

RatingsDirect®

Summary:

Great Barrington, Massachusetts; General Obligation

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US\$3.18 mil GO mun purp loan of 2021 bnds due 11/15/2041

Long Term Rating AAA/Stable New

Great Barrington GO

Long Term Rating AAA/Stable Affirmed

Great Barrington GO mun purp loan bnds ser 2021 due 07/15/2040

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Great Barrington, Mass.' general obligation (GO) municipal-purpose loan of 2021 bonds. At the same time, we affirmed our 'AAA' rating on the town's GO debt outstanding. 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 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 economy on a per capita market value basis, along with management's conservative budgeting practices and a number of formalized financial policies and practices, which contribute to the town's steady 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.

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," published Nov. 19, 2013, on RatingsDirect).

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

- Strong economy, with projected per capita effective buying income (EBI) at 116% of the national level and market

value per capita of \$231,934;

- 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 weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 37% of operating expenditures;
- Very strong liquidity, with total government available cash at 58.7% of total governmental fund expenditures and 11.1x 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 55.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

We analyzed Great Barrington's environmental, social, and governance (ESG) risks relative to its credit factors. We view the town's projected population decline of 3.9% as a social risk which could indirectly result in economic slowdown and could alter our view of its creditworthiness if projections exceed 5%. Management recognizes this issue and addresses it in its most recent, publicly available Hazard Mitigation and Climate Adaptation Plan, which includes outreach for marginalized populations by consulting with third parties such as Multicultural BRIDGE, and planning for climate refugees. The plan also incorporates environmental vulnerability assessments and proposals for adaptation, as well as best practices for cybersecurity. Overall, we consider the town's environmental and governance risks in line with our view of the sector standard.

Stable Outlook

Downside scenario

Should the town's debt profile significantly weaken, or if its demographic trends continue to decline, leading to a weaker view of the economy, we could lower the rating.

Credit Opinion

Strong economy

We consider Great Barrington's economy strong. The town, with a population of 6,643, is in Berkshire County. It has a projected per capita EBI of 116% of the national level and per capita market value of \$231,934. Overall, market value grew by 1.1% over the past year to \$1.5 billion in 2021. The county unemployment rate was 9.1% in 2020, above state and national peers, declining from pandemic highs as the effects of COVID-19 moderate.

Great Barrington serves as the commercial center for southern Berkshire County. 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.

The town has experienced both residential and commercial development in recent years, which has supported consistent improvement in its property tax base. Recent developments include the expansion of a local specialty supermarket, the conversion of a former industrial site to 45 housing units, a new nursing home, and firehouse construction, which are expected to contribute to the town's tax rolls. Given this ongoing growth, which are subject to wider demographic trends, we expect the economy will remain strong.

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 (CIP), with sources and uses identified annually. Current limitations to the town's policies include the lack of formalized long-term financial planning. Management intends to implement a comprehensive financial forecast that will extend out five years and will be updated annually, but there were delays in its implementation due to staff turnover during the pandemic. We note that the town has implemented policies and practices to help mitigate its exposure to cybersecurity risks.

Strong budgetary performance

Great Barrington's budgetary performance is strong, in our opinion. The town had operating surpluses of 10.7% of expenditures in the general fund and 5.8% across all governmental funds in fiscal 2020. While we expect Great Barrington to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

Our performance calculation accounts for recurring transfers in and out of the general fund. Property taxes are the largest share of operating revenues, accounting for about 85% of general fund revenues.

The town continues to post operating surpluses in line with its historic performance. For fiscal 2020, revenues came in \$4.2 million ahead of budget due to strong-than-anticipated results combined with unbudgeted cannabis revenues, as well as lower-than-anticipated expenses due to a midyear hiring freeze and mild winter, generating its strongest surplus over the last five years.

Estimates indicate a similar trend for fiscal 2021, with all revenues outperforming the budget, despite some delays associated with staff turnover. Cannabis revenues continue to be excluded from the budget since management expects that the increases are likely to slow as facilities start opening in neighboring states. The town is also expecting American Rescue Plan (ARP) stimulus funding which it intends to use toward wastewater projects.

The town has a balanced budget for fiscal 2022 at \$32.7 million, up 5.5% compared to the prior year's budget to account for increases to reinstitute prior-year cuts associated with the pandemic. Revenues outperformed the budget in the first quarter across all revenue streams, and local options sales tax is up 50% compared to the same period in fiscal 2021. Given the town's track record of stable performance, we expect it will remain strong.

Very strong budgetary flexibility

Great Barrington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 37% of operating expenditures, or \$10.3 million.

Despite the onset of COVID-19, 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, though estimate figures have not been finalized. Nevertheless, we expect the town to maintain reserves at least equal to its currently very strong level at the end of fiscal 2021 and on a forward-looking basis given that there is no plan to draw on reserves.

Great Barrington's unused levy capacity under the Proposition 2-1/2 limit was \$980,206 for fiscal year 2021 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 58.7% of total governmental fund expenditures and 11.1x governmental debt service in 2020. 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 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 5.3% of total governmental fund expenditures, and net direct debt is 55.0% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 67.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The town's total debt outstanding is \$22.6 million, which includes \$4.6 million of overlapping debt. We understand the town plans to issue \$2 million annually as part of its CIP; however, we do not anticipate changing our view of its debt profile as a result of the proposed issuance, given that amortization outpaces the anticipated new debt.

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, 2020, the town participated 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 4.3% of total governmental fund expenditures in 2020. Of that amount, 2.8% represented required contributions to pension obligations, and 1.5% represented other postemployment benefit (OPEB) payments. 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. We believe the 7.25% 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 OPEBs to eligible employees. Its unfunded OPEB liability was approximately \$20.6 million as of June 30, 2020. 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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