S&P Global
Ratings

RatingsDirect®

Summary:
Braintree, Massachusetts; General Obligation

Primary Credit Analyst:
Danielle L Leonardis, New York + 1 (212) 438 2053; danielle.leonardis@spglobal.com

Secondary Contact:
Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

Table Of Contents

Summary:

Braintree, Massachusetts; General Obligation

Credit Profile		
US$2.47 mil GO rfdg bnds due 10/15/2030		
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.'s series 2021 general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's existing GO bonds. The outlook is negative.

Braintree's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the GO debt. Braintree's unlimited tax bonds are not subject to 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 will be used to current refund a portion of the town's outstanding series 2011 GO municipal purpose loan.

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. Offsetting these strengths are the town's weakened financial position. Recent drawdowns in finances over the past two years, and not just attributed to the pandemic, have reduced reserves and flexibility. While the receipt of federal stimulus money should aid in restoring budgetary balance and reserves back to historical levels, and in-line with peers, we believe Braintree will likely continue to face short-term budgetary pressures despite management's adjustments in subsequent years' budgets. In our opinion, while fiscal 2021 is estimated to close with, at least, break-even operations, fiscal 2022 may, yet again be pressured with police and fire costs, already above budget and not pandemic-related; preventing the use of federal stimulus funds to offset. Lastly, the town has large unfunded retirement liabilities, and while costs remain manageable, we expect they will grow. In our opinion, if the town is not able to ensure future balanced budgets and improve reserve levels, the rating could be further pressured.

In our opinion, the rating reflects the town'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;
- Adequate budgetary performance, with an operating deficit in the general fund but break-even operating results at the total governmental fund level in fiscal 2020;
- Weak budgetary flexibility, with an available fund balance in fiscal 2020 of 7.7% 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 38.1% of total governmental fund expenditures and 9.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 3.9% of expenditures and net direct debt that is 64.4% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) 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 peers at the current rating within a timely manner, along with demonstrated ability to annually address recurring budgetary pressures in overtime and capital costs that have resulted in reserve drawdowns, we could lower the rating.

Return to stable scenario

Conversely, if the town were to make progress toward the restoration of fund balance and the maintenance of budgetary balance, we could revise the outlook to stable.

Credit Opinion

Very strong economy

We consider Braintree's economy very strong. The town, with an estimated population of 38,358, is located in Norfolk County in the Boston-Cambridge-Newton, Mass.-N.H. MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 128% of the national level and per capita market value of $208,107. Overall, the town's market value grew by 3.2% over the past year to $8.0 billion in 2021. The county unemployment rate was 8.3% in 2020.

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, Management has indicated that development continues at a brisk pace with several larger scale projects still on schedule for completion. We understand the town's vision is to move from a strong commercial and retail sector to a life-science destination over time. To that end, several existing sites are having their permits modified to make smooth transitions. 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 expected 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 and fiscal 2020 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; and
- Investments that adhere to commonwealth guidelines, and management reports to the town council quarterly.

Adequate budgetary performance

Braintree's budgetary performance is adequate in our opinion. The town had deficit operating results in the general fund of 2.2% of expenditures, but a balanced result across all governmental funds 0.3% in fiscal 2020.

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. The town has closed fiscal years 2019 and 2020 with notable drawdowns, which have reduced available reserves by almost 50% since 2018. Although the pandemic did negatively affect fiscal 2020's finances as certain economically sensitive revenues did not meet budget, less than conservative budgeting practices (such as the inclusion of 1x revenues and under-budgeting overtimes costs) have recently weakened the town's financial position and reserves. Nonetheless, we believe the receipt of additional federal stimulus money should aid in helping to restore budgetary balance. However unforeseen police and fire overtime costs (related to a police incident in fiscal 2021) could continue to pressure the budget in fiscal 2022 and perhaps beyond. While we do not have clear projection for fiscal 2021, we understand it is expected to close, at least, on a break-even basis.

The town closed fiscal 2020 with a $3.6 million drawdown, which followed a $3.2 million drawdown in fiscal 2019. Collectively, the drawdowns have been attributed to an anticipated property sale falling through ($1.30 million), along with over-expenditures in the golf course fund, police and firefighter overtime, labor contract negotiations and the use of reserves to fund capital projects. For fiscal 2020, declines in economically sensitive revenues (such as hotel and meal taxes and permits and fines) brought on by the pandemic also pressured expenditures. In addition, 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 billboard project, but the timing is uncertain. To date, the town has received $150,000 out of the $1.3 million of the property sale, with the remainder expected to be received in fiscal 2023, following an executed purchase of sale. However, slightly offsetting these pressures is the roughly $7.0 million the town has or will have received in federal stimulus money--much of which will be budgeted to spend in fiscal years 2021, 2022, and 2023 for approved purposes. We expect the town will make necessary and sustainable adjustments to subsequent budgets ensuring the restoration of reserves in a timely manner.

We understand fiscal 2021 will close, at least, on a break-even basis, if not with a modest surplus as revenues tracked slightly over budget and department turn backs were roughly $1.0 million. Free cash is expected to increase to $4.5 million from $3.1 million in fiscal 2020. We understand management is working directly with the police and firefighter chiefs to constrain overtime expenditures, and although a supplemental appropriation was required again in 2021, it was less than in the prior year. However, the town elected to use half of ARPA funds in the fiscal 2022 budget for revenue loss. The remainder ($2.0 million) is expected to be included in the fiscal 2023 budget.

The fiscal 2022 budget totals $170.65 million and is a 2.0% increase over fiscal 2021. It includes the use of almost $2.0 million (half of total amount allotted) in ARPA funds. The anticipated receipt of billboard revenues were not included in the budget. Management has further indicated that although not included in the budget, it will look to sell and rent vacant properties for additional revenues. Lastly, as a result of a police incident that occurred at the end of fiscal 2021, overall police and fire costs (including overtime) are expected to exceed budgeted costs. Given this incident is not pandemic-related, ARPA funds will not be available to be used. We understand the town is working on solutions to bridge the imbalance.

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 over the near term. However, we believe that Braintree will continue to monitor the budget and take the necessary, and perhaps unpopular, steps to return to balanced operations in the near term, especially given the receipt of the federal stimulus money. If the town has positive results, we believe budgetary performance could improve over the next one to two years. Should the town not be able to restore budgetary balance, the rating could be lowered.

Weak budgetary flexibility

Braintree's budgetary flexibility is weak, in our view, with an available fund balance in fiscal 2020 of 7.7% of operating expenditures, or $12.6 million. Negatively affecting budgetary flexibility, in our view, is limited capacity to raise revenues due to consistent and ongoing political resistance.

Although initially projecting a break-even year for fiscal 2020, the audited drawdown further weakened reserves to levels we now consider adequate. Further pressuring budgetary flexibility is our continued view of Braintree's limited ability to raise revenues given past voter resistance to tax increases. The town passed its first ever debt exclusion for schools in September of 2020, 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.

While we acknowledge the ongoing budgetary pressures and potential concerns for fluctuations in economically sensitive revenues, we believe management will continue to adjust the budget to limit any further material deterioration in reserves. In our opinion, while additional federal stimulus money should aid in this restoration, at least, over the near-term unforeseen police and fire costs and the inability to use stimulus money to cover these costs, may place further pressure on the town's softening reserves. Although we do not expect to see further deterioration in reserves over the next one to two years, if Braintree is not able to restore reserves back to levels commensurate with its peers, budgetary flexibility and the rating could face negative actions.

Very strong liquidity

In our opinion, Braintree's liquidity is very strong, with total government available cash at 38.1% of total governmental fund expenditures and 9.8x governmental debt service in 2020. 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 3.9% of total governmental fund expenditures, and net direct debt is 64.4% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor.

Following this issuance, Braintree has approximately $208 million of total direct debt outstanding, of which approximately $89 million we consider self-supporting enterprise debt. The town has $102 million of authorized, unissued debt. The town is preparing a comprehensive capital plan that calls for future issuances for schools and water and sewer issues. 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. Furthermore, school related issuances would likely be subject to a debt exclusion and eligible for approximately 56% state school construction grants. At this time, we do not expect future issuances to materially change the debt profile.

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, 2020, the town participated in the following plans:

- Braintree Contributory Retirement System: 69.3% funded, 99.4 million net pension liability.
- Single-employer defined-benefit health care plan: 6.67% funded, $145 million net OPEB liability.

Braintree's combined required pension and actual OPEB contributions totaled 9.1% of total governmental fund expenditures in 2020. Of that amount, 5.5% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town made its full annual required pension contribution in 2020. 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 except costs will continue to rise and will remain elevated. For more on our view of the state's pension plans and recent reforms, see "Pension Spotlight: Massachusetts," Oct. 14, 2020.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020