

# RatingsDirect®

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## Summary:

# Harwich, Massachusetts; General Obligation; Note

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## Summary:

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### Credit Profile

US\$10.765 mil GO mun purp loan bnds ser 2018 due 06/15/2038

<i>Long Term Rating</i>	AA+/Stable	New
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US\$7.135 mil GO BANs dtd 06/21/2018 due 06/21/2019

<i>Short Term Rating</i>	SP-1+	New
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## Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Harwich, Mass.' series 2018 general obligation (GO) bond anticipation notes (BANs), payable on June 21, 2019, and its 'AA+' long-term rating and stable outlook to the town's series 2018 GO municipal-purpose loan bonds.

S&P Global Ratings also affirmed its 'SP-1+' short-term rating on the town's existing BANs and 'AA+' long-term rating, with a stable outlook, on the town's existing GO debt.

The short-term rating reflects our view of the town's very strong capacity to pay principal and interest when the BANs come due. The town maintains a low market-risk profile with strong legal authority to issue long-term debt to take out the BANs, and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The town's full-faith-and-credit pledge, subject to the limits of Proposition 2 1/2, secures the bonds and BANs. Despite limitations imposed by the commonwealth-levy-limit law, we rate the limited-tax GO debt on par with our view of Harwich's general creditworthiness as expressed in the unlimited-tax GO bond rating.

We understand town voters have chosen to exclude the series 2018 BANs from the Proposition 2 1/2 levy limit.

Officials plan to use series 2018 BAN proceeds to fund various capital improvement projects, including marina improvements and golf course and boardwalk construction. They intend to use series 2018 bond proceeds to fund various town capital projects.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total-governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 32% of total-governmental-fund expenditures and 6.2x

governmental debt service, and access to external liquidity we consider strong;

- Very strong debt-and-contingent-liability position, with debt service carrying charges at 5.2% of expenditures and net direct debt that is 75.3% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66% of debt scheduled to be retired within 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

### **Very strong economy**

We consider Harwich's economy very strong. The town, with an estimated population of 12,304, is in Barnstable County in the Barnstable Town MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 123% of the national level and per capita market value of \$431,874. Overall, market value has grown by 6.6% during the past year to \$5.3 billion in fiscal 2018. The county unemployment rate was 4.7% in 2016.

Harwich is a residential community in Barnstable County on the southeast corner of Cape Cod on Nantucket Sound, about 80 miles from Boston. Due to the substantial number of seasonal second homes, population estimates double in the summer. While Harwich has been evolving into more of a year-round community, its economy continues to depend on second-home owners and summer visitors. Seasonal employment--such as retail trade, accommodations, and food services--accounts for a large portion of the local employment base.

### **Strong management**

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Highlights include management's conservative budget assumptions and regular monitoring of budget performance with monthly reports on budget-to-actual results to the board of selectman and finance committee. The town's free cash policy outlines reserves, free cash, and stabilization funds with the goal of maintaining no less than 7%–8% of general fund expenditures in reserve.

The town also wants to achieve a general fund balance of 18% of expenditures, which it is currently below. There is a strong focus on capital planning, evidenced by Harwich's six-year capital improvement plan it updates annually that identifies funding sources. The town also maintains a five-year budget forecast it updates annually.

Harwich adheres to its formal investment-management policy, which mirrors commonwealth guidelines. Harwich maintains a formal debt-management policy that limits general fund debt service to 10%-12% of expenditures.

### **Strong budgetary performance**

Harwich's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.1% of expenditures and surplus results across all governmental funds of 3.1% of expenditures in fiscal 2017.

Management attributes the fiscal 2017 surplus to its watching spending, coupled with continued conservative budgeting and higher-than-budgeted local receipts and expenditure turnbacks. Property taxes account for about 76%

of general fund revenue, followed by recreation fees at approximately 5%. Tax-collection receipts remained consistent for fiscal 2017: They are continually about 99%.

Officials balanced the fiscal 2018 general fund budget, totaling \$61 million, an increase of 3.2% from fiscal 2017. Officials report that revenue and expenditures are currently tracking the budget favorably and that the town should finish fiscal 2018 with, at least, a \$2 million general fund surplus. Therefore, we expect budgetary performance will likely remain strong.

However, we believe future pension and other-postemployment-benefit (OPEB) costs could become a budgetary pressure due to below-average funding ratios. We note management actively makes adjustments, when needed, for these liabilities. Harwich is funding the actuarially determined contribution, and it has begun prefunding OPEB. We believe these liabilities could strain future operations, particularly if economic conditions were to worsen, if management does not meet actuary assumptions, or if assumptions are inadequate at current levels.

### **Very strong budgetary flexibility**

Harwich's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 15% of operating expenditures, or \$9.2 million.

Available fund balance in fiscal 2017 increased more than general fund surplus results show. Management attributes this to the prior auditor considering free cash in fiscal 2016 committed and the current auditor considering it assigned. Free cash was also larger in fiscal 2016 than it was in fiscal 2017.

Management is projecting fiscal 2018 will close with a general fund surplus of, at least, \$2 million, which will keep available reserves, in our view, very strong. For fiscal 2019, management states that it does not currently have any immediate plans to spend down reserves and that it will work to maintain fund balance at least at current levels. We understand Harwich wants to increase reserves up to 18% of general fund expenditures eventually. Therefore, we expect budgetary flexibility will likely remain very strong.

### **Very strong liquidity**

In our opinion, Harwich's liquidity is very strong, with total government available cash at 32% of total-governmental-fund expenditures and 6.2x governmental debt service in fiscal 2017. In our view, the town has strong access to external liquidity if necessary.

We believe Harwich's frequent debt issuance, including GO bonds, supports its strong access to external liquidity. The town does not have any liquidity risks from private-placement or direct-purchase obligations. In addition, we do not expect deterioration in liquidity during the next two fiscal years. Therefore, we expect Harwich will likely maintain very strong liquidity.

### **Very strong debt-and-contingent-liability profile**

In our view, Harwich's debt-and-contingent-liability profile is very strong. Total-governmental-fund debt service is 5.2% of total-governmental-fund expenditures, and net direct debt is 75.3% of total-governmental-fund revenue. Overall net debt is low at 1.2% of market value and approximately 66% of 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 is its significant medium-term debt plans.

After this issue, Harwich will have \$55.1 million in overall net debt outstanding, \$25.2 million of which is BANs. Overall net debt includes \$7.9 million in self-supporting water debt. Officials indicate they could issue an additional \$25 million of debt for sewer-system and fire-station construction, as well as road repairs. While the timing and final amounts could vary, based on these plans, we expect Harwich's net direct debt to increase; we have incorporated this into our view of its debt profile.

Harwich's combined required pension and actual OPEB contribution totaled 7.1% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 4% represented required contributions to pension obligations and 3.1% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2017.

Harwich contributes to a cost-sharing, multiemployer, defined-benefit plan administered by Barnstable County Contributory Retirement Board. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about \$31.3 million with 60% funded at June 30, 2017, based on an assumed rate of return of 7.5%. Due to the funded ratio, we believe contributions will continue to rise during the next few fiscal years. While the town is currently managing these costs, we believe it has a limited ability to control future pension-liability growth.

Harwich also provides OPEB to retirees. It, however, has set up an OPEB trust to prefund the liability, which we view positively. At June 30, 2016, the most recent actuarial valuation, management reported a \$40 million OPEB liability. The town has traditionally funded OPEB through pay-as-you-go financing. It paid \$1.97 million, or 3.1% of expenditures, to OPEB, or 72% of the annual required contribution, in fiscal 2017.

The OPEB trust currently has a balance of roughly \$900,000. Officials are projecting to add about \$835,000 to the trust by fiscal year-end 2019, raising the total to roughly \$1.7 million; they will fund this through the operating budget and the annual appropriation of surpluses. While we consider the practice of prefunding the OPEB liability positively, we believe Harwich's large and growing pension and OPEB liabilities could pressure the budget.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook on the long-term rating reflects our opinion of Harwich's very strong economy, supported by strong management with good financial management policies and practices. We do not expect to change the rating during the two-year outlook period due to our expectation that Harwich will likely maintain its strong budgetary performance and very strong budgetary flexibility.

### **Upside scenario**

We could raise the rating if Harwich were to take meaningful steps to mitigate pension and OPEB liabilities, coupled with an increase in, and sustainment of, available reserves to levels we believe would enhance budgetary flexibility, as well as be comparable with higher-rated peers.

### Downside scenario

Although unlikely during the outlook period, we could lower the rating if budgetary performance and flexibility were to experience significant pressure due to rising pension and OPEB costs.

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

#### Ratings Detail (As Of May 22, 2018)

Harwich GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Harwich GO BANs dtd 06/21/2018 due 06/21/2019		
<i>Short Term Rating</i>	SP-1+	Affirmed
Harwich GO BANs dtd 12/15/2017 due 07/13/2018		
<i>Short Term Rating</i>	SP-1+	Affirmed

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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