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VOTE OF THE BOARD OF SELECTMEN

I, the Clerk of the Board of Selectmen of the Town of Bourne, Massachusetts (the "Town"), certify that at a meeting of the board held April 2, 2020 of which meeting all members of the board were duly notified and at which a quorum was present, the following votes were unanimously passed, all of which appear upon the official record of the board in my custody:

Voted: that we hereby determine, in accordance with G.L. c.70B, that the amount of the cost of the partial roof replacement and related repairs or improvements at the Bourne High School project authorized by a vote of the Town passed on May 6, 2019 (Article 1) not being paid by the school facilities grant is \$1,423,702 and we hereby approve of the issuance of notes and bonds not to exceed such amount under said G.L. c.70B.

Further Voted: to approve the sale of a \$4,360,417 1.15 percent General Obligation Bond Anticipation Note of the Town dated April 9, 2020, and payable April 9, 2021 (the "Note"), to Cape Cod Five Cents Savings Bank at par and accrued interest, if any.

Further Voted: that in connection with the marketing and sale of the Note, the preparation and distribution of a Notice of Sale and Preliminary Official Statement dated March 19, 2020, and a final Official Statement dated March 26, 2020, each in such form as may be approved by the Town Treasurer, be and hereby are ratified, confirmed,

Further Voted: that the Town Treasurer and the Board of Selectmen be, and hereby are, authorized to execute and deliver a significant events disclosure undertaking in compliance with SEC Rule 15c2-12 in such form as may be approved by bond counsel to the Town, which undertaking shall be incorporated by reference in the Note, for the benefit of the holder of the Note from time to time.

Further Voted: that we authorize and direct the Town Treasurer to establish post issuance federal tax compliance procedures and continuing disclosure procedures in such forms as the Town Treasurer and bond counsel deem sufficient, or if such procedures are currently in place, to review and update said procedures, in order to monitor and maintain the tax-exempt status of the Note and to comply with relevant securities laws.

Further Voted: that each member of the Board of Selectmen, the Town Clerk and the Town Treasurer be and hereby are, authorized to take any and all such actions, and execute and deliver such certificates, receipts or other documents as may be determined by them, or any of them, to be necessary or convenient to carry into effect the provisions of the foregoing votes.

Except for the town meeting called pursuant to G.L. c.39, §10, all proceedings essential to the issue of the Note and the authorization of the bonds and deliberations of a quorum relating thereto have been taken at a meeting or meetings open to the public; notice of each such meeting was filed in my office and publicly posted in the time and manner set forth in the General Laws, as amended, in effect at the time of each such meeting,

Chapter 30A, §§18-25, as further suspended, supplemented, amended or modified by the Executive Order of the Governor of The Commonwealth of Massachusetts Suspending Certain Provisions of the Open Meeting Law, Chapter 30A, §20 dated March 12, 2020 (the "Executive Order"), or, if applicable, in accordance with an alternative method of notice prescribed or approved by the Attorney General as set forth in 940 CMR 29.03(2)(b); no deliberations, decision or vote in connection with the Note or bonds were taken in executive session and no vote was taken by secret ballot; and the official record of each such meeting was made available to the public and remains available to the public as set forth in G.L. c.30A, §§18-25, as further suspended, supplemented, amended or modified by the Executive Order.

Dated: April 2, 2020

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Clerk of the Board of Selectmen

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The \$4,360,417 BAN sale covers the following items:

**Additional Info:**

**\$1,477,951 Peebles School Const.**

**\$1,123,375 High School Roof**

**\$ 686,000 Ambulances**

**\$ 369,038 DPW Truck**

**\$ 365,000 Recycle Packers**

**\$ 205,000 Keith Field Lights**

**\$ 134,053 Police Cruisers**

# **RatingsDirect®**

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## **Summary:**

## **Bourne, Massachusetts; General Obligation; Note**

### **Primary Credit Analyst:**

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## Summary:

# Bourne, Massachusetts; General Obligation; Note

### Credit Profile

US\$5.416 mil GO muni purpose loan of 2020 bnds dtd 04/09/2020 due 04/01/2040

<i>Long Term Rating</i>	AA+/Stable	New
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US\$4.36 mil GO BANs dtd 04/09/2020 due 04/09/2021

<i>Short Term Rating</i>	SP-1+	New
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Bourne Twn GO (MBIA) (National)

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the town of Bourne, Mass.' approximately \$5.4 million 2020 general obligation (GO) municipal-purpose loan bonds, and affirmed its 'AA+' long-term rating on the town's existing GO debt. The outlook is stable.

At the same time, we assigned our 'SP-1+' short-term rating to the town's approximately \$4.3 million bond anticipation notes (BANs), maturing April 9, 2021. 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 bonds and BANs. We understand that the town voted to partially exclude the debt service in the GO bonds 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 bond and note proceeds for a variety of capital projects, including construction of a new school and a new police station.

### Credit overview

The rating and outlook reflects S&P Global Ratings' opinion of Bourne's strong and well-embedded financial management policies, which we believe will lead to continued positive financial results similar to years past. While unfunded retirement liabilities may pose a long-term credit risk, particularly if costs escalate, we believe the town will absorb any increases in required pension contributions and pay-as-you-go health care costs into the annual levy and budget over the next several years. In addition, we believe a strong reserve and liquidity position, coupled with limited future bonding plans, provides ongoing rating stability despite the likelihood of a near-term recession due to the global spread of COVID-19. In our opinion, management will continue to monitor the budget effects of a potential recession

and we believe will continue and make the necessary budgetary adjustments to remain balanced over our two-year-outlook period.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.3% of total governmental fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 66.7% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

## **Stable Two-Year Outlook**

### **Downside scenario**

While unlikely, we could lower the rating if the town were to experience a prolonged fiscal imbalance due to rising long-term liabilities costs that could lead to weaker budgetary performance and significant reserve decreases.

### **Upside scenario**

While we believe the town's long-term liabilities currently limit upward rating potential, we could raise the rating if local economic indicators were to improve and if the town were to continue to manage and address its long-term liabilities while it maintains consistent positive financial performance and increases reserves.

## **Credit Opinion**

### **Very strong economy**

We consider Bourne's economy very strong. The town, with an estimated population of 20,262, is in Barnstable County in the broad and diverse Barnstable MSA. It has a projected per capita effective buying income of 115% of the national level and per capita market value of \$242,765. Overall, market value grew by 3.3% over the past year to \$4.9 billion in 2020.

The local economy continues to evolve and develop. Taxable valuations have grown considerably over the last several years, averaging 3.3% annually since 2016. Management reports continued interest in additional affordable and market-rate housing developments, which, we believe, would likely contribute to additional growth opportunities. The

town anticipates the wastewater treatment project will attract private investors and allow for additional commercial development, which was previously limited due to it being at capacity.

In our view, the global spread of COVID-19 presents an evolving credit risk that could continue to give rise to volatility, particularly in the region's tourism industry. Bourne does benefit from considerable seasonal tourism. The town's year-round population estimate of 20,000 purportedly doubles during the peak summer months. Nevertheless, given the town's stable residential tax base, along with its access to several broad and diverse employment centers, we believe any economic effects related COVID-19 would be felt over time. We understand that the situation will remain fluid in the short term, and we will continue to watch for latent credit stressors for the town, including deterioration in economic and financial performance.

Residential properties account for approximately 88% of 2020 assessed value (AV), while commercial and industrial properties are 9%. We consider the tax base diverse, as the 10 leading taxpayers accounted for just 4.3% of AV in fiscal 2020.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The town has 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 has updated its hazard mitigation plan and has updated its local comprehensive plan to include a section on coastal resiliency. The town also has become a member of the municipal vulnerability preparedness grant program, providing support to begin the process of planning for climate change and resilience and implementing priority projects.

Management policies and practices have been long established and adhered to. Management has conservative assumptions when budgeting and uses three years of historical trend analysis when developing the budget. 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. Management anticipates making minor and technical adjustments to some of its policies, but we do not anticipate this will affect our view of the town's policies or practices.

### **Strong budgetary performance**

Bourne's budgetary performance is strong, in our opinion. The town had slight operating surpluses of 1.2% of expenditures in the general fund and 0.6% across all governmental funds in fiscal 2019.

For analytical consistency, we adjusted fiscal 2020 general fund and total governmental fund results to account for recurring transfers and large one-time capital expenditures paid for with bond proceeds. We also adjusted roughly \$2.1 million of general fund expenditures relating to employee benefits that increased significantly due to reclassification of the OPEB trust fund as a fiduciary fund to meet GASB regulations. This was a one-time expenditure to move the accumulation from prior years.

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. Management attributes the fiscal 2019 surplus to better-than-budgeted revenues, as well as departmental turn-backs and savings from lower-than-budgeted health insurance costs. 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 also the first year of a formal OPEB trust funding policy. The policy escalates based on new-growth revenues. We expect that the town will be able to absorb this new policy mandate into its budget. The fiscal 2019 operating budget is an approximately 4.6% increase over 2019, to \$68.6 million.

Management reports that fiscal 2020 is tracking on budget and the expectation is for another operating surplus, resulting in an increase to available fund balance. As with 2019, management reports that departments are not fully expending appropriations, along with better-than-budgeted revenues, generated positive operating results.

Given the town's strong financial controls and proactive budgeting process, we anticipate that management will continue to make adjustments to both revenue and expenditure assumptions, to ensure that the town remains financially balanced. We expect that Bourne will maintain strong budgetary performance during the outlook period. However, we also note that future pension and OPEB costs could become a budgetary pressure due to the pension system's below-average funding ratios and what we view as aggressive assumptions. This is particularly true given the current market environment. We note Bourne is funding the pension actuarially determined contribution (ADC) and is pre-funding OPEBs. We believe adjustments to more conservative assumptions could materially affect annual contributions, pressuring the operating budget, particularly if economic conditions worsen.

#### **Very strong budgetary flexibility**

Bourne's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 19% of operating expenditures, or \$14.3 million.

The town's available fund balance grew to levels we consider very strong in fiscal 2016 and it has further added to available reserves since. We understand Bourne has no plans to spend down reserves over the next two fiscal years. As we anticipate that the town will end fiscal 2020 with a general fund surplus, we expect it to maintain very strong budgetary flexibility over the outlook period.

#### **Very strong liquidity**

In our opinion, Bourne's liquidity is very strong, with total government available cash at 44.3% of total governmental fund expenditures and 6.2x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

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**

In our view, Bourne's debt and contingent liability profile is weak. Total governmental fund debt service is 7.2% of total governmental fund expenditures, and net direct debt is 66.7% 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 issuance, we expect the town to issue approximately \$9 million in new-money debt over the next two fiscal years. We do not expect this will have a material effect on our view of the town's debt profile. Management anticipates renewing the outstanding BANs for the next four-to-five years, paying down principal each year, with no long-term financing expected. We have incorporated this plan into our view of the amortization schedule. Should management revise the paydown schedule, we could revise our opinion of the town's amortization and debt profiles.

### **Pension and other postemployment benefits**

In our opinion, a credit weakness is Bourne's large pension and OPEB obligation, particularly given the pension systems' low funded ratio. While the town is currently managing these costs, we believe it has a limited ability to control future pension liability growth.

We believe some of the assumptions used to build the system's pension 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 participates in the following plans as of June 30, 2019:

- Barnstable County Contributory Retirement System: 57.6% funded, with a net pension liability of \$46.3 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 \$19.1 million.

Bourne's combined required pension and actual OPEB contributions totaled 8.5% of total governmental fund expenditures in 2018. Of that amount, 4.2% represented required contributions to pension obligations, and 4.2% 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. The annual increase, combined with a discount rate of 7.375%, adds risk of cost escalation due to market volatility. In addition, the town participates in the Massachusetts Teachers' Retirement System. The state recognizes the fully 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.

We note that the system lowered its discount rate to 7.625% from 7.75%. 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 2036 full-funding target date and as market conditions remain volatile.

The town also provides OPEBs to retirees. As of June 30, 2019, the most recent actuarial valuation, it reported a \$107 million total OPEB liability. Bourne established an OPEB trust fund in fiscal 2013. Management reports that the value

of assets in the trust is currently \$2.5 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.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

### Ratings Detail (As Of March 24, 2020)

Bourne Twn GO

*Long Term Rating*

AA+/Stable

Affirmed

Bourne Twn GO (AMBAC)

*Unenhanced Rating*

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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