

# RatingsDirect®

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## Summary:

# Great Barrington, Massachusetts; General Obligation

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Credit Profile		
US\$4.0 mil GO mun purp loan ser 2017 due 04/15/2033		
<i>Long Term Rating</i>	AAA/Stable	New
Great Barrington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Great Barrington, Mass.' series 2017 general obligation (GO) municipal purpose loan bonds. At the same, we affirmed our 'AAA' rating on the town's outstanding GO bonds. The outlook on all ratings is stable.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's financial strength and additional taxing flexibility under the levy limit. Officials plan to use the series 2017 bond proceeds to pay for various capital projects, including bridges and road improvements, and refund the 2009 GO bonds.

We rate Great Barrington higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2016, local source revenues generated more than 90% of revenue. This shows a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", published Nov. 19, 2013, on RatingsDirect.)

Our rating on the GO bonds reflects the town's:

- Strong economy, with projected per capita effective buying income at 120% of the national level and market value per capita of \$211,897;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 29% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 60.6% of total governmental fund expenditures and 10.2x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 59.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 71.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Strong economy**

We consider Great Barrington's economy strong. The town, with an estimated population of 6,734, is located in Berkshire County. The town has a projected per capita effective buying income of 120% of the national level and per capita market value of \$211,897. Overall, the town's market value grew by 2.9% over the past year to \$1.4 billion in 2017. The county unemployment rate was 4.3% in 2016.

Great Barrington is in western Massachusetts in southern Berkshire County, approximately 135 miles west of Boston and 135 miles north of New York City. The town also serves as the commercial center for southern Berkshire County. The town has experienced both residential and commercial development in recent years, which has supported consistent improvement in its property tax base, including 4% growth over the past two years. Estimated value of building permits has improved in each of the last five years. The town has experienced slight population loss in recent years, however we note school enrollment in 2016 was 2.7% higher than 2012.

Major employers in the town include Butternut Ski Area, URJ Eisner Summer Camp, Fairview Hospital, and a mix of major retailers and care facilities. Major employment sectors include educational and health reserves and retail employment. Unemployment rates in the town continue their historic trend of remaining lower than rates in the county, state, and nation.

### **Very strong management**

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

Highlights include the finance department's monthly monitoring and reporting on the budget and management's consistent trend of budgeting conservatively for expense items. The town maintains the ability to adjust and amend its budget midyear if necessary, but has generally experienced stable operations without requiring midyear amendments.

In addition to an investment performance policy, the town has a debt management policy that targets net general fund debt service at 10% of expenditures. The reserve policy calls for a minimum undesignated fund balance policy of 10% of total operating expenditures. The town maintains a three-year forecast of operating revenues and expenditures as well as a five-year capital improvement plan, with sources and uses identified annually. We note the town intends to undertake a comprehensive capital planning initiative, and may publish a single-year capital plan as it manages its transition, but that we expect the town to continue to use an annually updated long term capital planning document after the transition period.

### **Strong budgetary performance**

Great Barrington's budgetary performance is strong in our opinion. The town had operating surpluses of 1.6% of expenditures in the general fund and 2.3% across all governmental funds in fiscal 2016.

Property taxes are the largest share of operating revenues at 84%; excise taxes are the second largest at about 7%. The town experienced a slight surplus in fiscal 2016, due to a positive variance associated with motor vehicle excise taxes and better-than-budgeted performance across various expenses. Our assessment of performance includes an adjustment for capital spending paid for with bond proceeds.

Town officials anticipate close-to-break-even results for fiscal 2017 due to revenues coming in slightly lower than budgeted, particularly for motor vehicle excise taxes. Expenses are once again expected to come in better than budgeted, with continued improvements in health care costs associated with the town's savings initiatives.

The town did not appropriate the use of fund balance to balance operations in fiscal 2018. While early, the town expects revenue and expense line items to remain stable, and we believe the town is likely to operate at or near budgeted levels. The town's three-year projections include reasonable assumptions for expense increases and nonproperty tax revenues as well as an expectation that the town will be able to remain below its tax levy limit.

### **Very strong budgetary flexibility**

Great Barrington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 29% of operating expenditures, or \$6.8 million. Over the past three years, the total available fund balance has remained at 29% of expenditures in 2015 and 30% in 2014. In addition, the town has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

Despite our expectation for a slight operating deficit in fiscal 2017, we do not expect to change our view of the town's budgetary flexibility, which we believe will remain near current levels, particularly given our expectation for balanced results in 2018.

The town's unused levy capacity under the Proposition 2 ½ limit was \$1.63 million for fiscal year 2017 and we believe the unused levy capacity is a positive credit factor, as it provides the town with the ability to raise the tax levy without an electorate-approved operating override.

### **Very strong liquidity**

In our opinion, Great Barrington's liquidity is very strong, with total government available cash at 60.6% of total governmental fund expenditures and 10.2x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We believe Great Barrington's frequent debt issuance, including GO bonds, supports its strong access to external liquidity. The town does not currently have any private-placement or direct-purchase obligations, which we believe can pose additional contingent liquidity risk. The town has consistently had very strong liquidity, and we do not expect our view of its liquidity position to change.

### **Very strong debt and contingent liability profile**

The debt and contingent liability profile is very strong. Total governmental fund debt service is 5.9% of total governmental fund expenditures, and net direct debt is 59.5% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 71.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

We do not anticipate the town will issue additional debt over the next two years that would exceed principal amortization under its capital plan. We do not anticipate changing our view of the town's debt profile over the next two years.

Great Barrington's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.4% of total governmental fund expenditures in 2016. Of that amount, 2.8% represented required contributions to pension obligations, and 1.6% represented OPEB payments. The town made its full annual required pension contribution in 2016.

The town contributes to the Berkshire County Retirement System for employee pension benefits; based on the system's net pension liability as a share of total pension liability county system is 82.8% funded. Great Barrington has contributed 100% of the actuarially determined contribution (ADC) to the system in each of the past three fiscal years. The town also contributes to a pension trust, which totaled approximately \$782,000 at the end of fiscal 2016.

The town's unfunded OPEB liability was approximately \$12.7 million as of June 30, 2014. The town recently competitively bid out its health insurance, supporting declining costs per covered individual, and maintains funds in its stabilization fund, which may be used for potential cost uncertainty associated with these retirement benefits. Given the pension plan's funding levels and assumptions, as well as continued proactive management of health care costs OPEB benefits, we do not expect these costs to increase substantially over the next few years.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects our view that the town's very strong liquidity and budgetary flexibility are likely to continue based on our view of the town's performance. The town's strong economy and low unemployment enhance stability. We do not anticipate changing the rating in our two-year horizon as we expect the town to maintain at least adequate budgetary performance.

### **Downside scenario**

If town were to experience a period of structural imbalance resulting in what we view as sustained weak budgetary performance leading to a decline of flexibility, we could lower the rating.

## **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

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.

*Summary: Great Barrington, Massachusetts; General Obligation*

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