

RatingsDirect®

Summary:

Braintree, Massachusetts; General Obligation

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Braintree, Massachusetts; General Obligation

Credit Profile

US\$5.97 mil GO mun purp loan bnds ser 2022 due 06/01/2042

Long Term Rating AA/Negative New

Braintree GO bnds

Long Term Rating AA/Negative Downgraded

Braintree GO mun purp loan

Long Term Rating AA/Negative Downgraded

Rating Action

S&P Global Ratings lowered to 'AA' from 'AA+' its long-term rating on Braintree, Mass.' general obligation (GO) debt outstanding. At the same time, we assigned our 'AA' long-term rating to the town's approximately \$5.97 million 2022 GO municipal-purpose loan bonds. The outlook is negative.

The rating action reflects recurring general fund drawdowns that resulted in a 53% decline in available reserves from fiscal year-end 2018 (\$20.4 million, 13.8% of operating expenditures) to 2021 (\$9.6 million, 5.7%). The negative outlook reflects uncertainty regarding the town's ability to return to balance and limit future drawdowns despite management working to close budgetary gaps. We currently view Braintree's overall budgetary flexibility as weak; should it fall to very weak due to reserves falling below 4% of operating expenditures and if we continue to view the town as having limited ability to generate additional revenue due to political resistance, we could cap the rating at no higher than 'A+'.

Braintree's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the GO debt. Its unlimited-tax bonds are not subject to the limitations of Proposition 2-1/2. Despite commonwealth levy-limit laws, we did not make a rating distinction between the town's limited-tax GO pledge and its general creditworthiness because our analysis of the town's financial and economic conditions already includes the tax limitation imposed on its revenue-raising ability.

Bond proceeds fund a variety of capital projects.

Credit overview

Despite overall revenue growth over the past few years, drawdowns persisted due to one-time and nonproperty tax revenues falling short and unbudgeted public safety overtime costs. Management projects balanced results for fiscal 2022, which we believe is uncertain, but further revised revenue and expenditure assumptions for its fiscal 2023 budget to continue working toward ongoing balanced results. Returning to balanced operations is the key credit factor for any positive rating action. Economic development in various stages should result in property tax revenue growth; recent growth resulted in the levy limit growing more than \$3 million annually. The town also faces budgetary pressure from rising retirement costs, but is currently incorporating these costs into the budget. We expect reserves to remain below

those of state peers in the near term. (For more information, see "U.S. Local Governments Credit Brief: Massachusetts Municipalities," published Nov. 15, 2021, on RatingsDirect.)

In our opinion, the rating reflects the town's:

- Growing tax base with access to the broad and diverse Boston metropolitan statistical area (MSA);
- Clear commitment by management to improve budgetary assumptions within its long-standing financial practices, and a strong institutional framework score;
- Financial profile that may improve during the outlook period, but with reserves remaining below those of higher rated peers; and
- Low debt service costs but elevated retirement costs and large unfunded liabilities.

Environmental, social, and governance

We analyzed Braintree's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. We view these as neutral within our credit analysis.

Stable Outlook

Downside scenario

If the town is unable to maintain budgetary balance, leading to a further decline in reserves without projected improvement, we could lower the rating, potentially by multiple notches.

Return to stable scenario

If the town stabilizes its reserve position, while continuing to refine budgetary assumptions to maintain long-term balance, we could revise the outlook to stable.

Credit Opinion

Diverse tax base with several large-scale projects in various stages of development

Braintree is a primarily residential community with access to several major transportation arteries, connecting it to the broader Boston MSA. Management is working to continue a recent trend of commercial and industrial sector redevelopment, particularly in the life sciences sector. Despite growth in other sectors, residential properties are the primary generator of assessed value (AV) growth and we expect the town to remain predominantly residential. Its residential tax rate of \$9.95 per \$1,000 of AV is below average for the state. We do not anticipate revising our view of the economic profile as we expect the established tax base and underlying wealth and income metrics to remain stable. The town has several ongoing projects in various stages of development, but the material revenue effects of these developments will likely come outside the two-year outlook period.

Improvement in budgetary assumptions highlight the town's financial policies

Budgetary assumptions over the past several years were optimistic, particularly with regard to police and fire department overtime. The fiscal 2023 budget includes a three-year averaging for overtime costs and removes any uncertain revenue included in prior budgets, including billboard and property sales. However, we could revise our view

of the financial management environment downward if budgetary assumptions continue to result in year-end deficits.

Highlights of its formal policies include:

- A rolling five-year, long-term financial plan that identifies variances in future years;
- An annually updated five-year capital improvement plan that identifies funding sources and projects;
- A formal reserve policy that limits the undesignated fund balance to 10% of expenditures and stabilization reserves to 5%, although the town remains out of compliance with these thresholds;
- A debt policy that adheres to state limitations on debt and basic issuance requirements;
- Quarterly budget-to-actual reports to the board; and
- Investments that adhere to commonwealth guidelines, with quarterly board reports.

Expected improvement in budgetary performance over the next two years, but reserves likely to remain relatively low

The fiscal 2021 drawdown was partially due to \$2.4 million expended from reserves; the town expects reimbursement from the county in fiscal 2022 through its American Rescue Plan Act (ARPA) allocation as revenue replacement. Fiscal 2022 year-end projections remain somewhat uncertain due to police overtime costs above historical levels, although we expect improvement in the near term. Management notes that local revenue is likely to exceed budget, but expenditure overages will require the budgeted use of reserves and reappropriations. Budgetary performance may improve during the outlook period relative to fiscal 2021, given management's demonstrated willingness to adjust budgetary assumptions. However, the negative outlook reflects material uncertainty in the town's reserve position over the next few years, given past budgetary shortfalls and current limited budgetary flexibility.

Management projects an increase in state statutorily calculated reserves of approximately \$4 million at fiscal 2022 year-end, but it does not currently have a GAAP projection. We calculate that an increase of approximately \$4 million in audited reserves would result in an available fund balance of about 8% of operating expenditures. However, state-calculated and audited reserves do not necessarily move in tandem; consequently, it is currently not possible to project the town's 2022 year-end reserve position with any certainty. In our view, it has a limited ability to generate additional revenue due to political resistance. This reflects a historical inability to pass Proposition 2-1/2 overrides and exclusions, notwithstanding the successful referendum in September 2020. If the town consistently raises revenue sufficient to address operational and capital needs through the tax levy or other revenue sources, we could improve our view of its revenue environment and budgetary flexibility. Additionally, if reserves grow to more than 8% of expenditures with no indication of falling in the near term, we could revise our view of budgetary flexibility. The town's cash position is supported by its municipal light fund; we do not expect a material change in its liquidity profile despite the budgetary performance and flexibility volatility.

The town fiscal 2023 budget is nearly complete. Management notes that in addition to new calculations for public safety overtime, it does not include one-time revenues included in past budgets, and likely growth in marijuana excise tax and building permit revenue.

Local property taxes are the predominant operating revenue, accounting for 60% of audited 2021 general fund

revenue. State aid, which is approximately half operating aid and half pass-through pension payments, accounted for 29% and local and motor vehicle excise taxes were 4% in aggregate. We expect revenues will generally remain stable and management notes that local excise taxes such as restaurant and hotels met 2022 budgeted revenue by the end of the third quarter, demonstrating a rebound from the pandemic.

Stable debt profile with low costs

Following this issuance, Braintree has approximately \$190 million of total direct debt outstanding, of which approximately \$81 million we consider self-supporting enterprise debt. In addition to several million annually for general capital, it expects to issue \$36 million for a shared water treatment plant with neighboring towns, which is eligible for 6.5%-12.5% principal forgiveness and for which the town expects debt service to be paid by user rates. We do not expect a material change in the debt profile during the outlook period.

Large retirement liabilities and elevated costs likely to persist

- Braintree has large, unfunded pension and other postemployment benefit (OPEB) obligations, without a plan in place to sufficiently address them.
- The use of an actuarially determined contribution (ADC) is a positive, but we believe some of the assumptions and methodologies used to build the pension ADC increase the risk of unexpected contribution escalations and defer costs.
- Although the town is prefunding the OPEB liability, annual costs are paid on a pay-as-you-go basis, which, due to claims volatility and medical-cost and demographic trends, is likely to lead to escalating costs.

The town participates in the following plans:

- Braintree Contributory Retirement System: 73.6% funded, \$90 million net pension liability.
- Single-employer defined-benefit health care plan (OPEBs): 8.5% funded, \$147 million net OPEB liability.

The town makes its full pension ADC annually. The pension plan exceeded our static funding metric but fell short of our minimum funding progress metric, indicating it is making limited progress toward full funding. We view the closed, 13-year amortization schedule positively, but believe the 7.5% discount rate adds risk of cost escalation due to market volatility. Additionally, the plan defers costs by assuming 4.5% total cost growth through fiscal 2023, with 7.35% growth thereafter. The town is phasing in fully funding the OPEB ADC through 2033, but we expect costs and liabilities to grow in the interim.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Braintree, MA -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	125			
Market value per capita (\$)	222,910			
Population		38,358	38,109	

Braintree, MA -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
County unemployment rate(%)			8.3	
Market value (\$000)	8,550,391	7,982,578	7,734,102	
Ten largest taxpayers % of taxable value	9.7			
Adequate budgetary performance				
Operating fund result % of expenditures		(2.2)	(2.2)	(2.1)
Total governmental fund result % of expenditures		(2.0)	(0.3)	(1.3)
Weak budgetary flexibility				
Available reserves % of operating expenditures		5.7	7.7	10.7
Total available reserves (\$000)		9,649	12,622	16,596
Very strong liquidity				
Total government cash % of governmental fund expenditures		41	38	39
Total government cash % of governmental fund debt service		1,024	979	1,320
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.0	3.9	2.9
Net direct debt % of governmental fund revenue	59			
Overall net debt % of market value	2.2			
Direct debt 10-year amortization (%)	62			
Required pension contribution % of governmental fund expenditures		6.4		
OPEB actual contribution % of governmental fund expenditures		4.4		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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