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## Summary:

# Braintree, Massachusetts; General Obligation

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## Table Of Contents

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Rating Action

Negative Outlook

Credit Opinion

Related Research

## Summary:

# Braintree, Massachusetts; General Obligation

### Credit Profile

US\$53.445 mil go muni purp loan of 2020 bnds due 10/15/2050

*Long Term Rating* AA+/Negative New

Braintree GO bnds

*Long Term Rating* AA+/Negative Affirmed

Braintree GO mun purp loan

*Long Term Rating* AA+/Negative Affirmed

## Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Braintree, Mass.' general obligation (GO) 2020 GO municipal-purpose loan bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's GO debt outstanding. The outlook is negative.

Braintree's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the GO debt. We understand that voters elected to exempt the majority of the debt service of this issuance from the limitations of Proposition 2-1/2. Despite commonwealth levy-limit laws, we did not make a rating distinction between the town's limited-tax GO pledge and 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 2020 issuance (approximately \$53.0 million) will provide funding for construction of a new South Middle School, school building security upgrades, school roof replacements, and a refunding of outstanding GO debt.

### Credit overview

The negative outlook, originally revised May 26, 2020, reflects our belief there is at least a one-in-three chance we could lower the rating within the outlook period, due to a decline in reserves in a period in which we broadly expect municipalities to face revenue and expenditure pressures. The town's fiscal 2019 negative operating result was the product of both expected revenues not received, and expenditures over budget in police and fire overtime and the golf course.

Braintree is a primarily residential community approximately 13 miles south of Boston. Credit strengths include a large tax base, with access to Boston and nearby employment centers. The town has large unfunded retirement liabilities and growing debt burden. While costs remain manageable, we expect they will grow. In the short term, we expect Braintree is likely to face budgetary pressure despite management's adjustments in the 2021 budget, due to the expected slow economic recovery. While the scope of economic and financial challenges posed by the COVID-19 pandemic remains unknown, we believe a prolonged disruption could weaken growth in the town's tax base, which we

believe is necessary to generate sufficient revenue growth to maintain balance, and affect revenues received from the state.

The rating reflects our view of Braintree's:

- 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;
- Weak budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level in fiscal 2019;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2019 of 10.7% 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 38.6% of total governmental fund expenditures and 13.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 2.9% of expenditures and net direct debt that is 64.3% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

The rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We analyzed Braintree's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

## **Negative Outlook**

### **Downside scenario**

If the town is unable to restore reserves to levels commensurate with those of peers at the current rating, along with a demonstrated ability to annually address recurring budgetary pressures in overtime and capital costs, which have resulted in reserve drawdowns, we could lower the rating.

### **Return to stable scenario**

Alternatively, if Braintree stabilizes its fund balance without one-time revenue or expenditure measures and maintains budgetary balance, we could revise the outlook to stable.

## Credit Opinion

### Very strong economy

We consider Braintree's economy very strong. The town, with a population of 38,109, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 126% of the national level and per capita market value of \$202,947. Overall, market value grew by 7.3% over the past year to \$7.7 billion in 2020. The county unemployment rate was 2.5% in 2019.

Braintree has access to several major transportation arteries, connecting it to Boston, Cape Cod, and Providence, R.I. The Massachusetts Bay Transportation Authority's Red Line and several commuter rail lines also operate in the town, connecting residents to employment centers throughout the Boston MSA.

Additionally, the town has a sizable retail and commercial economy, with a substantial health services presence. It is also home to three private schools and ING Financial Partners. Management reports ongoing redevelopment of several commercial properties, along with potential redevelopment led by MassPort. While we believe the town will likely continue to see material economic growth over the long term, in large part due to its proximity to Boston and available commercial property base, over the short term, we believe economic growth could stall due to the economic recession. S&P Global Economics is currently forecasting a recessionary period lasting six-to-12 months. Please see the article, titled "An Already Historic U.S. Downturn Now Looks Even Worse" (published April 16, 2020, on RatingsDirect). Should new growth revenues stall for a prolonged period, we believe it could pressure the budget. At this time, we do not anticipate revising our view of the economic profile as the established tax base is expect to remain stable.

### 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.

Historically, the town has demonstrated consistent and conservative revenue and expenditure assumptions in the budgeting process. We expect management will continue to adjust its budget to improve from its fiscal 2019 result and incorporate the developing economic and revenue situation into its budget process. The town has consistent oversight, with quarterly budget-to-actual reports to the board.

Other highlights include:

- A five-year, long-term financial plan that identifies variances and potential issues in outward years.
- A five-year capital improvement plan updated annually with funding sources and projects.
- A formal reserve policy that limits the undesignated fund balance to 10% of expenditures and stabilization reserves to 5%, although it remains out of compliance with these targets.
- A debt policy that adheres to state limitations on debt and basic issuance requirements.
- Investments adhere to commonwealth guidelines, and management reports to the town council quarterly.

### **Weak budgetary performance**

Braintree's budgetary performance is weak, in our opinion. The town had deficit operating results in the general fund of negative 2.1% of expenditures, and slight deficit results across all governmental funds of negative 1.3% in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve somewhat from 2019 results in the near term.

Our assessment of performance includes both data adjustments for recurring transfers and one-time revenues and expenditures, as well as a holistic view about the relative revenue and expenditure uncertainty over the next few years. While the state is working to provide local governments level funding in fiscal 2021, we believe state aid receipts remain uncertain, along with potential volatility in local receipts.

The town's fiscal 2019 negative operating performance resulted from an anticipated property sale falling through (\$1.35 million), along with over-expenditures in the golf course fund, police and firefighter overtime, and the use of reserves to fund capital projects. The town also had anticipated revenue from a billboard that is currently stalled in litigation. We expect that it will ultimately receive revenues from the property sale and billboard project, but the timing is uncertain. Additionally, we believe it is uncertain if the town will restore reserves once those revenues are received, or, given the economic recession likely to pressure revenues, if it will expend the one-time revenues to offset further reserve reductions.

In fiscal 2020, we expect the town to produce approximately break-even results, which we reflected in our assessment of performance. It took steps to constrain expenditures, including reducing 60 staff members to part-time hours, as well as temporarily furloughing school department custodial staff, bus drivers, and crossing guards. We further understand management is working directly with the police and firefighter chiefs to constrain overtime expenditures, although a supplemental appropriation was required again in 2020. While certain excise tax revenue is likely to come in under budget, we expect the town's revenue will likely be on target, and consequently expect structural budgetary improvement relative to 2019.

For the 2021 budget, the town incorporated a 50% decline in anticipated hotel tax revenues, 25% in meals taxes, 75% in interest income, and level funding state aid. We note that the town received four bids for the property sale it had previously included in the budget, and golf course revenue is performing well, with management reporting that revenues exceed prior-year collections over the same period by 25%. While we understand management is working closely to contain police and fire department overtime expenditures, along with careful monitoring of other expenditure areas, we believe the town could face pressure in returning balanced operations in 2021 and beyond, particularly if the economic downturn persists, resulting in state aid reductions, continued local excise tax shortfalls relative to prior years, or stalled economic growth.

### **Adequate budgetary flexibility**

Braintree's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2019 of 10.7% of operating expenditures, or \$16.6 million. Impairing budgetary flexibility, in our view, is limited capacity to raise revenues due to consistent and ongoing political resistance.

We do not expect to revise our view of flexibility at this time. We believe management is adjusting the budget to limit material deterioration in reserves. However, we continue to view Braintree's ability to raise revenues as limited given

past voter resistance to tax increases. We note that the town passed its first ever debt exclusion for the current middle school project, after several prior votes against operating overrides and exclusions. We will continue to evaluate the willingness of voters to approve tax increases and management's ability and willingness to raise additional revenue to ensure at least balanced operating results.

### **Very strong liquidity**

In our opinion, Braintree's liquidity is very strong, with total government available cash at 38.6% of total governmental fund expenditures and 13.2x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is demonstrated by its regular GO debt issuances. We do not view its investments as aggressive, with the majority in highly rated and liquid mutual funds and fixed-income securities. Braintree's electric light fund enhances liquidity. The utility is a department of the town and its cash is available for interfund borrowing should the need arise. The town does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. Given the high cash balances, we believe it has the cash on hand to smooth timing of revenues and we expect its liquidity profile to remain stable.

### **Weak debt and contingent liability profile**

In our view, Braintree's debt and contingent liability profile is weak. Total governmental fund debt service is 2.9% of total governmental fund expenditures, and net direct debt is 64.3% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, which is, in our view, a positive credit factor.

Following this issuance, Braintree has approximately \$212 million of total direct debt outstanding, of which approximately \$96 million we consider self-supporting enterprise debt. The town could issue an additional \$33 million for a shared water treatment plant with the towns of Holbrook and Randolph, which the town expects to be self-supporting and paid for with user rates. At this time, we do not expect future issuances to materially change the 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 it. The town's combined required pension and actual OPEB contributions totaled 9.4% of total governmental fund expenditures in 2019. Of that amount, 5.8% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2019. The funded ratio of the largest pension plan is 60.8%.

### **Pension and other postemployment benefits**

- 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 it. We believe the low pension funded ratio, permissive assumptions, and large OPEB liability, collectively, result in a liability profile that will likely pressure the operating budget, particularly if assumptions are not met.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which we believe increases the risk of unexpected contribution escalations.

- Although the town began prefunding its 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.

As of June 30, 2019, the town participated in the following plans:

- Braintree Contributory Retirement System: 60.8% funded, \$124 million net pension liability
- Single-employer defined-benefit health care plan: 8.3% funded, \$102 million net OPEB liability

Braintree's combined required pension and actual OPEB contributions totaled 9.4% of total governmental fund expenditures in 2019. Of that amount, 5.8% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2019. Pension funding progress was not made in the most recent year, with contributions falling short of both our static and minimum funding progress metric, indicating the system did not make progress in addressing current or unfunded liabilities. We view the closed, 14-year amortization schedule positively, but believe the 7.65% discount rate adds risk of cost escalation due to market volatility, and along with a level-percent basis will lead to increasing costs. We expect costs will continue to rise and will remain elevated.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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