

# RatingsDirect®

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## Summary:

# Bourne, Massachusetts; General Obligation; Note

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## Summary:

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### Credit Profile

US\$7.287 mil GO BANs dtd 03/05/2014 due 12/02/2014

<i>Short Term Rating</i>	SP-1+	New
Bourne Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded

## Rationale

Standard & Poor's Ratings Services raised its rating on Bourne, Mass.' general obligation (GO) bonds to 'AA+' from 'AA', based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

We also assigned our 'SP-1+' short-term rating to Bourne's 2014 GO bond anticipation notes (BANs), payable Dec. 2, 2014.

A pledge of the town's full faith credit secures the bonds. Proceeds will be used to finance various town capital improvement projects, including a Department of Public Works facility.

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

- A stable local economy that participates in the broad and diverse economy of the Barnstable area;
- Strong budgetary flexibility with available reserves expected to remain near 12% of general fund expenditures;
- Adequate budgetary performance and stable revenue profile;
- Very strong liquidity providing very strong cash levels to cover both debt service and operating expenditures;
- Strong management environment and good financial policies and practices; and
- Very strong debt and contingent liabilities position bolstered by the town's low debt-to-market value and aggressive amortization.

### Very strong economy

Bourne is in upper Cape Cod, approximately 60 miles south of Boston. The year-round population, roughly 20,000, purportedly doubles during the summer. Otis Air Force Base (950 employees) and Market Basket Supermarket (300) are the town's two largest employers.

Its economy participates in the broad and diverse employment base within the Barnstable metropolitan area.

Unemployment in Barnstable County averaged 7.4% in 2012, down from 8.2% and 9.0% in 2011 and 2010, respectively. County unemployment has generally been in line with state averages. The town's projected per capita effective buying income is 107% of the U.S. level.

The per capita market value of the tax base is very high at \$204,790. The tax base is diverse, with the 10 leading taxpayers accounting for 3.4% of assessed value (AV). Overall, commercial and industrial properties account for

roughly 9.7% of AV. Over the past few years, new developments have been modest, with new taxable levy growth averaging less than 1% annually.

We note real estate values have increased, contributing to an increase in the total AV to \$4.1 billion. Our latest forecasts show the region's median home price will continue to improve through 2015, and so we anticipate the town's values should be stable as a result.

### **Strong budget flexibility**

Over the past three fiscal years, available reserves have been above 15% of expenditures. In 2012, Bourne closed with an available fund balance (unassigned and assigned) of \$11 million, equal to 19% of expenditures. Included in the unassigned fund balance are the town's stabilization reserves. In 2013, management reports it used stabilization reserves toward capital and may do so again in the 2014 fiscal year. As a result, reserves may decline, but remain above the town's minimum policy target of 12%. Over the medium term, we anticipate the town will maintain strong operating flexibility as there are no expectations of management drawing on reserves below policy targets.

### **Adequate budgetary performance**

In 2012, Bourne realized a general fund surplus of \$1.9 million, equal to 3.4% of operating expenditures. Across all governmental funds, the town also realized an operating surplus equal to 2.5% of expenditures after adjusting total governmental revenues to account for indirect administrative costs from the enterprise funds. While 2012 results were strong, we are anticipating budgetary performance will deteriorate slightly in 2013, but remain adequate over the medium term, as our macroeconomic forecasts (See "U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, on RatingsDirect) suggest credit conditions in New England are improving and the town is generally conservative in its budgetary assumptions.

Bourne maintains a stable and predictable revenue profile, with property taxes comprising 67% of revenues. Property tax collections are strong and stable. State aid accounts for a low 23% of revenues and local revenues account for the remainder.

The 2014 budget totals \$53.5 million, an increase of 3% over 2013. Management has appropriated \$1.4 million of reserves to balance the budget, but anticipates that positive operating variances should replenish any fund balance used. Barring any unforeseen expenditure demands, we anticipate budgetary performance remaining balanced.

### **Very strong liquidity**

Supporting the town's finances is what we consider very strong liquidity, with total government available cash at 34% of total governmental fund expenditures and at 5.7x debt service. Further enhancing our view of the town's liquidity position is that Bourne maintains strong access to external liquidity. The town is a regular market participant, having issued GO bonds frequently over the past several years, including short-term BANs.

### **Very strong management conditions**

Local legislative decisions for the town are made by an open town meeting of all registered voters and a full-time town administrator manages day-to-day operations. Following a full review of the town's management policies and practices, Standard & Poor's considers Bourne's financial management policies "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not

formalize or regularly monitor all of them. Bourne maintains best practices deemed critical to supporting credit quality and these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that they will continue in the future and transcend changes in the operating environment or personnel.

Among its practices are conservative assumptions in budgeting for revenue and expenditures and monthly budget monitoring, ensuring budget amendments are done on a timely basis. Along with the budget, management creates a five-year capital improvement plan that identifies funding sources and a 10-year budget forecast. The town also maintains basic policies on debt. Bourne's reserve policy affirms its goal to maintain stabilization reserves at 7% of expenditures and limits the unassigned fund balance to 5% of expenditures. The town also maintains a formal investment policy.

### **Very strong debt and liabilities**

Following this bond issue, Bourne has roughly \$28.3 million of total direct debt. Of this amount, we calculate roughly \$9.5 million is tax-secured enterprise debt with partial self-support. Overall, the town's total governmental funds debt service is 5% of total governmental funds expenditures and net direct debt is 28.3% of total governmental funds revenue. Bolstering our view of the town's debt profile is that net debt, at 0.5% of market value, is very low, and that the town is very aggressive in its debt amortization. Roughly 83% of debt will be retired over 10 years.

In our view, the town's pension and other postemployment benefit (OPEB) liabilities will remain a budget pressure, and we believe costs will continue to rise given the low funding. Pension and OPEB costs currently account for 8% of total governmental fund expenditures. The town participates in the Barnstable County retirement system and contributes 100% of its required amount. In 2014, the town has budgeted to pay \$2.8 million, or about 4.4% of expenditures. As of Jan. 1, 2012, the system as whole was 55% funded. Given its below-average funded ratio, we believe this will remain a growing, but manageable cost for the town in the foreseeable future.

Bourne also provides OPEBs to its retirees. As of the last actuarial valuation, the town reported a \$88 million liability. The town pays this liability on a pay-as-you go basis.

### **Strong institutional framework**

We consider the institutional framework score for town as strong. (See the Institutional Framework score for Massachusetts.)

## **Outlook**

The stable outlook reflects our view that Bourne's strong underlying economy, strong management, and predictable operating profile should translate into stable budgetary performance and maintenance of strong budgetary flexibility over our outlook horizon. In addition, we anticipate Bourne maintaining a strong debt and liability profile as there are no sizable long-term capital needs. Pension and OPEB costs will remain a budget pressure as we believe those costs will continue to rise, but we believe they should not pose an immediate budgetary challenge over our two-year outlook horizon.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of February 12, 2014)		
Bourne Twn GO BANs dtd 03/05/2014 due 12/02/2014		
<i>Short Term Rating</i>	SP-1+	Affirmed
<b>Bourne GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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