barnstable's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of its overall ability and willingness to pay debt service.

We understand officials intend to use series 2019 bond proceeds to fund various capital improvement projects.

The rating reflects our opinion of Barnstable's very strong economy, supported by a wealthy tax base and high income. In addition, we believe the town's continued maintenance of very strong budgetary flexibility, with available reserves averaging about 23% of expenditures during the past three fiscal years due to positive financial performance and very strong management, further supports our view of the rating. Although we think long-term retirement liabilities and costs and potential additional debt could pressure the budget, we posit that the town will likely manage these costs appropriately and that additional debt will likely remain relatively affordable due to its size and wealthy tax base.

The town's general creditworthiness reflects our opinion of its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.1% of total governmental-fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 6.4% of expenditures and net direct debt that is 49.6% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75.7% of debt scheduled to be retired within 10 years, but a large pension and other-postemployment-benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Very strong economy

We consider Barnstable's economy very strong. The town, with a population estimate of 44,498, is in Barnstable County in the Barnstable Town MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 122% of the national level and per capita market value of \$320,370. Overall, market value has grown by 4.7% during the past year to \$14.3 billion in fiscal 2019. County unemployment was 4.7% in 2017.

At the center of Cape Cod, with 100 miles of shoreline, Barnstable's population grows to more than 120,000 during the summer. About 88% of the tax base is residential, followed by commercial properties at 10%. Barnstable serves as a retail, transportation, and services hub for the entire Cape and the islands. Leading employers include Cape Cod Health Care, Barnstable, and Cape Cod Community College.

Various developments will continue to expand the economy, including a new \$45 million corporate headquarters for Cape Cod Five Cent Savings Bank that is currently under construction with completion scheduled for the end of 2019; town officials expect this project to relocate about 170 employees and add 60-90 new jobs. Cape Town Plaza is also expanding; the town is currently negotiating a new lease with a developer that plans to construct retail shops and green space. Other developments underway include:

- The renovation and expansion of Cape Cod Potato Chips' current facilities;
- The construction of a new windfarm, by Vineyard Wind, for which the town has entered into a host agreement with the company;
- The construction of a new residential complex; and
- A proposed \$120-million expansion to Cape Cod Hospital, which is currently going through the approval process and should create additional employment opportunities.

In addition, Barnstable expects to generate about \$2 million in new revenue annually from short-term room taxes enacted by the Massachusetts Legislature in late 2018, including an additional tax on services for water protection and management exclusive for Cape Cod communities. Due to these and other developments and increasing building-permit activity, officials expect the economy to continue to grow. Therefore, we believe Barnstable's economy will likely remain very strong.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Barnstable prepares its budgets based on 10 years of historical information and an evaluation of economic indicators. We believe budgetary assumptions have been conservative. 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 4%-unassigned-reserve policies. Finally, the town annually prepares and updates a robust five-year financial forecast and five-year capital improvement plan.

Strong budgetary performance

Barnstable's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of 0.2% of expenditures and surplus results across all governmental funds of 4.7% of expenditures in fiscal 2018.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. Officials attribute the fiscal 2018 general fund surplus primarily to higher-than-expected revenue, including motor-vehicle excise taxes, licenses and permits, and other departmental revenue. Although the town experienced larger-than-budgeted costs--such as public works, debt service, and state and county assessments--increased revenue largely offset expenditures.

The fiscal 2019 budget totals \$161 million, a 2.5% increase over fiscal 2018. The fiscal 2019 budget also includes a \$3.6 million fund-balance appropriation the town historically performs through conservative budgeting. Officials report budget-to-actual results for fiscal 2019 are tracking favorably, and they currently expect to end fiscal 2019 with another general fund surplus. Property taxes generate 70% of general fund revenue followed by intergovernmental aid at 19%. Collections have averaged 99% during the past three fiscal years. In addition, the town expects to generate about \$2 million in new revenue from short-term room taxes, which we believe will likely support consistently positive financial operations.

Although we expect budgetary performance will likely remain strong, we believe future pension and OPEB costs could become a budgetary pressure due to below-average funding ratios. We also think adjustments to more-conservative assumptions could materially affect annual contributions, pressuring the bottom line, particularly if economic or business conditions worsen.

Very strong budgetary flexibility

Barnstable's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 of 23% of operating expenditures, or \$39.3 million. During the past three fiscal years, total available fund balance remained consistent overall, which totaled 24% of expenditures in fiscal 2017 and 23% in fiscal 2016.

The town has consistently maintained available reserves above 20% of expenditures during the past three fiscal years. The fiscal 2019 budget includes a fund-balance appropriation of \$3.6 million. Management, however, does not currently expect to realize any actual reserve drawdowns by fiscal year-end 2019.

Due to the fiscal 2019 budget's current performance, management expects to end fiscal 2019 with another reserve increase. Barnstable's formal reserve policy calls for maintaining unassigned fund balance at a minimum 4% of

expenditures, which it has adhered to historically. Unassigned fund balance totaled \$33 million, or 20% of expenditures, in fiscal 2018.

Very strong liquidity

In our opinion, Barnstable's liquidity is very strong, with total government available cash at 22.1% of total governmental-fund expenditures and 3.4x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

Barnstable is a regular market participant that has issued GO bonds frequently during the past several years. We understand it has not entered into any bank loans, direct-purchase debt, or contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. The town has consistently had, what we consider, very strong liquidity; we do not expect these ratios to change, which is consistent with our view of its strong budgetary performance.

Strong debt-and-contingent-liability profile

In our view, Barnstable's debt-and-contingent-liability profile is strong. Total governmental-fund debt service is 6.4% of total governmental-fund expenditures, and net direct debt is 49.6% of total governmental-fund revenue. Overall net debt is low at 0.8% of market value and approximately 75.7% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about \$119 million of total direct debt outstanding. Officials currently expect to issue an additional \$10 million-\$20 million annually during the next three years for various capital improvements, including a sewer-related project and the construction of a school field.

We understand 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, and nitrogen management.

While we expect the town's debt profile will likely remain, at least, adequate, we believe debt metrics could potentially weaken, depending on its final financing strategy and amounts for future sewer-related debt. Management intends to finance these strategies through betterments, sewer-and-tax rates, and commonwealth or federal funding

In our opinion, Barnstable's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. The combined required pension and actual OPEB contribution totaled 8% of total governmental-fund expenditures in fiscal 2018: 4.9% represented required contributions to pension obligations and 3.1% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2018. The largest pension plan's funded ratio is 61.9%.

Barnstable contributes to the Barnstable County Retirement Assn. pension plan, a cost-sharing, multiemployer, defined-benefit plan. 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 \$102.6 million with a 57% funded ratio at Dec. 31, 2017, based on an assumed rate of return of 7.375%, down from 7.6% during the previous valuation.

Barnstable provides eligible retirees with lifetime health-care insurance. The actuarial accrued liability was \$191 million at June 30, 2017. Barnstable created an OPEB trust fund in 2011 that had a balance of approximately \$3.9 million at June 30, 2018. Management contributed \$528,000 to this OPEB fund in fiscal 2017; management plans to increase the base contribution by \$50,000 annually, which it incorporated into long-term financial planning. While we view the practice of prefunding OPEB liabilities positively, and we expect retirement costs to remain manageable during the next few fiscal years, we think Barnstable's large and growing pension and OPEB liabilities could pressure the long-term budget.

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 very strong economy and budgetary flexibility, supported by strong budgetary performance. We believe very strong management and liquidity further support the rating. Although Barnstable has large long-term liabilities and increasing retirement costs, we believe management will likely make the necessary budgetary adjustments to maintain balanced financial operations. Therefore, we do not expect to change the rating within the two-year outlook period.

Downside scenario

However, while unlikely, we could lower the rating if a prolonged structural imbalance were to result in significantly deteriorated available reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov. 8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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