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Summary:

Bourne, Massachusetts; General Obligation; Note

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

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Credit Profile

US\$6.242 mil GO BANs ser 2022 dtd 02/01/2022 due 02/01/2023

Short Term Rating

SP-1+

New

Bourne Twn GO BANs ser 2022 dtd 02/01/2022 due 02/01/2023

Short Term Rating

SP-1+

Affirmed

Rating Action

S&P Global Ratings assigned its 'SP-1+' short-term rating on the town of Bourne, Mass.' approximately \$6.242 million 2022 general obligation (GO) bond anticipation notes (BANs). S&P Global Ratings also affirmed its 'AA+' long-term rating on the town's existing GO debt. The outlook is stable.

The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Bourne maintains a very strong capacity to pay principal and interest when the notes come due. The town has what we view as a low market risk profile because it has 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.

Bourne's full-faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the BANs. We understand that the town voted to partially exclude the debt service in the GO BANs from the limits of Proposition 2-1/2, but we do not make a rating distinction, as we rate the limited obligation at the same level with our view of Bourne's general creditworthiness as expressed in our rating on the unlimited-tax GO bonds. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019, on RatingsDirect).

Officials intend to use series 2022 GO note proceeds for a variety of capital projects, including a school projects audit and costs toward the Buzzards Bay Wastewater Treatment Facility.

Credit overview

Bourne's credit profile is characterized by strong reserves and liquidity and well-embedded financial management policies, particularly in the areas of budgeting and planning. The town has demonstrated strong operating performance, which has enabled consistent year-over-year growth in fund balance levels over the last several years. The town's economic development projects consist of residential and mixed-use projects, and, lending further stability to the rating and the outlook are the town's stable revenue mix, with the predominant revenue stream of property taxes, which have historically been collected upwards of 98% during the fiscal year payable. While unfunded retirement liabilities may pose a long-term credit risk, particularly if costs escalate, we believe the town has the financial wherewithal to absorb any increases in required pension contributions and pay-as-you-go health care costs into the annual levy. Bourne's tax rate remains among the lowest in the commonwealth and the town has shown a willingness to increase the tax levy and when needed, exceed the limitations of Proposition 2-1/2 through

voter-approved exclusions.

The long-term rating also reflects our view of the town's:

- Very strong economy, buttressed by strong tourist and second home component and with median home values increasing 14% since March 2020;
- Consistent and strong financial management policies and practices; strong institutional framework score;
- General trend of strong operating performance, and consistent growth in available fund balance; and
- Weak debt and contingent liability position, with a large pension and other postemployment benefit (OPEB) obligation with what we consider optimistic assumptions.

Environmental, social, and governance

We have analyzed Bourne's social, environmental and governance risks relative to the town's economy, financial management, financial measures, and debt-and-liability profile and have determined all are in-line with our view of the sector standard. Given its location between Buzzards Bay and Cape Cod, the town is taking measures to mitigate climate related risks, including establishing in the fall of 2021 a climate resiliency and infrastructure fund, updating its hazard mitigation plan, and participating in various state and regional groups acting on climate resiliency.

Stable Outlook

Downside scenario

Should the town's financial performance deteriorate, whether due to revenue pressure or growth in expenditures, leading to a lower reserve position relative to the budget, we could lower the rating.

Upside scenario

We could raise the rating if Bourne makes meaningful progress in mitigating its debt, OPEB, and pension liabilities through increasing available reserves that would enhance budgetary flexibility.

Credit Opinion

Diversifying economy that has strengthened during the pandemic

Bourne is located in Barnstable County, and benefits from considerable seasonal tourism. The economic score reflects deterioration in the county's 2020 unemployment rate, which spiked to 10.4% in May of 2020 due to the pandemic, however the rate has since moderated and has hovered between 5%-6% over the last six months. The town's year-round population estimate of 20,000 purportedly doubles during the peak summer months. Residential properties account for approximately 88% of 2021 assessed value (AV), while commercial and industrial properties are 7.9%. The local economy has evolved and has developed away from being predominantly tourism and seasonal over the past decade. Current economic development projects a 122-unit apartment complex scheduled to be completed in February 2022, with 10% of units classified as affordable housing and the remainder restricted to residents aged 55 and older, two mixed use projects that are still in the planning phase, as well as a solar array project that will generate an annual lease payment of \$160,000 and payment in lieu of taxes payment of \$75,000. Bourne has been a popular

destination during the pandemic, and its downtown has benefitted with new shops, restaurants, and breweries opening.

Formalized financial management policies and practices are consistently followed

Management policies and practices have been long established and adhered to. Management is generally conservative when budgeting and uses three years of historical trend analysis when developing budget plans and makes adjustments when economic conditions warrant. The town has monthly budget monitoring with monthly reporting to the board. Management creates a five-year capital improvement plan that identifies funding sources and a five-year budget forecast. The town also maintains a basic debt policy. Bourne's reserve policy affirms its goal of maintaining stabilization reserves at 6% of expenditures, and unassigned fund balance at 5% of expenditures. It also maintains a formal investment policy with quarterly reporting of earnings and holdings to the town board.

The town has also taken steps to mitigate exposure to cyber-related risks and has been active in addressing concerns related to rising sea levels that could directly affect taxable properties. In particular, Bourne recently created a climate resiliency and infrastructure fund, which was voted on by residents at a special town meeting, and is the first of its kind within the Cape Cod community. The town has committed \$150,000 to it to date and plans to dedicate initial funds from its solar array project to the fund. In addition, the town was chosen to participate in the Southern New England Project (SNEP) to create a climate resiliency financing plan and the town has set aside monies to fund a municipal vulnerability assessment.

Trend of stable operating performance with growing fund balance since 2015

The town has demonstrated a general trend of producing positive results and has remained conservative in its budgeting practices; it expects surplus results in fiscal 2021 and current budget-to-actuals suggest the town will end fiscal 2022 with at least break even results. The town's revenue base is stable, in our opinion, with property taxes generating 68.1% and intergovernmental revenue accounting for about 19.7% of audited general fund revenues.

Bourne's fiscal 2021 year-end results were consistent with budgeted expectations, with revenues at least meeting projections and expenditures consistent with estimates. The pandemic did not have a material impact on the town's budget; however, the town adjusted revenue estimates for potentially volatile revenue sources, i.e., hotel, meals, and investment income revenues. Bourne received \$1.4 million in CARES Act funding, of which \$922,000 was allocated to schools for distance learning reimbursement. Bourne also received \$66,800 in FEMA funds for expenses made for supplies and properly equipping buildings, i.e., plexiglass, PPE, etc.

The town's fiscal 2022 budget totals \$71.7 million, a 1.7% increase over fiscal 2021 budget. This budget includes the town's shift to a pay-as-you-go capital program and initiates the town's new practice of eliminating one-time revenues for ongoing operations. The town's occupancy and meals taxes have exceeded budgeted projections year to date, with other revenues appearing in line with trends; the town's expenditures are also in line with budgeted estimates, with savings expected as several positions have remained unfilled. The town submitted an additional \$42,000 in CARES Act funding reimbursements in fiscal 2022. It will also receive \$2.1 million in American Rescue Plan Act funds, which will be allocated as investments to the sewer infrastructure.

The town is self-insured and management reports making small adjustments to the health insurance plan, which has resulted in incremental savings. It maintains a health insurance stop-loss policy. The 2019 fiscal year was the first year of a formal OPEB trust funding policy. The policy escalates based on new-growth revenues.

Given the town's positive performance, available fund balance has continued to grow and we anticipate that the town will maintain a very strong fund balance over the outlook period.

We believe that Bourne's issuance of GO bonds and BANs during the past 20 years demonstrates its strong access to external liquidity. We understand the town does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Therefore, we expect the liquidity profile will likely remain very strong over the next two fiscal years.

Weak debt and contingent liability profile, with pension and OPEB obligations we consider to have optimistic assumptions

Following this issuance, the town will have approximately \$54 million in total direct debt. Given its shift to a pay-as-you-go capital funding program, we do not expect the town to issue material new-money debt over the next two fiscal years. Should management revise its debt plans, we could revise our opinion of the town's amortization and debt profiles.

Pension and other postemployment benefits:

- We believe some of the assumptions used to build the system's pension actuarially determined contributions (ADC) are built from what we view as weak assumptions and methodologies, which we believe increases the risk of unexpected contribution escalations.
- Although OPEB liabilities are primarily funded on a pay-as-you-go basis, costs remain low despite the large liability and we expect the town will continue adding to its OPEB trust fund.

Bourne participated in the following plans as of June 30, 2020:

- Barnstable County Contributory Retirement System: 62.3% funded, with a net pension liability of \$46.1 million.
- A defined-benefit health care plan that provides lifetime health care and life insurance for eligible retirees and their spouses: 3.9% funded with a net OPEB liability of about \$133 million.

Bourne's combined required pension and actual OPEB contributions totaled 9.3% of total governmental fund expenditures in 2020. Of that amount, 4.3% represented required contributions to pension obligations, and 5.0% represented OPEB payments. The town makes its ADC annually. Contributions are expected to increase by 5.28% per year on a level percentage-of-pay amortization basis. The adopted funding schedule achieves full funding in a 16-year closed period, ending in 2035. Additional pension details and S&P Global Ratings analysis of the county plan can be found in the Pension Spotlight: Massachusetts. The state recognizes the full liability and makes all payments on behalf of the town for the school department. We do not anticipate the state passing costs or liabilities on to local governments at this time.

The system lowered its discount rate to 7.15% from 7.625%. However, we believe this discount rate remains higher than average and may be understating the liability while inflating the funded ratio. We believe contributions will likely rise over the next few fiscal years, particularly as the system approaches its 2037 full-funding target date and as market conditions remain volatile.

The town also provides OPEBs to retirees. As of June 30, 2020, the most recent actuarial valuation, it reported a \$133

million total OPEB liability. Bourne established an OPEB trust fund in fiscal 2013. As of the end of fiscal 2020, the OPEB trust fund is valued at \$3.7 million. The town currently funds the OPEB trust through a budgetary line item, and maintains a formal OPEB trust funding policy. While we expect contributions to the trust to incrementally increase, in accordance with the policy, we do not expect this to materially reduce the town's net OPEB liability within the next several years.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Bourne, Massachusetts Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Adequate economy				
Projected per capita EBI % of U.S.	114			
Market value per capita (\$)	281,237			
Population		19,898	19,980	20,262
County unemployment rate(%)		10.2		
Market value (\$000)	5,596,046	4,918,906		
Ten largest taxpayers % of taxable value	4.4			
Strong budgetary performance				
Operating fund result % of expenditures		3.1	(1.6)	3.0
Total governmental fund result % of expenditures		1.2	(5.3)	1.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		21.5	18.4	19.9
Total available reserves (\$000)		16,960	14,335	14,303
Very strong liquidity				
Total government cash % of governmental fund expenditures		47	42	43
Total government cash % of governmental fund debt service		578	620	726
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.1	6.7	6.0
Net direct debt % of governmental fund revenue	59			
Overall net debt % of market value	0.9			
Direct debt 10-year amortization (%)	59			
Required pension contribution % of governmental fund expenditures		4.3		
OPEB actual contribution % of governmental fund expenditures		5.0		0.0

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

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 January 12, 2022)		
Bourne Twn GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Bourne Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Bourne Twn GO (AMBAC)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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