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Summary:

Braintree, Massachusetts; General Obligation

Primary Credit Analyst:
Christina Marin, Boston 617-530-8312; christina.marin@spglobal.com

Secondary Contact:
Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

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Summary:

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Credit Profile		
US$8.629 mil GO mun purp loan bnds ser 2017 due 05/01/2037		
Long Term Rating	AA+/Stable	New
Braintree GO bnds		
Long Term Rating	AA+/Stable	Outlook Revised

Rationale

S&P Global Ratings revised its outlook on the Town of Braintree, Mass.' general obligation (GO) debt outstanding to stable from positive and affirmed its 'AA+' rating on the debt. At the same time, S&P Global Ratings assigned its 'AA+' rating and stable outlook to the town's series 2017 GO bonds.

The outlook revision reflects our view of rising pension and debt service costs that could cause some volatility to the town's operating performance in the coming years. Given the size of the pension and other postemployment benefits (OPEB) liability, as well as limitations in raising taxes, we do not view Braintree's credit quality as comparable to that of higher-rated peers. Despite the outlook revision, we continue to view the town's creditworthiness favorably given Braintree's robust and diverse tax base, very strong reserve levels, and strong forecasting practices.

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 Braintree's flexibility under the levy limit.

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

- 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures, but limited capacity to raise revenues;
- Very strong liquidity, with total government available cash at 46.4% of total governmental fund expenditures and 18.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 18.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 83.3% of debt scheduled to be retired in 10 years, but significant medium-term debt plans and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and Strong institutional framework score.

Very strong economy

We consider Braintree's economy very strong. The town, with an estimated population of 37,661, is located in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 126% of the national level and per capita market value of $166,460. Overall, the town's market value has grown by 6.0% over the past year to $6.3 billion in 2017. The county unemployment rate was 3.2% in 2016.

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 is also home to three private schools, the Mass State Lottery, and ING Financial Partners.

Located 13 miles south of downtown Boston, Braintree 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.

Notable developments include Landing 53, a 172-unit transient-oriented development on the eastern edge of town; the construction of a 140-room Marriott Residence Inn, which will be completed in the fall of 2017; and continued renovations and improvements to the South Shore Plaza. We consider the tax base very diverse, with the 10 largest taxpayers accounting for 11% of the tax base.

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 assumptions 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. Braintree maintains no formal debt management policy or investment policy, but expects to introduce formal policies this summer. The debt policy would limit debt service to no more than 10% of revenues and the proposed investment policy restricts investments to U.S. treasuries, certificates of deposits, and the Massachusetts state pooled fund, among other low-risk investment vehicles. Braintree's reserve policy limits the undesignated fund balance to 10% of expenditures and stabilization reserves to 5%. Although Braintree is under the stabilization target at present, management is continuing to build the 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 operating surpluses of 2.3% of expenditures in the general fund and of 1.7% across all governmental funds in fiscal 2016.

In our calculation of budgetary performance, we adjust for recurring transfers as well as one-time capital items paid for with bond proceeds.

The operating surplus in 2016 was a result of strong collections on tax liens and revenue from motor vehicle and hotel taxes, which exceeded expectations. Braintree also received increased revenue from the opening of CATS Academy, as well as turnbacks from veterans' benefits and the fire department. According to management, 2017 operating results are on target to achieve another surplus at fiscal year-end.

Braintree derives 62% of its budget from property taxes, and 24% from state aid. We believe the town's diverse and vibrant tax base shields the budget from pressure stemming from reduced state aid, given revenue shortfalls facing the commonwealth. Management's proposed fiscal 2018 budget is $126 million, a 2.4% increase over the previous year.

We note that the town is taking on two sizable school renovation projects. Debt service for the projects will be paid for from the general fund. Town officials expect to use unused levy capacity, which now stands at $1.7 million, and revenues from new growth to ensure the projects do not result in cuts elsewhere.

We believe the town will face increasing challenges in balancing its budget due to rising pension costs and additional debt service. However, in the near term, we expect overall performance to 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 2016 of 16% of operating expenditures, or $21.0 million. Negatively affecting budgetary flexibility, in our view, is Braintree's limited capacity to raise revenues.

We view Braintree's ability to raise revenues as limited given voter resistance to tax increases. The town has proposed three overrides of its levy limit in order to fund both capital projects and general operating expenses, all three of which were voted down. As a result, town officials are reluctant to return to taxpayers to request additional overrides. We view this as a credit weakness because Braintree does not have flexibility to raise revenues for needed capital projects, and must in turn fund these projects from the general fund.

Braintree's reserves increased in the past year to $21 million from $16.9 million, or 13.5% of operating expenses, due to strong collections on tax liens and revenues from motor vehicle and hotel taxes that came in above budget. Town officials expect to maintain reserves level. Therefore, we do not expect our evaluation of budgetary flexibility to change over our outlook horizon.

Very strong liquidity

In our opinion, Braintree's liquidity is very strong, with total government available cash at 46.4% of total governmental fund expenditures and 18.7x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We believe Braintree'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 expect 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. Braintree does not currently have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Strong debt and contingent liability profile

In our view, Braintree's debt and contingent liability profile is strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 18.0% of total governmental fund revenue. Overall net debt is low at 0.4% 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. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

Braintree intends to issue for two middle school projects. The town expects approximately 60% reimbursement from the Massachusetts School Building Authority. Braintree's local share represents approximately $60 million, which will be paid for from the general fund. The town will also likely issue $25 million for a shared water treatment plant with the towns of Holbrook and Randolph. Braintree expects this debt to be self-supporting and paid for with user rates.

In addition, the town could 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.

Braintree has $124 million of direct debt outstanding, $98 million of which is self-supporting through various enterprise funds.

In our opinion, a credit weakness is Braintree's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Braintree's combined required pension and actual OPEB contributions were 10.4% of total governmental fund expenditures in 2016. Of that amount, 6.0% represented required contributions to pension obligations, and 4.4% represented OPEB payments. The town made its full actuarial determined pension contribution in 2016. The funded ratio of the largest pension plan is 63.8%.

The town contributes to the Braintree Contributory Retirement System. As of Jan. 1, 2016, the net pension liability totaled $94.7 million. 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, 2016 the unfunded actuarial accrued liability was approximately $196.6 million with 2.8% prefunded. The town established an OPEB trust to address the liability, which has a current balance of $8.4 million. Braintree plans to increase its appropriation to the OPEB trust by a minimum of $145,000 through 2033, when the town's unfunded pension liability is forecasted to be fully funded. At this point, the town expects to appropriate the same amount as it had been raising to fund pensions, to fully fund the OPEB liability annually through 2040. In order to reduce the retirement liability, Braintree has increased the employee share of health benefits, raised co-pays and deductibles, and rebalanced investments.

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 stable outlook reflects S&P Global Ratings' opinion of Braintree's growing tax base, very strong reserve levels, and consistent financial profile. The outlook is further supported by the town's detailed financial forecasts and regular budgetary oversight, as well as its very strong liquidity. For these reasons, we don't expect to change the rating within our two-year outlook horizon.

Upside scenario

For us to consider a higher rating, Braintree would need to continue to improve reserves, reduce exposure to retirement liabilities and associated costs, and adopt a debt and investment policy.

Downside scenario

We could lower the rating should additional debt service or higher pension expenses cause budgetary imbalance, leading to a draw on reserves.

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
- 2016 Update Of Institutional Framework For U.S. 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 for further information. Complete ratings information is available to subscribers of RatingsDirect at 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. Use the Ratings search box located in the left column.