

# RatingsDirect®

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## Summary:

# Braintree, Massachusetts; General Obligation

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### Credit Profile

US\$6.511 mil GO mun purp ln bnds ser 2016 due 05/15/2036

<i>Long Term Rating</i>	AA+/Positive	New
Braintree GO bnds		
<i>Long Term Rating</i>	AA+/Positive	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' rating to Braintree, Mass.' series 2016 general obligation (GO) bonds and affirmed its 'AA+' rating on the town's existing GO debt. The outlook is positive.

Braintree's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," the town has a predominately locally derived revenue source, with 64% of governmental activity revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. We understand officials intend to use series 2016 bond proceeds to fund various capital projects in the town, including water distribution system improvements and financing road resurfacing, department of public works vehicles, and several school upgrades.

The rating reflects our opinion of the following factors for Braintree, specifically its:

- 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 balanced operating results in the general fund and at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 at 13.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.1% of total governmental fund expenditures and 14.9x governmental debt service, as well as access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.5% of expenditures, net direct debt at 25.0% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization, with 83.3% of debt scheduled to be retired in 10 years, and a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### **Very strong economy**

We consider Braintree's economy very strong. The town, with an estimated population of 37,359, is in Norfolk County, about 10 miles south of Boston. It is in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 129% of the national level and per capita market value of \$158,261. Overall, market value grew by 5.0% over the past year to \$5.9 billion in 2016. The county unemployment rate was 4.3% in 2015.

Braintree is primarily residential with a retail and commercial economy that includes South Shore Plaza, one of the leading shopping centers in New England. In addition to access to major markets in the region, Braintree has a sizable employment base with a substantial health services presence.

The town enjoys access to several major transportation arteries, connecting it to Boston, Cape Cod, and Providence, R.I. Massachusetts Bay Transportation Authority's Red Line and several commuter rail lines also operate there. A full revaluation contributed to increased assessed value in fiscal 2015.

### **Strong management**

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

In our opinion, assessment strengths currently include management's:

- Strong revenue and expenditure assumptions in the budgeting process with, in our opinion, conservative assumptions;
- Strong oversight when monitoring progress compared to the budget during the year;
- Long-term financial plan (five years) with credible assumption that identify variances and potential issues in outward years; and
- Five-year capital improvement plan updated annually with funding sources and projects.

Investments adhere to commonwealth guidelines, and management reports to the town council quarterly. The town maintains no formal debt management policy. Braintree's reserve policy limits undesignated fund balance to 10% of expenditures and stabilization reserves to 5%. While currently under the undesignated balance (the result of paying off the prior year's snow and ice deficit of \$2.4 million), management is continuing to build stabilization balance to desired levels, a goal it hopes to achieve eventually.

### **Strong budgetary performance**

Braintree's budgetary performance is strong, in our opinion. The town had balanced operating results at negative 0.4% of expenditures in the general fund and 0.2% across all governmental funds in fiscal 2015.

As expected, the fiscal 2015 results showed a slight deficit due to higher-than-budgeted expenditures, primarily for snow-and-ice removal that was \$2.8 million over budget. Overall, fiscal 2015 ended better than previously projected due to positive revenue variances and expenditure reductions in other departments. For fiscal 2016, management projects about a \$2 million increase in reserves due to revenue variances, primarily in its real estate tax collections and conservative expenditure estimates.

Management's proposed fiscal 2017 budget is \$122.3 million and includes a \$1.8 million levy increase. There is no appropriation of fund balance. We believe overall performance will likely remain strong due to the town's recent financial performance and what we view as conservative budgeting practices.

### **Strong budgetary flexibility**

Braintree's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 at 13.5% of operating expenditures, or \$16.9 million.

As projected, there was a slight decline in reserves for the fiscal 2015 from a snow and ice removal deficit of \$2.8 million, but the potential for steeper declines in reserves was mitigated by positive budget variances and our opinion of management's conservative budgeting practices.

For fiscal 2016, management expects that through positive budget variances, primarily property tax collections, to add about \$2 million to its reserves. Management's proposed fiscal 2017 budget does not include any reserve appropriation.

### **Very strong liquidity**

In our opinion, Braintree's liquidity is very strong, with total government available cash at 38.1% of total governmental fund expenditures and 14.9x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is supported by its regular debt issuances, including GO bonds. We believe it does not currently have aggressive investments, with the majority in highly rated and liquid mutual funds and fixed-income securities. The town has consistently had very strong liquidity and we do not anticipate that to change.

Braintree's electric light fund enhances liquidity. While the town does not commingle electric light fund cash with its cash, the power utility is a department of the town. The town does not currently have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

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

In our view, Braintree's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 25.0% of total governmental fund revenue. Overall net debt is low at 0.6% of market value, and approximately 83.3% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Weakening our view of the town's debt profile is its large pension and OPEB obligations.

Officials indicate they currently intend to issue roughly \$35 million-\$40 million in additional debt within the next two to three years for various school projects that will likely receive approximately 51% reimbursement through the Massachusetts School Building Authority. Additional projects for a water plant and fire rescue headquarters are also under consideration.

The town may consider borrowing up to \$100 million for a new power plant for the Braintree Electric Light Department. However, the project is beyond our two-year outlook horizon, and is unlikely to be approved unless

certain efficiency targets can be achieved. Any debt associated with the electric light department would be offset by revenues generated by the enterprise operation.

In our opinion, a credit weakness is Braintree's large pension and OPEB obligation. Its combined required pension and actual OPEB contributions totaled 11.1% of total governmental fund expenditures in 2015. Of that amount, 6.0% represented required contributions to pension obligations, and 5.1% represented OPEB payments. The town made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 68.7%.

The town contributes to the Braintree Contributory Retirement System. As of Dec. 31, 2014, the net pension liability totaled \$78.8 million with fiduciary net position 68.7% of the total pension liability. The plan is scheduled to be fully funded by 2033, with contributions increasing by 4.5% year over year through 2028. The town also offers OPEBs to retirees. As of Jan. 1, 2014 the unfunded actuarial accrued liability was approximately \$185.8 million with 1.6% prefunded. The town established an OPEB trust to address the liability. It plans to increase appropriations into the trust by roughly \$145,000 annually and budgeted an appropriation of \$1.6 million for fiscal 2017.

The town is also a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiemployer defined-benefit plan. MTRS is managed by the Commonwealth of Massachusetts and is responsible for 100% of the contributions and future benefit requirements of the MTRS.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The positive outlook reflects S&P Global's opinion of Braintree's ongoing efforts to bolster reserves despite recent trends in line-items exceeding budget due to one-time cost overruns. At the same time, management should remain proactive when funding and executing reforms to long-term liabilities, ensuring those costs and overall budgetary performance remain, in our opinion, stable and strong.

For us to consider raising the rating, Braintree would need to continue its adherence to improving its reserves, reducing exposure to unfunded liabilities, and adhering to its adopted policies and practices. We could revise the outlook to stable if budgetary performance were to weaken adding downward pressure to reserves.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

## **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, April 19, 2016
- 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
- Institutional Framework Overview: Massachusetts Local Governments

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.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the 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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