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Summary:

Great Barrington, Massachusetts; General Obligation

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Credit Profile

Great Barrington GO

Long Term Rating

AAA/Stable

Affirmed

Rating Action

S&P Global Ratings affirmed its 'AAA' rating on Great Barrington, Mass.' general obligation (GO) bonds outstanding. The outlook remains stable.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures its GO bonds. Despite limitations imposed by the commonwealth levy limit law, we do not make a rating distinction for the limited-tax GO pledge because of the town's financial strength and additional taxing flexibility under the levy limit.

Credit overview

Great Barrington is a mature, affluent, residential community in Berkshire County, Mass. Our rating on the town reflects our view of its very strong and stable economy, along with management's conservative budgeting practices and a number of formalized financial policies and practices, which should help the town maintain stable financial operations. A stable revenue mix, with property tax revenues accounting for about 85% of general fund revenues, has helped facilitate a track record of very strong reserve levels. Furthermore, an influx of new revenue related to the cannabis industry should help the town mitigate the loss of any revenue associated with COVID-19 and the current economic recession.

We believe the town is well-positioned to withstand the impacts of the COVID-19 pandemic on revenues despite the possibility of the pandemic adding some pressure to the budget over the next year or two. (For more information, see "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," published April 2, 2020, on RatingsDirect.) In line with our view of the ongoing economic contraction, S&P Global Economics expects certain revenues to lag their historical performance. (Please see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect.) However, we expect the town will maintain its strong financial position in light of a revenue mix that is dominated by property taxes, along with management's intention to maintain a balanced budget with very strong reserves. Management indicates it will continue to monitor budget-to-actual performance and make expenditure cuts as necessary.

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 2018, local source revenues, consisting primarily of property taxes, 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 our view of the town's:

- Strong economy, with market value per capita of \$227,754 and projected per capita effective buying income at 131% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.6% of total governmental fund expenditures and 10.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 5.3% of expenditures and net direct debt that is 52.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 78.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating and analysis incorporate our view regarding the health and safety risk posed by the COVID-19 pandemic, which we believe could pressure budgets in the short term. Overall, we consider the town's social risks in line with those of the sector. We also analyzed the town's environmental and governance risks relative to its credit factors, and determined that both are in line with our view of the sector standard.

Stable Outlook

The stable outlook reflects our view that Great Barrington's very strong liquidity and budgetary flexibility are likely to continue, given conservative budget estimates and increased general fund revenues within the last couple of fiscal years relating to the cannabis industry. The town's strong economy and historically low unemployment enhance stability. As a result, we do not currently expect to change our rating during the outlook period. Although our outlook is generally for two years, we note the significant downside risks associated with the COVID-19 pandemic and economic recession over the next six to 12 months.

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

Credit Opinion

Strong economy

We consider Great Barrington's economy strong. The town, with an estimated population of 6,564, is located in Berkshire County. The town has a projected per capita effective buying income of 131% of the national level and per capita market value of \$227,754. Overall, the town's market value grew by 3.8% in 2018, to \$1.5 billion in 2019. The county unemployment rate was 3.5% in 2019.

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. The town has experienced slight population loss in recent years, a trend that will likely continue over the next five years.

Major employers in the town include Butternut Ski Area, URJ Eisner Summer Camp, Fairview Hospital, and a mix of retailers and care facilities. Major employment sectors include educational, health care, and retail employment. Additionally, the cannabis industry has grown significantly over the last couple of years. Unemployment rates in the county within the last year have been close to historic lows.

Despite modest growth over the last few years, rapidly evolving economic conditions as a result of COVID-19 have already affected the labor market (see "U.S. Biweekly Economic Roundup: With Unprecedented Job Losses, Unemployment Soars," published May 8, 2020). During the Great Recession, the county unemployment rate approached 10.3% at its peak in early 2010. Furthermore, the effects of social distancing and other decisions made to safeguard the community from the spread of COVID-19 support our view of an economic contraction in 2020. As a result, we will monitor the longer-term effects of the current downturn on the labor market and the economy overall.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

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 five-year capital improvement plan, with sources and uses identified annually. Current limitations to the town's policies include the lack of formalized long-term financial planning, however, we understand the town's financial management team is in the process of finalizing a comprehensive financial forecast that will extend five years and will be updated annually in the future.

Strong budgetary performance

Great Barrington's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.2% of expenditures, but a slight deficit result across all governmental funds of 0.6% in fiscal 2018. Our assessment accounts for our expectation that budgetary results could improve from 2018 results in the near term.

Our performance calculation accounts for recurring transfers in and out of the general fund.

The town has a history of balanced financial operations, and experienced a slight surplus in fiscal 2018 as a result of positive variances in property taxes and conservative expense assumptions.

Management indicates fiscal 2019 was another strong year for the town, with revenues coming in \$1.5 million above budget and expenditure savings of about \$1.3 million. The better-than-expected revenues were in part attributable to new revenues from the cannabis industry, which generated about \$457,000 in revenues for which the town had not budgeted. As a result, the town increased reserves by about \$200,000 at fiscal year-end.

For fiscal 2020, management indicates that, despite the onset of the COVID-19 pandemic in the third quarter, revenues continue to trend ahead of budget. It is our understanding that the town should finish the year with another slight surplus, primarily attributable to its having a revenue profile that is resilient to the effects of COVID-19. In addition, management indicates cannabis-related revenues will exceed \$2.7 million for the year, which should again provide a significant amount of revenue that was not included in the budget.

Property taxes are the largest share of operating revenues, accounting for about 85% of general fund revenues. Excise taxes are the second-largest, at about 7% of revenues.

Very strong budgetary flexibility

Great Barrington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 25% of operating expenditures, or \$6.4 million.

Despite the onset of COVID-19 in fiscal 2020, it is our understanding that management is likely to end the year with a slight surplus due to better than expected revenues, in addition to property taxes generating such a large portion of revenues. As a result, we expect the town to maintain reserves between 25-30% of expenses at fiscal year-end. In addition, there are no plans to significantly reduce reserves in fiscal 2021.

The town's unused levy capacity under the Proposition 2 1/2 limit was \$980,206 for fiscal year 2020 and we believe the unused levy capacity is a source of financial flexibility, 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 53.6% of total governmental fund expenditures and 10.1x governmental debt service in 2018. 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. We note the town issued a note for \$5.6 million in April 2020 in order to rollover approximately \$3.2 million

in bond anticipation notes already outstanding, as well as to fund additional capital projects. The notes are secured by the town's full faith and credit. The town does not currently have any bank loan obligations that could 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

In our view, Great Barrington's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.3% of total governmental fund expenditures and net direct debt is 52.4% of total governmental fund revenue. Overall net debt is low, at 1.5% of market value, and approximately 78.8% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. We assume the town's short-term note will be permanently financed in a way that is consistent with the amortization of the town's existing GO debt.

The town's note issuance in April 2020 provided funding for some additional capital projects for the year. We understand the town could do an additional bond issuance in the fall for up to \$3.0 million; however, we do not anticipate changing our view of the town's debt profile as a result of the proposed issuance.

Pension and other postemployment benefits

In our opinion:

- Pension liabilities are not an immediate source of credit pressure for Great Barrington, given our opinion of the town's current strong plan funding status and limited escalating cost-trajectory risk.

As of June 30, 2018, the town participates in the following pension plan:

- The Berkshire County Retirement System (BCRS), which is 90.4% funded, with a proportionate share of the town's net pension liability at \$2.1 million, assuming a 7.25% discount rate.

Great Barrington's pension contributions totaled 4.4% of total governmental fund expenditures in 2018. The town made its full annual required pension contribution in 2018. The BCRS is a multiple-employer, defined-benefit pension plan. The town accounts for less than 2.0% of the total system liability. The system assumes a 7.25% discount rate. We believe this discount rate is high for municipal systems and could lead to volatile contributions should market performance not meet expectations. While Massachusetts requires all pension systems to achieve full funding no later than 2040, BCRS has planned to achieve full funding by 2026. We generally view closed, short amortization schedules as positive, but for BCRS to meet its adopted funding schedule to achieve full funding in 2026, costs must rise. However, given that the system is 90.4% funded and exceeded both our static-funding metric and our minimum funding-progress calculation in the most recent year, we believe the town is adequately addressing current costs and making headway in addressing its unfunded liabilities.

The town provides OPEB benefits to eligible employees. The town's unfunded OPEB liability was approximately \$15.7 million as of June 30, 2018. Given the pension plan's funding levels and assumptions, as well as continued proactive management of health care costs and 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.

Related Research

- [Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance](#), Feb. 18, 2014
- [Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria](#), Sept. 2, 2015
- [Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors](#), April 28, 2020

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