

RatingsDirect®

Summary:

Brewster, Massachusetts; General Obligation; Note

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Credit Profile

US\$20.0 mil Go land acquis bnds - unlted tax dtd 11/10/2021 due 11/01/2051		
<i>Long Term Rating</i>	AAA/Stable	New
US\$4.0 mil Go BANs dtd 11/10/2021 due 11/10/2022		
<i>Short Term Rating</i>	SP-1+	New

Rating Action

"One or more of the Credit Ratings referenced within this article was assigned by deviating from S&P Global Ratings' published Criteria."

S&P Global Ratings assigned its AAA' rating to Brewster, Mass.' \$20 million general obligation (GO) land acquisition bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable. In addition, we assigned our 'SP-1+' short-term rating to \$4 million of GO bond anticipation notes (BANs) maturing Nov. 10, 2022.

Officials plan to use bond and note proceeds to acquire land for conservation, coastal dunes, wetlands, and other community uses.

Brewster's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds and notes outstanding. We note these bonds are voter exempt from the limitations of the tax levy. Voters within the community overwhelmingly approved a debt exclusion on the land acquisition, so we view this bond issuance as an equivalent unlimited-tax GO bond.

Credit overview

The rating reflects our view of Brewster' strong economy and consistently balanced financial results, which have led the town to maintain a very strong reserve position over the past several years and through various business and economic cycles. Unemployment in the county rose in 2020, but this was not due to a material economic weakness. Social distancing and shut-down measures designed to slow the spread of COVID-19 resulted in a spike in unemployment, which has since come down to more normal levels. To assess the current economic climate more accurately, we applied a criteria exception to better evaluate Brewster's economic score, using the average of the monthly unemployment rates excluding the months of April through July.

Brewster has been operating in the pandemic with very strong budgetary flexibility, and well-embedded financial management policies, particularly in the areas of budgeting and planning. Strong financial policies, combined with collaboration throughout all government departments, provide a robust budgeting and planning framework that has allowed for steady operating performance. The town has not observed any considerable disruption to its main revenues stemming from the pandemic and management does not anticipate using reserves for operational purposes.

The town is eligible to receive funds from the American Rescue Plan (ARP), and the school department is also benefiting from Elementary and Secondary School Emergency Relief (ESSER) stimulus funds, which we believe will support steady operating performance across all its major departments over the outlook period.

Brewster' GO bonds are eligible for a rating 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), Brewster has a predominantly locally derived revenue source, and we believe that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention.

The rating further reflects our opinion of the town's:

- Strong economy, with market value per capita of \$420,274 and projected per capita effective buying income (EBI) at 149% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, 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 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.9% of total governmental fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 5.0% of expenditures and net direct debt that is 90.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

While Brewster's coastal location exposes it to acute weather-related risks and chronic flooding that could disrupt revenue collections for a prolonged period and lead to budgetary challenges, management is mitigating risks through various mechanisms, including and prioritizing stormwater drainage projects and other critical infrastructure to reduce the incidence of flooding. The town maintains a coastal resource adaptation strategy and management plan. In addition, it maintains a local multihazard mitigation plan and recently held a Municipal Vulnerability Preparedness (MVP) workshop that established high-priority action items that incorporate the findings into ongoing municipal planning efforts. Finally, the town initiated a preparedness campaign for the public, which we believe supports good governance for community engagement and transparency around the effects of climate change. It is also part of the commonwealth MVP and maintains an MVP plan, making it eligible for grants and other state and regional planning opportunities.

We have analyzed Brewster's social and governance risks relative to the economy, financial management, budgetary performance, and budgetary flexibility, as well as the town's debt and liability profile, and have determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the town experiences adverse operating performance stemming from escalating pension and OPEB costs, leading to sustained levels of operating pressure and potentially lower reserves. In addition, we might also consider a downgrade should future infrastructure improvements result in materially weaker debt and financial profiles.

Credit Opinion

Strong economy

We consider Brewster's economy strong. The town, with a population of 10,124, is on Cape Cod in Barnstable County, approximately 90 miles from Boston. It has a projected per capita EBI of 149% of the national level and per capita market value of \$420,274. Overall, market value grew by 3.2% over the past year to \$4.3 billion in 2021.

The town is primarily residential, with seasonal second homes accounting for a substantial portion of the housing stock. The tax rate ranks among the lowest in the commonwealth, making it affordable and conducive to new development. Since 2017, assessed value (AV) has grown 17% to a sizable \$4.2 billion. The tax base is very diverse with the ten leading taxpayers accounting for only 5.0% of AV.

The regional economy in Barnstable County has been growing the past few years, but the pandemic stymied its growth momentum, particularly given that retail trade, arts, entertainment, recreation, and food make up a big part of its economy.

Countywide unemployment was 10.2% in 2020. In accordance with our criteria, a county unemployment rate of greater than 10% for the last calendar year results in a one-point downward adjustment to the economy factor score. Social distancing and shut-down measures designed to slow the spread of COVID-19 resulted in a spike in unemployment rates across the U.S. during the middle of 2020. In some cases, very high spikes led to annual rates exceeding 10%. However, in our opinion, this period of significantly elevated unemployment was due to public health policy and may not reflect fundamental weakness in the local economy. The rapid decline in monthly unemployment rates following the relaxation of social distancing and other measures demonstrates this.

To assess the local economy under these circumstances, we made an exception to our criteria and are evaluating our ratings on the above issuers using the average unemployment rates for Barnstable County excluding the months of April through July 2020, when federal stimulus funding provided the most significant support. This adjustment results in a 2020 unemployment rate of 7.3% instead of the full-year 2020 average unemployment rate of 10.2% in Barnstable County. As a result, we did not apply the one-point downward adjustment to the economic score. As of August 2021, the unemployment rate in Barnstable County was 5.0%.

Strengthening of the macroeconomic environment is likely to also support continued growth in the tax base and low unemployment. For more information on S&P Global Ratings' economic view, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021.

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 finance department performs regular monitoring and reporting of the budget and pension investment performance to the town selectmen.

Per policy, the treasurer monitors investments and cash holdings, and reports on them quarterly. Brewster does not currently have any formal debt management policies, but it maintains level debt service funding when planning for future debt.

Management follows a reserve policy to maintain a minimum stabilization fund balance of 5%, to which it has historically adhered, and overall reserve balances between 12% and 20% of operating expenditures. If the balance falls below the reserve requirement, the town administrator must develop a detailed plan to replenish the fund within two years.

Strong budgetary performance

Brewster's budgetary performance is strong, in our opinion. The town had operating surpluses of 3.0% of expenditures in the general fund and 2.4% across all governmental funds in fiscal 2020.

In our analysis of budgetary performance, we net any one-time costs paid from bonds and notes, and account for recurring transfers into the general fund from enterprise funds.

Despite certain revenue shortfalls related to the pandemic, the town closed with better-than-expected operations at the close of 2020 and estimated 2021. Throughout the pandemic, Brewster kept a close watch on spending. The town received Coronavirus Aid, Relief and other federal stimulus, which helped it manage COVID-19-related costs without much budgetary effect.

With Brewster's property tax levy accounting for more than 80% of total revenue, the town benefits from property tax base diversity and strength. Tax collections have historically remained strong, even amid the pandemic, despite the large number of second-home properties. Current collections have averaged 99% over the past five years with little disruption over the past year.

For 2021, despite it initially bracing for lower local revenues, the town did not realize revenue loss relative to its budget estimates, and management was able to contain costs, thus allowing the town to avoid tapping into any reserves. Management is estimating revenues above budget of \$1.4 million, and expenditure savings of \$1.5 million, likely translating to an increase in the general fund balance at the close of the year.

For fiscal 2022, the general fund budget totals \$50.4 million, a 3.8% increase over the prior year. Outside of increases for schools, employee benefits, and insurance, the town contained budgetary growth for many of its departments. It is

eligible to receive additional stimulus from ARP, which should boost liquidity and flexibility for the current and next fiscal years. Overall, with property tax collections at strong levels and expectations of level funding of state aid in 2022, we believe financial deterioration is minimal, especially since the pandemic has had a limited effect on the town's finances so far.

Very strong budgetary flexibility

Brewster's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 18% of operating expenditures, or \$7.8 million.

The town's fund balance policy is to maintain a minimum of 5% in the stabilization fund. The current balance in the stabilization fund is in unassigned fund balance. Historically, the town has supported reserves at stronger levels, above policy targets. Currently, there are no plans to use any stabilization reserves, or other operating reserves for operating purposes. We note 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 current levels. We do not expect our evaluation of budgetary flexibility to change soon as the town has kept reserves consistently above 15% of operating expenditures over the past several years.

Very strong liquidity

In our opinion, Brewster's liquidity is very strong, with total government available cash at 30.9% of total governmental fund expenditures and 6.2x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We do not currently expect any deterioration in cash; therefore, we expect liquidity will likely remain very strong. Brewster is a frequent issuer of GO debt, supporting its strong access to external liquidity, if needed. Management confirmed it does not currently have any contingent-liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. Brewster's investment portfolio is not aggressive.

Adequate debt and contingent liability profile

In our view, Brewster's debt and contingent liability profile is strong. Total governmental fund debt service is 5.0% of total governmental fund expenditures, and net direct debt is 90.2% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, which is, in our view, a positive credit factor.

Following this issue, Brewster has \$46.6 million of total direct debt outstanding, about \$2 million of which is self-supporting debt from the town's enterprise accounts. It will have \$4 million in outstanding BANs. The intention is for the town to annually pay down the note with revenues from land conservation non-profits on the land it is acquiring. Brewster does not have any additional bonding plans that will have a material effect on the debt profile.

Pension and OPEBs:

- We do not view pension and OPEB liabilities as a source of credit pressure for Brewster since current costs are manageable, although we believe future costs may escalate quickly and could place pressure on the budget.
- Brewster's combined required pension and actual OPEB contributions totaled 7.1% of total governmental fund expenditures in 2020. Of that amount, 5.0% represented required contributions to pension obligations, and 2.0%

represented OPEB payments. The town made 100% of its required pension contribution in 2020.

- Although OPEB costs are payable on a pay-as-you-go basis, the town established a trust fund to prefund a small portion of the liability. At fiscal year-end 2020, the OPEB trust contained \$4.8 million in assets.

The town participated in the following plan as of June 30, 2020:

- Barnstable County Contributory Retirement System: 62.3% funded, with a net pension liability of about \$27.6 million; and
- A defined-benefit plan that provides coverage for eligible retirees and their survivors: 11.7% funded with a net OPEB liability of about \$16.5 million.

The town fulfills its annually determined contribution, and although the retirement system recently extended the amortization period by two years to account for a revision of the discount rate to 7.15%, the adopted funding schedule achieves full funding in 2037. We view the period positively, as it is less than 20 years, but continue to view the discount rate as elevated, potentially leading to cost escalation. The retirement system did not meet either our static or minimum funding progress metrics in the most recent year. The funding plan also includes 5.8% contribution increases annually, including the normal cost. While Brewster's cost increases may be less than the plan's, we believe that cost growth could likely outpace budgetary growth. (For more information, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020.)

Brewster also provides OPEBs that includes health, and life insurance. Changes to plan design and contribution rates are through collective bargaining agreements. Management appropriates an amount to the OPEB trust through a budgetary line item and has recently been appropriating more and more into the OPEB trust. The unaudited balance as of June 30, 2021 was \$3.1 million, against a total liability of \$16.5 million.

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

Ratings Detail (As Of October 26, 2021)

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

Many issues are enhanced by bond insurance.

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