

## CREDIT OPINION

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New Issue

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## Brookline (Town of) MA

New Issue - Moody's Assigns Aaa to Brookline, MA's \$36.9M GOs; Outlook Stable

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Brookline, Massachusetts' \$36.9 million General Obligation Municipal Purpose Loan of 2017 Bonds. Moody's maintains the Aaa rating on approximately \$70 million of outstanding general obligation debt. The outlook is stable.

The Aaa rating reflects the sizeable and affluent tax base which benefits from strong property values and close proximity to New England's largest employment center. The rating also incorporates a stable financial position bolstered by formal fiscal policies and strong management. The rating also takes into account the low but increasing debt burden and manageable pension liability.

### Credit Strengths

- » Sizeable tax base with very strong wealth and income indicators
- » Comprehensive fiscal policies and planning
- » Long trend of stable financial operations
- » Taxpayer support for general levy limit overrides and debt exclusions

### Credit Challenges

- » Increasing capital needs driven by growing school enrollment
- » Limited operating flexibility under Proposition 2 ½

### Rating Outlook

The stable outlook reflects the favorably located tax base that will continue to experience residential growth. The outlook also incorporates the town's financial position that will remain stable going forward due to careful fiscal management and expectation that voters will continue to approve debt exclusions for growing capital needs.

### Factors that Could Lead to a Downgrade

- » Trend of operating deficits that result in a material decline in reserves
- » Material tax base contraction
- » Substantial increase in the debt burden

» Failure to address long-term pension and OPEB liabilities

## Key Indicators

Exhibit 1

| Brookline (Town of) MA  | 2012          | 2013          | 2014          | 2015          | 2016          |
|---|---------------|---------------|---------------|---------------|---------------|
| Economy/Tax Base  |               |               |               |               |               |
| Total Full Value (\$000)  | \$ 16,024,897 | \$ 16,264,277 | \$ 16,264,277 | \$ 17,051,417 | \$ 17,051,417 |
| Full Value Per Capita   | \$ 273,304    | \$ 276,895    | \$ 275,591    | \$ 288,362    | \$ 288,362    |
| Median Family Income (% of US Median)                                     | 229.8%        | 232.3%        | 221.4%        | 221.4%        | 221.4%        |
| Finances  |               |               |               |               |               |
| Operating Revenue (\$000)   | \$ 214,339    | \$ 224,539    | \$ 231,681    | \$ 232,769    | \$ 250,639    |
| Fund Balance as a % of Revenues   | 12.1%         | 12.1%         | 11.3%         | 10.5%         | 11.5%         |
| Cash Balance as a % of Revenues   | 14.7%         | 14.8%         | 14.9%         | 14.2%         | 16.2%         |
| Debt/Pensions   |               |               |               |               |               |
| Net Direct Debt (\$000)   | \$ 65,775     | \$ 65,078     | \$ 64,493     | \$ 61,105     | \$ 71,248     |
| Net Direct Debt / Operating Revenues (x)                                  | 0.3x          | 0.3x          | 0.3x          | 0.3x          | 0.3x          |
| Net Direct Debt / Full Value (%)  | 0.4%          | 0.4%          | 0.4%          | 0.4%          | 0.4%          |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)   | 1.1x          | 1.3x          | 1.4x          | 1.6x          | 1.5x          |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 1.4%          | 1.8%          | 2.0%          | 2.2%          | 2.2%          |

As of June 30 fiscal year-end

Full value = equalized value

Source: Moody's Investors Service; town's audited financial statements

## Detailed Rating Considerations

### Economy and Tax Base: Large and Affluent Residential Town Adjacent to Boston

Brookline's large \$20.9 billion tax base will remain stable with moderate growth over the medium term, given its favorable location, high value housing stock, and strong resident wealth levels. Located adjacent to the City of Boston (Aaa stable), the town benefits from its proximity to New England's largest economic center, which is directly accessible by public transportation. The town's assessed value has grown for nine consecutive years, including 10% in each of the last three fiscal years (2015-2017). Over the last 5 years the tax base has grown at a compound annual rate of 7.3%. Additionally, the equalized value increased a significant 22.8% over the 2 years from 2015 to 2017, which is stronger than most municipalities in the commonwealth. While the tax base is 90% residential, future new growth will continue to come from new commercial development, including hotels and commercial projects in the Brookline Village area. According to the long range forecast, the town conservatively estimates annual new growth between \$1.8 to \$3.7 million from fiscal 2018-2023. The estimates are updated annually as the budgets are finalized.

Median home values are four times the national median. Income levels are well above national medians with per capita and median family income representing 218% and 221% of the national medians, respectively. The town's unemployment rate of 1.5% (December 2016) remains well below those of the commonwealth (2.8%) and US (4.5%).

### Financial Operations and Reserves: Stability Will Continue Given Formal Policies and Conservative Long Range Planning

The financial position will remain healthy over the near term given the history of balanced operations, maintenance of adequate reserve levels, and commitment to addressing capital needs and long-term liabilities. The balanced operations are the result of comprehensive and formalized financial policies as well as conservative long range budget projections for operating and capital needs.

The fiscal 2016 audited financials reflect a \$3 million surplus after transfers of \$9.1 million out of the General Fund to the Capital Article Fund for specific capital projects. The available General Fund balance (assigned and unassigned) increased to \$28.8 million or 11.5% of revenues (including transfers in). The town has historically maintained General Fund reserves of 10-11% of revenues.

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Financial reserves will likely remain in this range over the near term. While these levels are narrow compared to the rating category's national median, they are adequate given the strong fiscal management and reliance on property taxes that consistently represent approximately 75% of revenues. Additionally, collection rates year-over-year continue to be strong with 99% collected within the year they are due.

The fiscal 2017 budget increased 4.3% due to education and employee benefits. The budget was balanced with a 4.6% tax levy increase, including the remaining portion of the May 2015 general override, and an increase in parking meter rates. Management reports that year-to-date revenues are strong, especially building permit fees and motor vehicle excise taxes, and most expenditures are stable. Management projects another surplus at year-end.

The balanced preliminary 2018 budget reflects an increase of 4.2% driven by salaries, health insurance and education (rising enrollment and special education costs). The budget was balanced with a 3.5% tax levy increase and additional non-tax revenue, with the town providing the additional non-tax revenue to support the schools.

The long range financial forecast (FY19-22) indicates manageable annual budget deficits of \$2.2 million in 2019 up to \$14.2 million in 2022, which average 2.6% of revenues over the four year period. The forecast continues to be conservative with a 3.3% average annual revenue increase and 4.5% average annual expenditure increase. The town has historically closed the gaps as the budget year approaches. Maintenance of the town's very stable financial position over the long term will likely require ongoing taxpayer support of general overrides and debt exclusions.

#### LIQUIDITY

Year-end cash has been very stable for the past several years and in 2016 totaled \$40.5 million, or 16.2% of revenues.

#### Debt and Pensions: Debt Buren Will Increase; Large but Manageable Pension and OPEB Liabilities

The net direct debt (including the current issuance) equals a below average 0.5% of equalized value. The debt burden will gradually rise over the next five to ten years given the rising cost of the Capital Improvement Plan (CIP) driven by school projects. Importantly, the expected debt burden will remain manageable based on current projections given the town's debt policy which incorporates funding sources and funding levels from debt, pay-go and reserves. The proposed fiscal 2018-2023 CIP totals \$115.8 million, an average of approximately \$19.3 million per year. The plan includes the debt exclusion for the Devotion School that is partially financed with the current issuance. The plan also includes two additional school projects that the town will take to referendum for debt exclusion. Following the current issuance, the town will have \$87.3 million in authorized unissued debt.

#### DEBT STRUCTURE

All debt is fixed rate with 68.6% repaid within ten years. Fiscal 2016 debt service represented a low 3.9% of expenditures.

#### DEBT-RELATED DERIVATIVES

Brookline is not party to any interest rate swaps or other derivative agreements.

#### PENSIONS AND OPEB

The town maintains and participates in the Brookline Contributory Retirement System, a multi-employer defined benefit retirement plan. The town annually funds its actuarially determined contribution, which was \$19.2 million, or 8% of General Fund expenditures, in fiscal 2016. The town plans to fully fund its pension liability by 2030, well in advance of the state mandate of 2040. The fiscal 2016 three-year average Moody's adjusted net pension liability, based on Moody's methodology for adjusting reported pension data, is \$383 million, or a moderate 1.5 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town has begun to more aggressively fund its other post-employment benefits (OPEB) obligation, and is working to fully fund its annual required contribution (ARC) by fiscal 2022. In 2016, Brookline contributed 80.5% of its OPEB ARC, representing \$14.4 million. The total Unfunded Actuarially Accrued Liability (UAAL) is \$280.7 million, as of the most recent actuarial report in June 30, 2016. Additionally, the town makes annual contributions to an established OPEB trust, which contributed to the funding ratio of 9.7% as of the latest valuation report. The town plans to add \$600,000 in fiscal 2018.

Fiscal 2016 total fixed costs including debt service, required pension contributions and retiree healthcare payments, represented \$42.9 million or 17.8% of expenditures.

### Management and Governance

Brookline adheres to conservative and comprehensive fiscal policies including multi-year forecasting for operations and capital needs as well as plans to address long-term liabilities.

Massachusetts Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts cities' major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

### Legal Security

Of the \$36.9 million total amount of the bonds, \$33 million are secured by the town's general obligation unlimited tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 1/2. The remaining bonds are secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from Proposition 2 1/2.

### Use of Proceeds

Bond proceeds will fund the Devotion School project and various other capital projects.

### Obligor Profile

Brookline, with a population of 59,100, is a sizeable residential community neighboring the City of Boston.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

### Ratings

Exhibit 2

#### Brookline (Town of) MA

| Issue   | Rating                         |
|---|--------------------------------|
| General Obligation Municipal Purpose Loan of 2017 Bonds | Aaa                            |
| Rating Type   | Underlying LT                  |
| Sale Amount   | \$36,925,000                   |
| Expected Sale Date                                      | 03/14/2017                     |
| Rating Description                                      | General Obligation Limited Tax |

Source: Moody's Investors Service

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