

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Brookline MA's \$4.4M GO bonds; outlook stable

Global Credit Research - 27 Mar 2015

Affirms Aaa on \$73.8M outstanding GO debt

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

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2015 Bonds	Aaa
Sale Amount	\$4,441,000
Expected Sale Date	04/07/15
Rating Description	General Obligation Limited Tax

Moody's Outlook STA

NEW YORK, March 27, 2015 --Moody's Investors Service has assigned a Aaa rating to the Town of Brookline's (MA) \$4.4 million General Obligation Municipal Purpose Loan of 2015 bonds. Concurrently, Moody's has affirmed the Aaa rating assigned to \$73.8 million in outstanding long-term general obligation debt. The outlook is stable.

SUMMARY RATING RATIONALE

Moody's highest long-term 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 which is supported by formal policies and strong management, as well as controllable liabilities for debt, pension, and OPEB.

OUTLOOK

The stable outlook incorporates our expectation that Brookline will maintain superior credit quality given an improving financial position and a large, favorably located tax base with strong resident wealth levels.

WHAT COULD MAKE THE RATING GO UP

- N/A

WHAT COULD MAKE THE RATING GO 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

STRENGTHS

- Stable financial operations
- Strong financial policies and planning

- Sizeable and affluent tax base in close proximity to a major city
- Manageable long-term liabilities for debt, pensions, and OPEB

CHALLENGES

- Rapidly growing school enrollment is increasing school capital needs

RECENT DEVELOPMENTS

Recent developments are discussed in the Detailed Rating Rationale below

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE WITH AFFLUENT RESIDENTIAL POPULATION

Brookline's large \$17 billion tax base is expected to remain stable, given its favorable location, high value of its housing stock, and strong resident wealth levels. Located adjacent to the City of Boston (Aaa stable), Brookline benefits from its location 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 seven fiscal years, increasing by a very strong 26% from 2008 through 2015.

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 at 90% residential and wealth levels are well above national medians with per capita and median family income representing 231% and 222% of the nation, respectively.

FINANCIAL OPERATIONS AND RESERVES: STABLE FINANCIAL POSITION SUPPORTED BY FORMAL POLICIES

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. Following six consecutive years of General Fund balance growth, the town finished fiscal 2014 with a \$1.7 million reduction of fund balance. The draw on fund balance was due to not fully replenishing an initial \$7.7 fund balance appropriation. On a budgetary basis, the town saw favorable variances for substantially all revenue and expenditure items, reflecting management's prudent budget management practices. At year end, Total General Fund balance fell to \$26.1 million, or 11% of revenues, while Unassigned General Fund balance fell to \$23.4 million, or 10% of revenues. At this level, the town remains compliant with the self-imposed policy to maintain unassigned fund balance at or above 10% of operating revenues.

The fiscal 2015 budget included a 2.8% increase in spending from the prior year and was balanced with a 3.7% increase in the levy. The budget also included a free cash appropriation of \$4.9 million. With approximately 3 months left in the fiscal year, management reports that most revenues and expenditure items are performing well. The one exception is the snow and ice budget which has been exceeded by roughly \$1 million. Application has been made to FEMA for extraordinary snow removal costs in the amount of \$3.4 million. The town anticipates recovering some of this cost through savings on other departmental expenditures, although another modest draw on reserves is expected at year end.

The fiscal 2016 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 costs. The budget will also include an estimated \$5 million appropriation of free cash.

Liquidity

Brookline's net cash position at the close of fiscal 2014 was healthy at \$34.4 million, representing 14.4% of revenues.

DEBT AND PENSIONS: MANAGEABLE LIABILITIES FOR DEBT, PENSION AND OPEB

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 1.5% when incorporating overlapping debt from Norfolk County (Aa2 stable), the Massachusetts Water Resources

Authority (Aa1 stable) and the Massachusetts Bay Transportation Authority (Aa2 stable).

Brookline maintains an annually updated, five-year capital plan. The 2015-2020 plan includes approximately \$178 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 19.2% from fiscal 2010 to fiscal 2015 (projected).

Debt Structure

All of Brookline's debt is fixed rate, and amortizes at an above average pace with 85.9% of principal being retired within 10 years.

Debt-Related Derivatives

Brookline has no derivatives.

Pensions and OPEB

The town maintains a multi-employer, defined benefit retirement plan. The town funded 104% of the annual required contribution (ARC) in 2014, representing \$17.9 million, or just under 7.5% 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 town's 2013 combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$378 million, or a moderate 1.7 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 2014, the town funded 82% of the \$17 million OPEB ARC, representing \$14 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.

MANAGEMENT AND GOVERNANCE

Massachusetts cities have an institutional framework score of 'Aa' or strong. The primary revenue source for most Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 ½ levy limit. Expenditures are largely predictable and cities have the ability to reduce expenditures.

Town management employs conservative budgeting and financial management as evidenced in stable reserve levels, formal fiscal policies, and long-term planning for capital expenditures.

KEY STATISTICS

- 2015 Equalized Valuation: \$17 billion
- 2015 Equalized Value Per Capita: \$289,688
- Median Family Income as % of US Median: 229.8%
- Fiscal 2014 General Fund balance as a % of Revenues: 11.27%
- 5-Year Dollar Change in Fund Balance as % of Revenues (2010-2014): 0.48%
- Fiscal 2014 Cash Balance as % of Revenues: 14.86%
- 5-Year Dollar Change in Cash Balance as % of Revenues, adjusted (2010-2014): -0.80%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 1.01x
- Net Direct Debt as % of Full Value: 0.41%
- Net Direct Debt / Operating Revenues: 0.3x

- 3-Year Average of Moody's ANPL as % of Full Value: 1.91%
- 3-Year Average of Moody's ANPL / Operating Revenues: 1.4x

OBLIGOR PROFILE

Brookline is a sizeable residential community located directly adjacent to the city of Boston. The town has an estimated population of 58,732.

LEGAL SECURITY

All of the town's outstanding debt is secured by a general obligation limited tax pledge, as debt has not been voted exempt from the levy limitations of Proposition 2 ½.

USE OF PROCEEDS

The bonds are being issued to finance various town capital needs.

PRINCIPAL 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.

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