

RatingsDirect®

Summary:

Brewster, Massachusetts; General Obligation

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Credit Profile

US\$9.349 mil GO mun purp loan bnds ser 2017 dtd 05/03/2017 due 05/01/2037

Long Term Rating AAA/Stable New

Brewster GO

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to Brewster, Mass.' 2017 general obligation (GO) bonds and affirmed its 'AAA' on the town's debt outstanding. The outlook is stable.

The town's faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds. 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 reserves and budgetary flexibility under the levy cap.

Officials plan to use bond proceeds to finance construction of a new fire station and fund road repairs, among other capital projects.

Brewster's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the town has a predominately locally derived revenue source with 92.5% of general fund revenue derived from property taxes and other local source revenues with independent taxing authority and independent treasury management from the federal government.

The long-term rating reflects Brewster's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.6% of total governmental fund expenditures and 11.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.9% of expenditures and net direct debt that is 41.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Brewster's economy very strong. The town, with an estimated population of 9,360, is in central Barnstable County on Cape Cod, about 90 miles south of Boston. It is in the Barnstable MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 140% of the national level and per capita market value of \$386,662. Overall, market value grew by 4.2% over the past year to \$3.6 billion in 2017. The county unemployment rate was 6.3% in 2015.

The town is primarily residential, and seasonal second homes account for a substantial portion of Brewster's housing stock. The town's population swells to 35,000 in the summer with vacationers and retirees taking advantage of the area beaches and outdoor recreational opportunities. Factoring the seasonal population into our assessment of economic indicators, market values per capita remain strong and in excess of \$100,000 per capita.

The broader Barnstable MSA economy has improved, leading us to revise our characterization of Brewster's economy to very strong. Improvements to employment growth, diversity, and size of the MSA bode well to the economic prospects of the community. Over time, we expect our characterization to remain at least strong due to the region's high wealth and income indicators, which we view as stable. Growth in taxable values also should remain steady given the projected new growth and real-estate valuations.

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.

Policy highlights include management's focus on financial and capital planning, demonstrated by a five-year capital improvement plan that it votes on and reprioritizes annually. Brewster's five-year budget projections use assumptions based on historical trend analysis, allowing for what we regard as conservative budget assumptions each cycle. In addition, the town's finance department performs regular monitoring and reporting of the budget and pension investment performance to the town selectmen. Per policy investments and cash holdings are reported on a quarterly basis. Brewster does not currently have any formal debt management policies, but it maintains level debt service funding when planning for future debt. Town management follows a reserve policy to maintain a minimum stabilization fund balance of \$2 million, which it has historically adhered to.

Strong budgetary performance

Brewster's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of negative 0.1% of expenditures, and slight surplus results across all governmental funds of 1.1% in fiscal 2016.

In our analysis of budgetary performance, we net out approximately \$2.6 million in expenditures that were paid by bonds and notes. In measuring total governmental funds' performance, we also account for recurring transfers into the general fund from enterprise funds.

The positive operating result in 2016 was a result of conservatively estimating expenditures and revenues that outperformed budget. Town officials are expecting another surplus in 2017 as expenditures have been within budget and revenues have remained on target. Although town departments have just begun the 2018 budget process, officials

anticipate similar operating performance.

With Brewster's property tax levy accounting for more than 75% of total revenue, the town benefits from property tax base diversity and strength. In our opinion, tax collections have historically remained strong despite the large number of second-home properties; current collections have averaged 99% over the past five years. Including delinquent-tax collections for the previous year, the town has exceeded 100% of its tax levy.

Very strong budgetary flexibility

Brewster's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 17% of operating expenditures, or \$6.8 million.

The town's fund balance policy is to maintain a minimum of \$500,000 of annual surplus in reserves and \$2 million in the stabilization fund. The current balance in the stabilization fund, which is accounted for as an unassigned fund balance, is \$2.06 million. Currently, there are no plans to use any stabilization reserves for operational or capital spending. Any appropriation from the stabilization fund would require a town meeting vote for its use.

Based on the current budgetary environment, we expect the town will likely maintain available fund balance at very high levels. We do not expect our evaluation of budgetary flexibility to change in the near future as the town has kept reserves consistently above 15% of operating expenditures over the past three years.

Very strong liquidity

In our opinion, Brewster's liquidity is very strong, with total government available cash at 34.6% of total governmental fund expenditures and 11.8x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

The town is a frequent issuer of GO debt. It has no variable-rate or direct purchase debt. We expect the liquidity profile to remain very strong.

Very strong debt and contingent liability profile

In our view, Brewster's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.9% of total governmental fund expenditures, and net direct debt is 41.1% of total governmental fund revenue. Overall net debt is low at 0.6% of market value, and approximately 66.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issue, Brewster has \$26 million of total direct debt outstanding, about \$8.8 million of which is self-supporting debt from the town's enterprise accounts. The town will maintain roughly \$5 million of debt authorized and unissued, but we don't anticipate this will have a material effect on the debt profile.

Brewster's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.1% of total governmental fund expenditures in 2016. Of that amount, 4.6% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The town made its full annual required pension contribution in 2016.

While we believe current costs are manageable, pension and health care costs will continue to pressure the budget and could be a negative credit factor if funded ratios do not improve and costs continue to escalate.

The town participates in the Barnstable County Retirement System and contributed \$1.94 million in 2016. The system maintains a plan fiduciary net pension funded ratio of 58%, which we consider low. The town's share of the net pension liability is \$22.6 million. Brewster also provides postretirement benefits on a pay-as-you-go basis. The unfunded liability for OPEB expenses is currently at \$17 million. The town established an OPEB trust to mitigate the liability, which has a current balance of \$1.2 million.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Brewster's strong management will support the rating, as will its very strong economy due to its high wealth and incomes, which we believe will likely translate to the town maintaining strong budgetary performance and reserves. Given these strengths and the expectation of the maintenance of a stable financial position and healthy reserves, we do not expect to change the rating over our two-year outlook horizon. Over time, if debt and contingent liabilities worsen due to a change in debt strategy or due to escalating pension costs or if costs associated with these liabilities are unmanageable and begin to pressure budgetary performance or reserves, this would pressure the long-term rating.

Ratings Detail (As Of April 12, 2017)

Brewster GO

<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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