MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Brookline MA's $8.4M GOLT Bonds; outlook stable

Global Credit Research - 09 May 2014

Affirms Aaa affecting $74.9M of outstanding debt

BROOKLINE (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2014 Bonds		Aaa
Sale Amount	$8,400,000	
Expected Sale Date	05/29/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NOTE: On May 15, 2014, the report was corrected as follows: In the heading and first sentence, the sale amount of the General Obligation Municipal Purpose Loan Bonds of 2014 was changed from $9.2M to $8.4M. Revised release follows.

NEW YORK, May 09, 2014 --Moody's Investors Service has assigned a Aaa rating with a stable outlook to the Town of Brookline's (MA) $8.4 million General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's has affirmed the Aaa rating assigned to the town's $74.9 million in outstanding general obligation bonds. The outlook remains stable. The bonds are secured by the town's general obligation limited tax pledge, as they have not been voted exempt from the levy limitations of Proposition 2 ½. Approximately $6.7 million of the bonds will be used to provide financing for various town, school, wastewater and golf course improvements.

SUMMARY RATING RATIONALE

The Aaa rating reflects the town's healthy financial position, demonstrated by historically balanced operations and adherence to formal fiscal policies. The rating also incorporates the town's sizeable and affluent tax base, which benefits from strong property values and close proximity to New England's largest employment center. Further the rating incorporates the town's modest debt position with moderate future borrowing plans.

The outlook remains stable, reflecting Moody's expectation that the financial position will remain healthy in the near term given a history of structurally balanced operations, adequate reserve levels, and proactive management. In addition, we expect that the town's tax base will remain stable, given its strong home values, affluent population, and proximity to a major metropolitan area.

STRENGTHS

-- Structurally balanced operations in each of the last six fiscal years

-- Strong financial policies and planning

-- Adequate reserve levels

-- Large, affluent tax base in close proximity to a major city

CHALLENGES

-- Rapidly growing school enrollment is increasing school capital needs

-- Sizeable liabilities for pension and OPEB

DETAILED CREDIT DISCUSSION

HEALTHY FINANCIAL POSITION EXPECTED TO REMAIN STABLE

Brookline's financial position is expected to remain healthy, given the town's history of structurally balanced operations, adequate reserve levels, and strong fiscal policies. The town finished fiscal 2013 with a modest $763,000 surplus, marking the sixth consecutive year of General Fund balance growth. The surplus was driven by greater-than-anticipated receipts in most revenue categories, as well as less than anticipated snow removal expenditures and some unspent salary appropriations. As in previous years, the fiscal 2013 budget included an appropriation of the town's free cash balance ($7.1 million), all of which was replenished. At the close of the fiscal year, the town's total General Fund balance increased to $27.2 million, or a healthy 11.6% of revenues, with unassigned General Fund balance increasing to $25.8 million, or 11% of revenues, compliant with the town's adopted policy to maintain unassigned fund balance above 10% of operating revenues.

The town's fiscal 2014 budget included a $7.7 million free cash appropriation. Approximately $4.8 million of the appropriation will be used to support pay-as-you-go capital needs, with the rest being used to fund one-time costs and additional appropriations to the pension and OPEB liabilities. Management reports that fiscal 2014 operations are performing well to date, with positive variances in most revenue and expenditure areas. The town overspent its snow and ice budget by approximately $1.7 million, and expects to absorb it with other unspent town appropriations and use of the town's operating budget reserve fund. The town anticipates balanced operations by year end with reserves at a similar level to fiscal 2013.

The fiscal 2015 budget is still in the planning phases, but the town expects to include the full 2.5% levy increase allowed under proposition 2 1/2. Expenditure drivers in the fiscal 2015 budget are primarily related to education which saw a 5% increase.

AFFLUENT TAX BASE REMAINS STABLE

Brookline's $16.3 billion tax base is expected to remain stable, given its proven resiliency through the overall decline in the region's real estate market and weak economic recovery. Located directly adjacent to the City of Boston (G.O. rated Aaa/stable), Brookline benefits from its location adjacent to New England's largest economic center, which is directly accessible by public transportation. The town has seen growth in assessed value in each of the last six fiscal years. The tax base has demonstrated resiliency through the economic downturn as seen in the five-year (2009-2014) average annual assessed value growth rate of 2.3%. Median home values in the town are over three times that of the Commonwealth, and over five times the national median. New growth in Brookline is expected to remain modest, with several mid-sized commercial developments underway. Brookline is zoned over 90% residential and wealth levels are well above national medians with per capita and median family income representing 227% and 222% of the nation, respectively.

MODEST DEBT PROFILE WITH FUTURE BORROWING PLANS; ONGOING CAPITAL PROGRAM FOCUSED ON SCHOOLS

The town's debt position will remain manageable, given modest net direct debt, rapid principal retirement, and substantial planned future borrowings. Incorporating the current issuance, the town's net direct debt burden remains slightly below the commonwealth median at 0.4% of full value. The town's debt burden increases to 2% when incorporating overlapping debt from Norfolk County (rated Aa2 stable), the Massachusetts Water Resources Authority (rated Aa1 stable) and the Massachusetts Bay Transportation Authority (rated Aa2 stable). The town's principal payout on outstanding debt is rapid, with 83.8% being retired within 10 years. The town has no variable rate debt or swaps, and is not party to any derivative agreements.

Brookline maintains an annually updated, five-year capital plan. The 2015-2020 plan includes approximately $150 million in future GO borrowing needs, primarily related to three school projects. The capital plan remains largely focused on expanding school capacity related to the rapidly growing student population in the town. Enrollment has grown approximately 15.8% from fiscal 2009 to fiscal 2014 (projected).

PENSION AND OPEB LIABILITIES EXPECTED TO REMAIN MANAGEABLE

The town maintains a multi-employer, defined benefit retirement plan. The town funded 100% of the annual required contribution (ARC) in 2013, representing $16.2 million, or just under 6.9% of General Fund expenditures. The town's 2013 combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $298 million, or a moderate 1.3 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 ARC by fiscal 2022. In fiscal 2012, the town funded 72% of the $17.1 million OPEB ARC, representing $12.3 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is $190 million, as of June 30, 2012. Favorably, this represents a significant decline from the 2010 and 2008 valuations which indicated a liability of $208 million, and $323 million, respectively.

OUTLOOK

The outlook remains stable, reflecting Moody's expectation that the financial position will remain healthy in the near term given a history of structurally balanced operations, adequate reserve levels, and proactive management. In addition, we expect that the town's tax base will remain stable, given its strong home values, affluent population, and proximity to a major metropolitan area.

WHAT COULD CHANGE THE RATING DOWN

-Significant reduction of General Fund Balance and free cash

-Deterioration of the town's tax base

-Substantial growth in debt burden beyond current expectations

-Failure to address long term pension and OPEB obligations

KEY STATISTICS

2014 Equalized Valuation: $16.3 billion

2014 Equalized Value Per Capita: $276,924

Median Family Income as % of US Median: 222%

Fiscal 2013 Fund balance as a % of Revenues: 11%

5-Year Dollar Change in Fund Balance as % of Revenues (2009-2013): 5.65%

Fiscal 2013 Cash Balance as % of Revenues: 14.2%

5-Year Dollar Change in Cash Balance as % of Revenues, adjusted (2009-2013): -1.33%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures (2009-2013): 1.01x

Net Direct Debt as % of Full Value: 0.52%

Net Direct Debt / Operating Revenues: 0.36x

3-Year Average of Moody's ANPL as % of Full Value: 1.85%

3-Year Average of Moody's ANPL / Operating Revenues: 1.38x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Thomas Compton
Lead Analyst
Public Finance Group
Moody's Investors Service

Robert Weber
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA