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Summary:

Barnstable, Massachusetts; General Obligation; Note

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Credit Profile		
US$16.648 mil GO mun purp loan bnds ser 2016 due 02/15/2036		
Long Term Rating	AAA/Stable	New
US$0.744 mil GO BANs dtd 02/26/2016 due 02/24/2017		
Short Term Rating	SP-1+	New
Barnstable GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating and stable outlook to Barnstable, Mass.' series 2016 general obligation (GO) municipal purpose loan. At the same time, Standard & Poor's assigned its 'SP-1+' rating to the town's GO bond anticipation notes (BANs). Finally, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on the town's outstanding GO debt.

The short-term rating reflects the 'AAA' long-term rating and the town's low market-risk profile. Barnstable maintains strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

We rate Barnstable 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 2015, local property taxes generated 72% of revenue, demonstrating a lack of dependence on central government revenue.

The town's full-faith-and-credit, subject to the limits of Proposition 2 1/2, secures the bonds and BANs. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the town's flexibility under the levy limit. We understand proceeds will finance the town's 2016 capital improvement program.

The 'AAA' rating reflects our assessment of the following factors for the town:

- Strong economy, with projected per capita effective buying income at 116% of the national level and market value per capita of $292,246;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;

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- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.7% of total governmental fund expenditures and 6.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.8% of expenditures and net direct debt that is 43.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.1% of debt scheduled to be retired in 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.

Strong economy

We consider Barnstable's economy strong. The town, with an estimated population of 44,972, is located in Barnstable County. The town has a projected per capita effective buying income of 116% of the national level and per capita market value of $292,246. Overall, the town's market value grew by 3.5% over the past year to $13.1 billion in 2016. The county unemployment rate was 7% in 2014.

Located in the center of Cape Cod, and with 100 miles of shoreline, Barnstable's population grows to over 130,000 during the summer months. The town's assessed value (AV) was revalued in fiscal 2016, resulting in a 3.5% year-over-year increase to $13.14 billion. We understand the revaluation prompted no major taxpayer appeals. The property tax base is primarily residential, with 88% of AV classified as such. Building permits in calendar year 2015 were at a five-year high with an estimated value of $185.3 million.

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.

Barnstable's budgets are prepared based on 10 years of historical information as well as an evaluation of economic indicators, which we believe is conservative. The town recently launched an open budget website that provides real-time budget-to-actual information, and quarterly investment reports are shared with the finance director. Written policies include a comprehensive debt policy and a 4% reserve policy. Finally, the town annually prepares and updates a robust 10-year financial forecast and five-year capital improvement plan.

Strong budgetary performance

Barnstable's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 6.2% of expenditures, but a deficit result across all governmental funds of 2.2% in fiscal 2015.

Expenditures were adjusted for recurring transfers. The principal sources of general fund revenue in fiscal 2015 were real estate and personal property taxes (72% of the total) and intergovernmental (15%). Current-year property tax collection rates are healthy, averaging just under 98% over the past three fiscal years.

The fiscal 2016 general fund budget increased 4.1% year-over-year to just under $152 million and includes a $4 million reserve appropriation. Officials expect to close the year on June 30 with at least break-even results given their conservative revenue estimates. We believe this is likely, barring unforeseen expenditures, given that the 2015 general fund budget included a $2.8 million appropriation and the town closed the year with a $4.7 million surplus before transfers. The 2017 budget hearings will occur in late May and early June, and we understand there to be no major concerns at this time.

Very strong budgetary flexibility

Barnstable's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 29% of operating expenditures, or $42.8 million.

The town's flexibility improved in 2015 due, in part, to an $8 million transfer from the wastewater enterprise fund for the establishment of a sewer construction and private way

improvement and maintenance stabilization fund. We do not expect this score to weaken due to the town's conservative budgeting principles and projection of balanced 2016 results.

Very strong liquidity

In our opinion, Barnstable's liquidity is very strong, with total government available cash at 44.7% of total governmental fund expenditures and 6.6x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

We believe the town has strong access to external liquidity having issued GO bonds and BANS frequently over the past several years. In addition, we expect liquidity to remain very strong and understand the town has no bank loans outstanding.

Strong debt and contingent liability profile

In our view, Barnstable's debt and contingent liability profile is strong. Total governmental fund debt service is 6.8% of total governmental fund expenditures, and net direct debt is 43.5% of total governmental fund revenue. Overall net debt is low at 0.6% of market value, and approximately 82.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Barnstable has self-supporting debt outstanding and limited additional debt plans over the next two years.

In our opinion, a credit weakness is Barnstable's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Barnstable's combined required pension and actual OPEB contributions totaled 7.5% of total governmental fund expenditures in 2015. Of that amount, 4.6% represented required contributions to pension obligations, and 2.9% represented OPEB payments. The town made its full annual required pension contribution in 2015.

The town is a member of the Barnstable County Retirement Association (BCRA) pension plan, which was 60.4% funded as of Dec. 31, 2014. Barnstable's proportionate share of the net pension liability is about 15% or $85.2 million.

The town provides eligible retirees with lifetime health care insurance. The actuarial accrued liability was $131.9 million as of June 30, 2014, and was nominally funded at 1%. Barnstable created a trust fund in 2011 to begin accumulating assets to fund its OPEB liability and had a balance of approximately $2.1 million as of June 30, 2015. A contribution to this fund of $350,000 was budgeted in 2016 and a plan to increase the base contribution by $50,000 per year has been incorporated into the town's long-term financial planning.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of the town's very strong budgetary flexibility and liquidity, further supported by a strong economy. As such, we do not expect to change the rating in the next two years. Although Barnstable maintains a strong debt and liability profile, and despite pension and OPEB costs that are expected to continue rising through the medium term, we do not anticipate weakened performance or liquidity measures, due to the town's very strong management practices. Steady economic development in recent years should aid tax base stability and provide additional tax revenue. While unlikely, a prolonged period of structural imbalance resulting in a significant deterioration of available reserves could result in a lower rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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,

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.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.