Brookline (Town of) MA

Update to credit analysis

Summary
Brookline, MA (Aaa, stable) has a sizeable and affluent tax base which benefits from strong property values and close proximity to New England's largest employment center. The town's stable financial position is bolstered by formal fiscal policies and strong management. Debt outstanding is low but increasing and pension liabilities remain manageable.

Credit strengths
» Sizeable tax base with very strong resident wealth and incomes
» 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 2½

Rating outlook
The stable outlook reflects the favorably located tax base that will continue to grow. The outlook also incorporates the town's financial position that will remain stable going forward due to careful fiscal management and the expectation that voters will continue to approve proposition 2½ 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 debt absent corresponding tax base growth
» Failure to address long-term pension and OPEB liabilities as planned
Key indicators

Exhibit 1

<table>
<thead>
<tr>
<th>Brooking (Town of) MA</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy/Tax Base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$16,264,277</td>
<td>$16,264,277</td>
<td>$17,051,417</td>
<td>$17,051,417</td>
<td>$20,944,753</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$276,895</td>
<td>$275,591</td>
<td>$288,362</td>
<td>$288,391</td>
<td>$354,239</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>232.3%</td>
<td>221.4%</td>
<td>207.7%</td>
<td>207.7%</td>
<td>207.7%</td>
</tr>
<tr>
<td><strong>Finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>$224,539</td>
<td>$231,681</td>
<td>$232,769</td>
<td>$250,639</td>
<td>$276,878</td>
</tr>
<tr>
<td>Fund Balance ($000)</td>
<td>$27,229</td>
<td>$26,120</td>
<td>$24,550</td>
<td>$28,845</td>
<td>$33,692</td>
</tr>
<tr>
<td>Cash Balance ($000)</td>
<td>$33,172</td>
<td>$34,432</td>
<td>$33,137</td>
<td>$40,526</td>
<td>$41,462</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>12.1%</td>
<td>11.3%</td>
<td>10.5%</td>
<td>11.5%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>14.8%</td>
<td>14.9%</td>
<td>14.2%</td>
<td>16.2%</td>
<td>15.0%</td>
</tr>
<tr>
<td><strong>Debt/Pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$65,078</td>
<td>$64,493</td>
<td>$61,105</td>
<td>$71,248</td>
<td>$99,188</td>
</tr>
<tr>
<td>3-Year Average of Moody’s ANPL ($000)</td>
<td>$289,830</td>
<td>$324,714</td>
<td>$373,012</td>
<td>$383,535</td>
<td>$409,408</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>0.3x</td>
<td>0.3x</td>
<td>0.3x</td>
<td>0.3x</td>
<td>0.4x</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Revenues (x)</td>
<td>1.3x</td>
<td>1.4x</td>
<td>1.6x</td>
<td>1.5x</td>
<td>1.5x</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>1.8%</td>
<td>2.0%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

As of June 30 fiscal year-end
Full value = equalized value
Source: Moody’s Investors Service; town’s audited financial statements

Profile

Brookline, with an estimated population of 59,132, is a sizeable residential community neighboring the city of Boston (Aaa stable).

Detailed credit 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. Located adjacent to the city of Boston, 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 ten consecutive years, with about 43% growth in just the last four years. Additionally, the equalized value increased a significant 22.8% over the 2 years from 2015 to 2017, among the strongest growth rates 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 fiscal 2019 budget proposal, the town conservatively estimates new growth revenues of $2.6 million.

Median home values are four times the national median. Resident incomes are well above national medians with per capita and median family income representing 205% and 208% of the national levels, respectively. The town’s unemployment rate of 1.8% (December 2017) remains well below the Massachusetts rate of 3.1% and US rate of 3.9%.


The financial position will remain healthy over the near term given the town’s 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 2017 audited financials reflect a $4.8 million surplus after transfers of $9.7 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 $33.7 million or 11.8% of revenues. This increase was due, in part, to higher than expected building permit revenues. The town has historically maintained General Fund reserves of 10-11% of revenues, which is in line with its reserve policies. 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 over 70% of revenues. Collection rates remain strong with 99% collected in the year in which they are due.

The fiscal 2018 budget increased 4.2% due to education and employee benefits, the town’s two largest expenses. The budget was balanced with a 3.5% tax levy increase and the final portion of the May 2015 general override. Management reports that year-to-date revenues are strong, and most expenditures are stable. Management projects another surplus at year-end.

The balanced preliminary 2019 budget reflects an increase of 4.7% driven by capital projects spending, debt service, salaries and benefits, and education (rising enrollment and special education costs). The budget was balanced with a 5.5% tax levy increase and the assumption that state aid would increase by about 6.3% over fiscal 2018. In May 2018, the town expects to vote on an override proposal, though any override benefit has not been projected in the fiscal 2019 budget.

The long range financial forecast (fiscal 2020-2023) indicates manageable annual budget deficits of $2.8 million in 2020 up to $14.0 million in 2023, which represents a structural gap of 2.9% revenue growth with 4.3% expenditure growth. We view the long range gap as evidence of conservative, realistic budgeting and note that 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 2017 totaled $41.5 million, or 14.6% of revenues.

Debt and Pensions: Debt Burden Will Increase; Large but Manageable Pension and OPEB Liabilities
Following the March 2018 debt issuance, net direct debt will equal to 0.8% of equalized value, which remains below the state and US averages. The debt burden will gradually rise over the next five to ten years given 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 2019-2024 CIP totals $126.9 million, or an average of approximately $21.2 million per year. The plan includes the debt exclusion for the Devotion School that was partially financed with March 2018 issuance. The plan also includes an additional school project that the town will take to referendum for debt exclusion in May 2018. Currently, the town has $62.8 million in authorized unissued debt, of which $39.3 million is expected to go toward school repairs and improvements.

DEBT STRUCTURE
All debt is fixed rate with 59.6% scheduled to amortize within ten years. Fiscal 2017 debt service represented a low 3.6% 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 single-employer defined benefit retirement plan. The town’s annual contribution in fiscal 2017 was $19.7 million or 7% of General Fund expenditures. The town plans to fully fund its pension liability by 2030, well in advance of the state mandate of 2040. The fiscal 2017 three-year average Moody’s adjusted net pension liability, based on Moody’s methodology for adjusting reported pension data, is $409 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 OPEB liability by fiscal 2046. In fiscal 2017, Brookline contributed $15.3 million toward its OPEB liability, of which $11.5 million went toward current benefit payments and the remaining $3.8 million went to the OPEB trust. In fiscal 2018, the town anticipates contributing $4.5 million toward the OPEB trust. That contribution is expected to increase marginally in fiscal 2019 to $4.6 million.

Fiscal 2017 total fixed costs including debt service, required pension contributions and retiree healthcare payments, represented $45.1 million or 16.1% 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.
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