

RatingsDirect®

Summary:

Brewster, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$6.25 mil GO mun purp loan bnds ser 2016 dtd 03/01/2016 due 03/01/2036

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Brewster, Mass.' 2016 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 2½, secures the bonds. Officials plan to use bond proceeds to finance school renovations and road repairs, among other capital projects.

The rating reflects our opinion of the following factors for the town, specifically its:

- Strong economy, with projected per capita effective buying income at 122% of the national level and market value per capita of \$349,346;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.7% of total governmental fund expenditures and 10.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.3% of expenditures and net direct debt that is 31.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 74.9% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Strong economy

We consider Brewster's economy strong. The town, with an estimated population of 9,820, is located in Barnstable County. The town has a projected per capita effective buying income of 122% of the national level and per capita market value of \$349,346. Overall, the town's market value grew by 1.5% over the past year to \$3.4 billion in 2016. The county unemployment rate was 7.0% in 2014.

Brewster is in central Barnstable County on Cape Cod, about 90 miles south of Boston. 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 months 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 at \$100,000 per capita.

We understand the regional economy, anchored in the Barnstable metropolitan statistical area, has weakened somewhat, leading us to revise our characterization of Brewster's economy to strong from very strong. We expect our characterization to remain at least strong in the near future due to the region's high wealth and income indicators, which we view as stable.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment 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. Brewster does not currently have any investment policies or 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 slight surplus operating results in the general fund of 1.3% of expenditures, but a slight deficit result across all governmental funds of 0.5% in fiscal 2015.

In our analysis of budgetary performance, we net out approximately \$4.1 million in expenditures for school roof and community preservation projects in which corresponding funds were received in another year. We also account for recurring transfers into the general fund from outside funds. The positive operating result in 2015 was a result of conservatively estimating expenditures and revenues that outperformed budget. Town officials are expecting another surplus in 2016 as expenditures have been within budget and revenues have trended on target. Although town departments have just begun the 2017 budget process, officials anticipate similar operating performance. The 2017 budget will include additional new revenue from a recently constructed assisted living facility.

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 2015 of 17% of operating expenditures, or \$6.4 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 is \$2,054,491. Any appropriation from the stabilization fund requires a town meeting vote. 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 34.7% of total governmental fund expenditures and 10.6x governmental debt service in 2015. 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 town's 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 3.3% of total governmental fund expenditures, and net direct debt is 31.9% of total governmental fund revenue. Overall net debt is low at 0.4% of market value, and approximately 74.9% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the town's debt profile are its significant medium-term debt plans.

Following this issue, Brewster has \$19 million of total direct debt outstanding, about \$7.7 million of which is self-supporting debt from the town's enterprise accounts. The town is expecting to issue an additional \$17.5 million over the next several years to pay for a new fire station and to fund road improvements.

Brewster's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.8% of total governmental fund expenditures in 2015. Of that amount, 4.5% represented required contributions to pension obligations, and 1.2% represented OPEB payments. The town made its full annual required pension contribution in 2015.

The town participates in the Barnstable County Retirement System and contributed \$1.89 million in 2015. The system is currently 60% funded with an estimated unfunded liability of \$599 million. The town's share of the net pension liability is \$20,436,149. Brewster also provides post-retirement 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

We consider the institutional framework score for Massachusetts towns strong.

Brewster's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "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 79% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

Outlook

The stable outlook reflects Standard & Poor's opinion of Brewster's strong management and very strong economy due to its high wealth and income, which we believe will likely translate to the town maintaining strong budgetary performance and reserves. As such, we do not expect to change the rating within the next two years. However, we could lower the rating if budgetary performance becomes imbalanced, leading to a draw on reserves to levels we consider adequate.

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: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 13, 2013
- 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
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of February 16, 2016)		
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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