

Summary:**Braintree, Massachusetts; General Obligation****Primary Credit Analyst:**

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

Secondary Contact:

Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

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Credit Profile		
US\$35.105 mil GO mun purp loan of 2019 bnds ser 2019 due 06/01/2049		
<i>Long Term Rating</i>	AA+/Stable	New
Braintree GO bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Braintree, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's existing GO debt. The outlook is stable.

Braintree's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. Despite these limitations, we rate the limited-tax GO debt at the same level as our view of the town, reflected in the unlimited-tax GO bond rating, due to a lack of limitations on resource fungibility available for debt service.

Officials intend to use series 2019 bond proceeds (approximately \$35 million) to permanently finance BANs outstanding (approximately \$8.9 million) and to fund various capital projects.

The rating reflects our opinion of Braintree's strong and expanding property tax base that continues to grow within the Boston metropolitan statistical area (MSA), supporting healthy reserves. The rating also factors in the possibility of the town issuing \$90 million of additional debt for a water treatment plant and school projects.

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

- Very strong economy, with access to a broad and diverse 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 2018;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2018 of 13.8% of operating expenditures, as well as limited capacity to raise revenues due to consistent and ongoing political resistance;
- Very strong liquidity, with total government available cash at 44.5% of total governmental fund expenditures and 17.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 37.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 73.5% of debt scheduled to be retired in 10 years, but significant

- medium-term debt plans and a large pension and other postemployment benefits (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider Braintree's economy very strong. The town, with an estimated population of 36,460, is located in Norfolk County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 139% of the national level and per capita market value of \$197,678. Overall, the town's market value grew by 8.4% over the past year to \$7.2 billion in 2019. The county unemployment rate was 3.3% in 2017.

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 and ING Financial Partners.

Located 13 miles south of downtown Boston, Braintree has 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 in the town.

Notable developments include Landing 53, a 172-unit transient-oriented housing development on the eastern edge of town; the recent construction of a 140-room Marriott Residence Inn; 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, strengths include management's:

- Strong revenue and expenditure assumptions in the budgeting process with, in our opinion, conservative assumptions;
- Strong oversight when monitoring progress compared with the budget during the year, as evidenced by quarterly reporting of budget to actuals to the board;
- 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 below the stabilization target at present, management is continuing to build the balance to desired levels.

Strong budgetary performance

Braintree's budgetary performance is strong, in our opinion. The town had balanced operating results of 0.1% of expenditures in the general fund and of 0.1% across all governmental funds in fiscal 2018.

In our calculation of budgetary performance, we adjust for recurring transfers into the general fund from the town's enterprise funds as well as one-time capital items paid for with bond proceeds.

Braintree's balanced operations in fiscal 2018 were aided by strong property tax collections, and motor vehicle excise tax and interest income exceeding the budget. Management indicates that operating results less than two months from close of fiscal 2019 will finish with a \$2.8 million surplus.

The fiscal 2020 budget totals \$160.9 million, a 3.8% increase over the previous year's budget. Braintree derives almost two-thirds of its budget from property taxes, and about one-fourth 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.

We note that the town is taking on sizable school-renovation projects. Debt service for the projects will be paid for from the general fund. Town officials expect to use some of its unused levy capacity, which now stands at \$1.6 million, and revenues from new growth to ensure the projects do not result in cuts elsewhere.

We believe Braintree 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.

Adequate budgetary flexibility

Braintree's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2018 of 13.8% of operating expenditures, or \$20.4 million. Negatively affecting budgetary flexibility, in our view, is limited capacity to raise revenues due to consistent and ongoing political resistance.

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 capital projects and general operating expenses; all three 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 fund them from the general fund.

Town officials expect to maintain or increase reserves at close to the current level at the end of fiscal years 2019 and 2020. Therefore, we do not expect our evaluation of budgetary flexibility to materially change over our outlook horizon.

Very strong liquidity

In our opinion, Braintree's liquidity is very strong, with total government available cash at 44.5% of total governmental fund expenditures and 17.7x governmental debt service in 2018. 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 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 changing.

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 Braintree. The town does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Adequate debt and contingent liability profile

In our view, Braintree's debt and contingent liability profile is adequate. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 37.2% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, and approximately 73.5% 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.

Following this issuance, Braintree will have \$161 million of debt outstanding. The town could issue an additional \$33 million for a shared water treatment plant with the towns of Holbrook and Randolph. However, Braintree expects this debt to be self-supporting and paid for with user rates. In addition, the town could issue \$60 million for school projects. We expect this to increase the town's overall debt profile.

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 totaled 10.1% of total governmental fund expenditures in 2018. Of that amount, 6.0% represented required contributions to pension obligations, and 4.1% represented OPEB payments. The town made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 67.3%.

The town contributes to the Braintree Contributory Retirement System, a cost-sharing, multiple-employer, defined benefit pension plan. The plan is 67.3% funded and as of June 30, 2018, the town reported a net pension liability of \$98.5 million. The plan is scheduled to be fully funded by 2033, with contributions increasing by 8% year over year.

Braintree also offers OPEB to retirees. As of June 30, 2018, the unfunded actuarial accrued liability was approximately \$103 million. The town established an OPEB trust to address the liability, which has a current balance of \$13.6 million and budgeted to add \$1.43 million in fiscal 2020. Braintree plans to increase its appropriation to the OPEB trust by a minimum of \$145,000 annually through 2033, when the town's unfunded pension liability is forecast to be fully funded. At this point, Braintree expects to appropriate the same amount as it had been raising to fund pensions, to fully fund the OPEB liability annually through 2040. To reduce the retirement liability, Braintree has increased the employee share of health benefits, raised co-pays and deductibles, and rebalanced investments.

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

We could consider a higher rating if Braintree continued to improve reserves, reduced exposure to retirement liabilities and associated costs, and strengthened its financial policies.

Downside scenario

We could lower the rating should the town's budgetary performance or flexibility materially deteriorate to levels no longer commensurate with the current rating due to significant additional debt service costs, or increased pension or OPEB expenses.

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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2018 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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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