S&P Global Ratings

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Summary:

Braintree, Massachusetts; General Obligation

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Credit Profile		
US$11.265 mil GO mun purp loan ser 2020 due 06/01/2040		
Long Term Rating	AA+/Negative	New
Braintree GO bnds		
Long Term Rating	AA+/Negative	Outlook Revised

Rating Action

S&P Global Ratings revised its outlook to negative from stable 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 2020 GO municipal-purpose loan bonds. The outlook is negative.

The outlook revision reflects 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. The negative outlook reflects our belief there is at least a one-in-three chance we could lower the rating within the outlook period.

Braintree's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the GO debt. 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 $11.3 million) will provide funding for school construction and a variety of other capital projects.

Credit overview

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 while costs remain manageable, we expect they will grow. In the short term, we expect Braintree is likely to face budgetary pressure in the short term despite management's adjustments in the 2021 budget. 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. (For more information, see "All U.S. Public Finance Sector Outlooks Are Now Negative," published April 1, 2020, on RatingsDirect.)

The long-term rating reflects our view of the following factors for the town:

- 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;
- Adequate debt and contingent liability position, with debt service carrying charges at 2.9% of expenditures and net direct debt that is 41.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 71.4% 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 it; and
- Strong institutional framework score.

Negative Outlook

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. Alternatively, if the town restores fund balance and maintains budgetary balance, we could revise the outlook to stable.

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.

Credit Opinion

Very strong economy

We consider Braintree's economy very strong. The primarily residential town, with an estimated population of 37,250, is in Norfolk County, about 13 miles south of Boston. It is 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 134% of the national level and per capita market value of $207,627. 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. Massachusetts Bay Transportation Authority's Red Line and several commuter rail lines also operate in the town, which is consequently well connected 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). 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.

Due to the sudden rapid economic deterioration, we incorporated the uncertain revenue and expenditure risk into our assessment of performance to account for these risks over the next one-to-two fiscal years. This assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures.

Our performance measures include adjustments for recurring transfers out of the general fund, as well as one-time capital purchases paid from bonds. 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 are expecting the town to produce approximately break-even results, which we reflected in our assessment of performance. It has taken 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 is incorporating a 50% decline in anticipated hotel tax revenues, 25% in meals taxes, 75% in interest income, and level funding state aid. Departments were asked to reduce budgets, and we understand a full council vote is expected on June 2. It is our expectation that towns across the state will face intergovernmental revenue pressure, which could pressure Braintree's budget. We believe the town could face pressure in returning balanced operations in 2021 and beyond, particularly if the economic downturn persists.

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, despite the decline in reserves in fiscal 2019. We believe management is adjusting the budget to limit any further deterioration in available reserves. Additionally, while we view Braintree's ability to raise revenues as limited given past voter resistance to tax increases, we do not believe this has yet crowded out other expenditures. The town proposed three overrides of its levy limit to fund capital projects and general operating expenses; all three were voted down. We understand management is planning to ask voters for a debt exclusion for the upcoming school construction project.

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 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. 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 the town has the cash on hand to smooth timing of revenues and we expect its liquidity profile to remain stable.

Adequate debt and contingent liability profile

In our view, Braintree's debt and contingent liability profile is adequate. Total governmental fund debt service is 2.9% of total governmental fund expenditures, and net direct debt is 41.9% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 71.4% 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 are its significant medium-term debt plans.

Following this issuance, Braintree has approximately $172 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. In addition, it could issue an additional $63 million for school projects, contingent on voters approving a Proposition 2-1/2 debt exclusion. We expect this issuance would weaken the overall debt profile and have incorporated this into our forward-looking view of the town's debt and liabilities 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. 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. 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. There was no pension funding progress 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 close, 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 except costs will continue to rise and 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