

RatingsDirect®

Summary:

Braintree, Massachusetts; General Obligation

Primary Credit Analyst:

Danielle A Messler, Boston (617) 530-8322; danielle.messler@standardandpoors.com

Secondary Contact:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

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Credit Profile

US\$5.343 mil GO mun purp loan bnds ser 2015 due 06/15/2035

Long Term Rating AA+/Positive New

Braintree GO bnds

Long Term Rating AA+/Positive Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating and positive outlook to Braintree, Mass.' series 2015 general obligation (GO) bonds and affirmed its 'AA+' rating, with a positive outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge secures the GO debt. We understand officials intend to use series 2015 bond proceeds to fund various capital projects within the town, including renovations to the town's Town Hall and water and sewer building and financing road resurfacing, department of public works vehicles, water system improvements, 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 management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 14% of operating expenditures;
- Very strong liquidity, with total government available cash of 42.8% of total governmental fund expenditures and 19x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 2.3% of expenditures and net direct debt that is 9.8% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 77.7% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability 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 36,218, is located in Norfolk County in the Boston-Cambridge-Newton MSA in Massachusetts and New Hampshire, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 138% of the national level and per capita market value of \$155,404. Overall, the town's market value grew by 8.2% over the past year to \$5.6 billion in 2015. The county unemployment rate was 5% in 2014.

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.

Braintree is about 10 miles south of Boston. 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 within the town. A full revaluation contributed to increased assessed value in fiscal 2015. Our forecasts, however, indicate we will likely continue to see growth in the region due to accelerated new-housing starts.

Strong management

We view the town's management as strong, with "good" financial management 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.

Since Braintree changed its form of government to a mayor-town council government, management has been working to bolster internal control functions and enhance financial policies and practices. In our opinion, assessment strengths currently include management's:

- Strong revenue and expenditure assumptions in the budgeting process,
- Strong oversight when monitoring progress compared to the budget during the fiscal year,
- Long-term financial plan with credible assumptions, and
- Five-year capital plan.

Investments adhere to commonwealth guidelines, and management reports to the town council quarterly.

Braintree's reserve policy limits undesignated fund balance to 10% of expenditures and stabilization reserves to 5% of expenditures. While currently more than the undesignated balance, 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 in the general fund of negative 0.4% of expenditures, and slight surplus results across all governmental funds of 1.1% in fiscal 2014.

With less than one month remaining in fiscal 2015, officials are projecting they will end with a deficit due to higher-than-budgeted expenditures for snow-and-ice removal, overtime for police and fire, and special-education costs. Overall, officials are projecting a general fund balance decrease of roughly \$3 million at fiscal year-end 2015. The fiscal 2016 budget totals \$135 million, a year-over-year increase of roughly 4%. The town increased the levy by about \$2 million, and it expects increased state aid. Management addressed police and fire staffing, which should address unexpected overtime costs from the current fiscal year. The fiscal 2016 snow-and-ice budget totals \$460,000, an increase of roughly \$50,000 from fiscal 2015.

While officials are projecting drawdowns at the close of fiscal 2015, they are also budgeting for balanced operations in fiscal 2016. 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 2014 of 14% of operating expenditures, or \$17.5 million.

Officials are projecting they will close fiscal 2015 with a \$3 million fund balance drawdown that will decrease available fund balance to roughly \$14.5 million. Management attributes roughly \$2.4 million of this drawdown to snow-and-ice removal costs from winter storms that hit the region in January and February of 2015. This equals roughly 11.6% of general fund expenditures, which we still consider strong.

Very strong liquidity

In our opinion, Braintree's liquidity is very strong, with total government available cash of 42.8% of total governmental fund expenditures and 19x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

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. Liquidity will likely remain very strong, in our opinion. The town does not currently have any contingent liquidity risk from financial instruments with payment provisions that change upon 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 2.3% of total governmental fund expenditures, and net direct debt is 9.8% of total governmental fund revenue. Overall net debt is low at 0.3% of market value and approximately 77.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Officials indicate they currently intend to issue roughly \$11 million in additional debt within the next two years for various projects, including for the Town Hall, ongoing road improvements, water distribution, school remodeling, and public works equipment. We, however, do not expect this to change the town's debt profile materially.

In our opinion, Braintree's large pension and OPEB liability, without a plan in place that we think will sufficiently address the obligation, is a credit weakness. Braintree's combined pension and OPEB contribution totaled 10.7% of total governmental fund expenditures in fiscal 2014. Of that amount, 5.8% represented contributions to pension obligations and 4.9% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2014. The pension's funded ratio is 66%.

The town contributes to the Braintree Contributory Retirement System. At Jan. 1, 2014, the last actuarial valuation, the unfunded actuarial accrued liability (UAAL) totaled \$81.5 million. According to the schedule, officials will fund the plan in full by fiscal 2033 with contributions increasing by 4.5% year over year through fiscal 2028. The town also offers OPEB to retirees. At Jan. 1, 2014, the OPEB UAAL was an estimated \$185.7 million and, at the time, entirely unfunded. The town established a trust to address the OPEB liability with a projected balance of \$4.5 million at fiscal year-end 2015. The town plans to increase appropriations into the trust by roughly \$145,000 annually with a budgeted appropriation of \$870,000 for fiscal 2015.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The positive outlook reflects Standard & Poor's opinion of Braintree's ongoing efforts to bolster internal control functions and enhance financial policies and practices, which Standard & Poor's believes will likely translate to the maintenance of strong reserves. 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 demonstrate an adherence to financial policies and goals, especially since increasing costs will continue to pressure budgetary performance. We could revise the outlook to stable if budgetary performance were to continue to weaken in the following fiscal year, adding downward pressure to town reserves, or if management were to falter somehow in its ability to adhere to its financial policies and fiscal goals.

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 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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