

# RatingsDirect®

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## Summary:

# Great Barrington, Massachusetts; General Obligation

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### Credit Profile

US\$5.37 mil GO mun purp loan bnds ser 2021 due 07/15/2040

*Long Term Rating*

AAA/Stable

New

## Rating Action

S&P Global Ratings assigned its 'AAA' rating to Great Barrington, Mass.' series 2021 general obligation (GO) municipal-purpose loan bonds. The outlook is stable.

The town's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures its GO bonds. Despite these limitations imposed by the commonwealth levy limit law, we rate the limited-tax GO debt at the same level as our view of the town's creditworthiness due to a lack of limitations on resource fungibility available for debt service.

Bond proceeds will be used to permanently finance notes outstanding that were issued to finance various capital projects.

### Credit overview

Great Barrington is a mature, affluent, residential community in Berkshire County. 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 has helped the town build reserves and mitigate the loss of any revenue associated with COVID-19.

We believe the town remains well positioned to withstand the effects of the COVID-19 pandemic on revenues. We expect it will maintain its strong financial position in light of a revenue mix dominated by property taxes, along with strong growth in cannabis revenues and management's intention to maintain a balanced budget with very strong reserves. In addition, management indicates it will continue to monitor budget-to-actual performance and make expenditure cuts as necessary. Nevertheless, we see significant nationwide risks because of the pandemic and recessionary recovery over the next six-to-12 months. We will continue to monitor economic conditions, particularly uncertainty related to the pandemic and revenue challenges. For more information on the coronavirus' effect in U.S. public finance, please see our report "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect.

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

2019, 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," Nov. 19, 2013).

Our rating on the GO bonds reflects our view of the town's:

- Strong economy, with market value per capita of \$232,91 and projected per capita effective buying income (EBI) at 124% 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 2019, which closed with an operating surplus in the general fund and balanced operations at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.9% of total governmental fund expenditures and 7.0x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 5.4% of expenditures and net direct debt that is 44.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75% 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 its 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**

### **Downside scenario**

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 a population of 6,614, is in southern Berkshire County in western Massachusetts, approximately 135 miles west of Boston and 135 miles north of New York City. It has a projected per capita EBI of 131% of the national level and per capita market value of \$232,951. Overall, market value has remained stable at \$1.5 billion in 2020. The county unemployment rate was 3.5% in 2019. However, we note

the unemployment rate increased substantially in 2020 as a result of the pandemic. After reaching a peak of 16.2% in April 2020, it has steadily improved and currently stands at 6.9%, which is currently slightly above the national level of 6.7%.

Great Barrington 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. It 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.

### **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, although we understand its financial management team is in the process of finalizing a comprehensive financial forecast that will extend five years and will be updated annually.

### **Strong budgetary performance**

Great Barrington's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 3.5% of expenditures, and balanced operations across all governmental funds in fiscal 2019.

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 surplus in fiscal 2019 as a result of positive variances in property taxes and conservative expense assumptions. Specifically, revenues came in \$1.0 million above budget while expenditure savings totaled about \$1.2 million. The better-than-expected revenues partly reflected new revenues from the cannabis industry, which generated about \$457,000 in revenues for which management had not budgeted. As a result, the town increased reserves by about \$925,000 at fiscal year-end.

For fiscal 2020, management indicates that, despite the onset of the COVID-19 pandemic in the third quarter, revenues came in well ahead of budget due to a full year of cannabis revenues in addition to conservative budgeting. It is our

understanding that the town should finish the year with another strong surplus, primarily reflecting revenues coming in \$4.2 million above budget, or by about 14%, and expenses coming in \$1.2 million below budget due to a midyear hiring freeze and a mild winter.

Officials indicate fiscal 2021 looks promising relative to the town's \$33 million budget. Management stated that it did not budget any cannabis revenue into the budget given that it is a new revenue source with a limited history and that the first quarter of fiscal 2021 was the best quarter yet for that revenue source. As a result, management indicates it is very likely it will finish fiscal 2021 with another strong surplus, assuming a similar revenue and expense trajectory for the second half of the fiscal year.

Property taxes are the largest share of operating revenues, accounting for about 85% of general fund revenues.

### **Very strong budgetary flexibility**

Great Barrington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 28% of operating expenditures, or \$7.4 million.

Despite the onset of COVID-19 in fiscal 2020, it is our understanding that the town ended fiscal 2020 with a very strong operating result due primarily to cannabis revenues that were not included in the budget, as well as conservative budgeting. In addition, we understand reserves will likely increase again in fiscal 2021 given that revenues and expenses are tracking well relative to budget for the first half of the year. As a result, we expect the town to maintain reserves at least equal to its currently very strong level at the end of fiscal 2021 and potentially significantly higher, depending on cannabis revenues.

Great Barrington's unused levy capacity under the Proposition 2-1/2 limit was \$980,206 for fiscal year 2020 and we believe it 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 37.9% of total governmental fund expenditures and 7.0x governmental debt service in 2019. 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 to rollover approximately \$3.2 million in bond anticipation notes already outstanding, as well as to fund additional capital projects. The notes are being permanently financed with this issuance. The town does not currently have any bank loan obligations that could pose additional contingent liquidity risk. It 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 5.4% of total governmental fund expenditures and net direct debt is 44.66% of total governmental fund revenue. Overall net debt is low, at 1.5% of market value, and approximately 75% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

We understand the town could issue additional debt within the next year for up to \$3.0 million; however, we do not anticipate changing our view of its debt profile as a result of the proposed issuance.

### **Pension and other postemployment benefits**

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, 2019, the town participates in the following pension plan:

- The Berkshire County Retirement System (BCRS), which is 84.4% funded, with a proportionate share of the town's net pension liability at \$3.6 million, assuming a 7.25% discount rate.

Great Barrington's pension contributions totaled 4.1% of total governmental fund expenditures in 2019. The town made its full annual required pension contribution that year. 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 do so 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 84.4% funded and exceeded both our static and minimum funding-progress calculations 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 other postemployment benefits (OPEBs) to eligible employees. Its unfunded OPEB liability was approximately \$17.6 million as of June 30, 2019. 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**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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