

RatingsDirect®

Summary:

Braintree, Massachusetts; General Obligation

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Credit Profile

US\$7.14 mil GO mun purp loan of 2023 bnds ser 2023 due 06/01/2043		
<i>Long Term Rating</i>	AA/Stable	New
Braintree GO bnds		
<i>Long Term Rating</i>	AA/Stable	Outlook Revised
Braintree GO mun purp loan		
<i>Long Term Rating</i>	AA/Stable	Outlook Revised

Credit Highlights

- S&P Global Ratings revised its outlook to stable from negative and affirmed its 'AA' 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 \$7.1 million 2023 GO municipal-purpose loan bonds.
- The outlook is stable.
- The outlook revision reflects a nearly 3 percentage-point increase in adjusted available reserves, to 8.5%, from fiscal year 2021 to 2022, along with our expectation that the town will maintain reserves at approximately equal to current levels over the near term.

Security

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 do 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 from the 2023 GO bonds will fund a variety of capital projects.

Credit overview

Following general fund deficits in fiscal years 2020 and 2021, Braintree produced an audited surplus in 2022, materially exceeding the budgeted use of reserves. The town continues to appropriate reserves into the budget, and it remains unclear if revenue growth and expenditure controls will continue to lead to audited surpluses; however, we expect continued improvements in personnel cost budgeting and revenue growth from new economic development to limit audited drawdowns.

The long-term rating specifically reflects the town's:

- Growing tax base, with access to the broad and diverse Boston metropolitan statistical area (MSA);

- Commitment by management to improve budgetary assumptions and reduce reliance on one-time revenue, and a strong institutional framework score;
- Financial profile that may improve during the outlook period, but with reserves remaining below those of comparably rated state 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) factors relative to its economy, management, financial measures, and debt and liability profile. We view these as neutral within our credit analysis.

Outlook

The stable outlook reflects our view that the town will maintain at least adequate budgetary flexibility through budgetary adjustments to maintain at least balanced operating results over the two-year outlook. Providing further rating support is the expectation of continued economic development, likely leading to property-tax growth, in turn supporting expenditure growth.

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.

Upside scenario

If the town grows reserves to levels commensurate with those of higher-rated peers, while continuing to refine budgetary assumptions to maintain long-term balance, we could take positive rating action.

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 \$9.76 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.

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 included a three-year averaging for overtime costs and removes any uncertain revenue included in prior budgets, including billboard and property sales. However, as the town has not updated a long-term financial plan in several years, we revised our view of its financial management policies and

practices under our Financial Management Assessment criteria to standard from good. Additionally, the institutional framework score for Massachusetts municipalities is strong.

Highlights of its formal policies include:

- 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.

Management working to ensure continued balanced financial results

The fiscal 2022 surplus reflects small, positive revenue variances across most revenue lines, which aggregated to approximately \$2 million, along with positive expenditure variances totaling \$6.9 million, which in aggregate offset the budgeted use of reserves and produced an audited surplus. Management continues to actively work to improve budgetary assumptions and is currently projecting surplus operating results at the close of fiscal 2023. Additionally, management expects hiring four new firefighters and 11 new police officers will improve budgetary variance through reduced overtime volatility, which has driven past budgetary deficits. Over the longer term, the town also expects to realize material expenditure savings from school consolidation and redistricting and emergency dispatch consolidation.

Braintree used approximately \$2.8 million in American Rescue Plan Act (ARPA) funds in the 2023 budget as revenue replacement. The fiscal 2024 budget uses an approximately \$4.2 million reserve appropriation to achieve balance. Given our view that the town has limited ability to raise revenue, if new revenue from property tax levy growth or projected expenditure savings are not realized, Braintree could draw on generally accepted accounting principles (GAAP)-calculated reserves, potentially pressuring the rating.

Providing some revenue stability is a high reliance on local property taxes, which generally account for about 60% of audited operating revenue. State aid, which is approximately half operating aid and half pass-through pension payments, accounts for about 30%, with the remainder from other local source taxes and fees. Our view of adequate budgetary performance accounts for the potential of some performance volatility as management works to ensure recurring revenue and expenditures match.

Stable debt profile with low costs

Following this issuance and exclusive of remaining 2023 debt service payments, Braintree has approximately \$180 million of total direct debt outstanding, approximately \$73 million of which we consider self-supporting enterprise debt. In addition to several million annually for general capital, it expects to issue \$50 million for a shared water treatment plant with neighboring towns, which is eligible for principal forgiveness and at 0% interest through the state clean water trust, 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 benefits (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: 79% funded, \$78.5 million net pension liability.
- Single-employer, defined-benefit health care plan (OPEB): 7% funded, \$176.8 million net OPEB liability.

The town makes its full pension ADC annually. The pension plan exceeded minimum funding progress metric in the most recent year, indicating it is making limited progress toward full funding. We view the closed, 13-year amortization schedule positively, but believe the 7.25% discount rate adds risk of cost escalation due to market volatility. Additionally, the plan defers costs by 7.35% growth through assumed full funding in 2033, but cost growth may outpace overall budgetary growth. The town is phasing in fully funding the OPEB ADC through 2033, but we expect liabilities to grow in the interim.

Braintree--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	131			
Market value per capita (\$)	234,404			
Population		38,346	38,358	
County unemployment rate (%)		5.1		
Market value (\$000)	8,988,462	8,550,391	7,982,578	
Ten largest taxpayers % of taxable value	9.4			
Adequate budgetary performance				
Operating fund result % of expenditures		1.8	(2.2)	(2.2)
Total governmental fund result % of expenditures		(0.8)	(2.0)	(0.3)
Adequate budgetary flexibility				
Available reserves % of operating expenditures		8.5	5.7	7.7
Total available reserves (\$000)		13,324	9,649	12,622
Very strong liquidity				
Total government cash % of governmental fund expenditures		40	41	38
Total government cash % of governmental fund debt service		762	1024	979

Braintree--Key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Adequate management				
Financial Management Assessment	Standard			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.3	4.0	3.9
Net direct debt % of governmental fund revenue	56			
Overall net debt % of market value	1.5			
Direct debt 10-year amortization (%)	64			
Required pension contribution % of governmental fund expenditures		6.8		
OPEB actual contribution % of governmental fund expenditures		4.4		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

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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