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Summary:

Burlington, Massachusetts; General Obligation; Note

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Credit Profile

US\$13.75 mil GO Bans ser 2017B dtd 07/21/2017 due 07/20/2018		
Short Term Rating	SP-1+	New
US\$0.73 mil GO Taxable Bans ser 2017A dtd 07/21/2017 due 07/20/2018		
Short Term Rating	SP-1+	New
Burlington GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to the Town of Burlington, Mass' bond anticipation notes (BANs) payable July 20, 2018. At the same time, S&P Global Ratings affirmed its 'AAA' rating and stable outlook on Burlington's debt outstanding.

We rate Burlington higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2016, local property taxes generated 69% of revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.)

The short-term note rating reflects our criteria for evaluating and rating BANs. In our view, Burlington maintains a very strong capacity to pay principal and interest when the notes come due. The town maintains a market risk profile that we view as low. It also has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

A pledge of the town's full faith and credit, subject to the limitations of Proposition 2 1/2, secures the BANs and bonds outstanding. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to Burlington's flexibility under the levy limit. Proceeds will be used to build a new fire station, renovate the human services building, and construct a salt shed, among other uses.

The rating reflects our assessment of the following factors for the town:

- 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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level

in fiscal 2016;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.3% of total governmental fund expenditures and 8.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 3.7% of expenditures and net direct debt that is 44.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider Burlington's economy very strong. The town, with an estimated population of 26,228, is located in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 152% of the national level and per capita market value of \$222,904. Overall, the town's market value grew by 5.6% over the past year to \$5.8 billion in 2017. The county unemployment rate was 3.0% in 2016.

Burlington is 14 miles northwest of Boston, along Interstate 95/Route 128 and Route 3, providing good access to the major employment centers in the commonwealth and making the town an attractive location for large regional employers. The major employers in the town include the Lahey Clinic, a hospital (5,040 employees); Oracle/Sun (2,300); Siemens-Nixdorf Information (1,000); Avid Tech (800); and the Burlington Mall (750). The town has a very strong commercial tax base, with 40% of revenues coming from commercial entities. Furthermore, the tax base is diverse as the 10 leading taxpayers accounting for about 15.7% of assessed value. Recent developments include the expansion of Microsoft; the opening of an office for MilliporeSigma, a maker of life sciences equipment; and the construction of two new hotels.

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.

Strengths of the town's practices include:

- Strong revenue and expenditure assumptions in its budgeting process;
- Strong oversight in terms of monitoring its progress against the budget during the year; and
- A 10-year capital plan that is reviewed and reprioritized annually.

Multiyear financial forecasts are done informally. In July, the town is expecting to formalize a practice of maintaining 10% of revenues in a reserve fund. Under the soon-to-be-adopted policy the town will maintain stabilization reserves at 5% of operating revenues and unassigned general fund balance at 10% of general fund revenues. In the event that the balance falls below 5% percent of revenues, the town will seek to appropriate 25% of annual surplus until the balance is replenished. Burlington is also expecting to adopt a basic debt management policy. The town continues to maintain an investment policy, and holdings are reported to elected officials monthly.

Strong budgetary performance

Burlington's budgetary performance is strong in our opinion. The town had operating surpluses of 2.9% of expenditures in the general fund and of 2.8% across all governmental funds in fiscal 2016.

According to town officials, the surplus in the operating fund is a result of strong collections on economically sensitive revenue such as hotel and motor vehicle taxes and building permits. The positive operating result was also driven by expenditures that came in under budget across departments.

Management expects similar operating performance for 2017 as the local economy has continued to grow. The 2018 budget totals \$137.6 million, and is a 0.67% increase from the previous year. According to management, the largest change is related to additional fire department hires to improve response times for a growing tax base. Pension and OPEB expenses continue to rise, but officials say that short-term budget impacts can be mitigated by a large unused levy capacity and very strong reserve levels.

Burlington's leading revenue source is property taxes, at 69% of general fund revenues, and collections have been very healthy at 99% of the levy. State aid is the second-largest revenue source, at 12%, and we note the majority of those funds are Chapter 70 money that has traditionally been less volatile than other commonwealth revenue.

Given historical performance and no immediate budgetary pressures, we expect Burlington's operating performance to remain strong over our outlook period.

Very strong budgetary flexibility

Burlington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 27% of operating expenditures, or \$36.0 million.

The town has consistently produced robust operating results that, in turn, have improved operating flexibility in the past several years. Burlington is projecting available reserves to remain level or increase slightly with favorable performance anticipated for fiscal 2017.

Burlington is expected to adopt a new reserve policy in July, which will formalize past practices of maintaining reserves above 10% of operating revenues, and above 5% in a stabilization fund. Providing the town additional operating flexibility is its unused levy capacity, which totaled \$8.2 million in 2017, equivalent to 6% of expenditures. The town can use up to that amount without the need to seek an operating override under Proposition 2 1/2 constraints.

Very strong liquidity

In our opinion, Burlington's liquidity is very strong, with total government available cash at 32.3% of total governmental fund expenditures and 8.7x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

The town is a frequent issuer of GO debt. Burlington has no variable-rate or direct-purchase debt. As per the town's investment policy, Burlington's funds are restricted to government securities, savings accounts, and certificates of deposits, among other safe and liquid investment vehicles. We expect the town's liquidity profile to remain very strong.

Strong debt and contingent liability profile

In our view, Burlington's debt and contingent liability profile is strong. Total governmental fund debt service is 3.7% of total governmental fund expenditures, and net direct debt is 44.0% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, which is in our view a positive credit factor.

Burlington has about \$66.9 million of total direct debt outstanding. It expects to issue \$50 million over the next several years to pay for a new public works facility and its share of a high school renovation project, which could cost \$20 million. We do not expect the additional debt plans to change our assessment of the town's debt profile.

In our opinion, a credit weakness is Burlington's large pension and OPEB obligation. The town's combined required pension and actual OPEB contributions totaled 8.8% of total governmental fund expenditures in 2016. Of that amount, 5.3% represented required contributions to pension obligations, and 3.4% represented OPEB payments. The town made its full actuarial determined pension contribution in 2016. The funded ratio of the largest pension plan is 46.1%.

Burlington is a member of the Middlesex County Retirement System, a cost-sharing, multiple-employer, defined-benefit pension plan. For the year ended June 30, 2016, the town recognized a pension expense of \$10 million. As of June 2016, Burlington's proportionate share of the liability totaled \$104 million, based on a somewhat elevated discount rate of 7.875%. Pension expenses are expected to rise by 6.5% annually through 2024. We expect that Burlington will be able to manage these increases through new growth revenues, unused levy capacity and reserves; and that rising pension expenses shouldn't have a material impact on the town's creditworthiness in the near term.

The town also contributes to an OPEB plan, which it funds on a pay-as-you-go basis. The total unfunded liability was \$73.5 million as of December 2014. Town managers recently introduced a policy to pay down unfunded OPEB liabilities in 30 years. In fiscal 2016, they will make an initial payment under the policy of \$500,000; the payment will increase 9.3% per year. The current balance of the OPEB trust fund is \$5 million.

Strong institutional framework

The institutional framework score for Massachusetts is strong.

Outlook

The stable outlook reflects S&P Ratings' opinion of Burlington's very strong economy and strong management conditions, which have historically yielded strong budgetary performance. The outlook also reflects the town's very strong liquidity position and budgetary flexibility. Despite high pension and OPEB liabilities, we do not expect this to weaken performance or liquidity measures, as we consider the retirement costs manageable. Over time, if these costs were to increase and significantly affect budgetary performance and budgetary flexibility, the rating could be pressured. For now, steady economic development should continue, and cater to a stable budgetary environment. For these reasons, we do not expect to change the rating within the two-year outlook horizon.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.