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Summary:

Burlington, Massachusetts; General Obligation; Note

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$8.43 mil GO BANs ser 2013 dtd 07/26/2013 due 07/24/2014

Short Term Rating

SP-1+

New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' rating to Burlington, Mass.' bond anticipation notes (BANs) series 2013 that mature on July 25, 2014.

At the same time, Standard & Poor's affirmed its 'AA+' rating on Burlington's general obligation (GO) debt outstanding. The outlook on all bonds is stable.

The ratings reflect our assessment of the town's:

- Good location and tax base, with extremely high per capita market value of more than \$187,300;
- Very strong income levels, with median household effective buying income (EBI) above 160% of the national level;
- Strong reserve levels that Burlington has maintained at more than 10% of expenditures in the past six audited fiscal years; and
- Low debt burden, with rapid debt amortization and limited future capital needs.

The BANs are secured by the town's GO pledge. The short-term note rating reflects the town's low market risk profile as it presently holds the authorized 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. The BAN proceeds will be used to retire some BANs outstanding and for new money for additional capital projects.

We continue to view the economy as a key determinant of credit quality across the U.S. public finance sector in 2013 and 2014. Burlington, with a population of about 25,000, is located 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. According to IHS Global Insight Inc., professional and business services will continue to fuel the Boston regional economy, providing projected annual employment growth of 2.9% annually between 2013 and 2018. 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). Avid Tech recently relocated to Burlington. In addition, Keurig Inc., a coffee supply company, is relocating its headquarters to Burlington, which is expected to bring in 500 jobs. Due to the diverse local and regional employment base, the town's income levels are very strong, in our opinion, with median household EBI at 162% of the national level and per capita EBI equal to 150%. Burlington's unemployment rate was 4.6% in April 2013, better than commonwealth and national levels.

Home price data for the Boston metropolitan area have provided evidence that home prices are appreciating once again. The S&P/Case-Shiller index for Greater Boston has increased in seven out of the past eight months through December 2012, ending the period up 3.6% year-over-year. The town's overall assessed value (AV) increased for the second consecutive year by 1.4% to \$4.66 billion for fiscal 2013, following declines in fiscal years 2010 and 2011. Management expects AV trends to grow modestly in the near term. Burlington's market value is extremely strong, in our view, at \$187,300 per capita, reflecting the large commercial base. The town's commercial tax base comprises about 29% of total AV. The tax base is moderately concentrated, with the 10 leading taxpayers accounting for about 27% on the net tax levy, although they are only about 17% of AV, due to the town's dual residential/commercial tax rate. The Burlington Mall makes up about 6% of the net levy, with corporate office parks accounting for the majority of the additional taxpayers, but no other taxpayer constitutes more than 5% of the net levy. A commercial development broke ground at the beginning of the fiscal year and is expected to open closer to the end of calendar 2013; a Wegman's supermarket has signed a lease as an anchor tenant in that development. Town management estimates the full value of the project to be \$50 million.

Burlington has consistently produced robust operating results, with the strongest performances occurring in fiscal years 2012 and 2011. Fiscal 2012 closed with a general fund operating surplus, net of transfers, of \$4.1 million (3.3% of budget), bringing the town's total fund balance, on a Governmental Accounting Standards Board (GASB) Statement 54 basis, to \$24.5 million or 20.6% of expenditures, which we consider very strong; of the \$24.5 million, \$18.2 million is considered to be unassigned, or 15.2% of expenditures. In addition, Burlington had an assigned general fund balance of \$3.8 million, which represented encumbrances, and committed fund balance of \$2.4 million. Management attributes the fund balance increase primarily to higher local revenues for meals taxes and hotel taxes and to unexpended funds. The town's liquidity is also strong, in our opinion, with cash and equivalents totaling \$30.2 million in fiscal 2012, equivalent to 93 days' operating liquidity.

The fiscal 2013 budget totaled \$112.6 million and included an appropriation of \$1.6 million in general fund balance for nonrecurring capital projects, but none for operations. Management estimates the fiscal year closed with about a \$4 million operating surplus, which would bring Burlington's total available fund balance, on a GASB 54 basis, to \$28.9 million, or 24.3% of operating expenditures, a figure we consider very strong. Town officials attribute the favorable operating performance to local receipts coming in higher than budgeted, and department turn backs. The town's exposure to state aid is less than that of many other municipalities in the commonwealth, which is a credit strength due to the recent declines in such aid. State aid accounted for only 15.4% of general fund revenues in fiscal 2012 and real estate tax collections are Burlington's leading source of general fund revenues, at 68%. Tax collections remain strong, in our view, with current collections averaging 99% of the net levy in the past seven years. The fiscal 2014 budget totals \$116.7 million and includes a 4.4% increase in the tax levy, as well as \$2.8 million in free cash to fund the town's capital plan. The town also maintains \$2.5 million in unused levy capacity heading into fiscal 2014, which provides further operating flexibility.

Burlington's management practices are considered "good" under Standard & Poor's Financial Management Assessment, indicating that financial management practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

At the close of this issue, Burlington will have \$64.4 million in overall net debt outstanding. In our view, Burlington's overall net debt position is low at 1.4% of market value and moderate at \$2,586 per capita. The debt service carrying charge is also low at 3.1% of expenditures despite above-average amortization of 58.2% in the next 10 years and 100% by 2042. The town has \$26.9 million of authorized but unissued debt, but due to projected state support of about 50% of the \$21 million of school authorization, management doesn't expect the authorized debt to significantly increase the net tax levy debt. We understand the town is also guided by a 20-year capital improvement program, which management will continue to assess annually.

A long-term credit consideration is the town's pension and other postemployment benefit obligation (OPEB) liabilities. Burlington is a member of the Middlesex retirement system, which is only 47% funded as of Jan. 1, 2010, the latest valuation. The town's share of the system's unfunded liability is approximately \$74 million. However, Burlington has been making 100% of its annual required contributions (ARC), and the system is on pace to be fully funded by 2036, four years earlier than the state maximum funding schedule. The town's unfunded OPEB liability was \$128 million on a pay-as-you-go basis, as of Dec. 31, 2010, with an annual OPEB cost of \$8.4 million for fiscal 2012. The actual OPEB payment in fiscal 2012 was \$5.3 million, or 63% of the ARC. Total pension and OPEB contributions for fiscal 2012 represented 7.3% of total governmental activities. Burlington recently approved an OPEB trust fund, and officials deposited \$500,000 into the fund in fiscal 2013 and plan to continue making deposits of at least \$500,000 in future years. The trust fund balance is \$1.3 million as of May 30, 2013. The town's budgeted pension and OPEB contributions for fiscal 2014 are \$7.1 million and \$5.2 million, respectively. Together, these contributions total \$12.3 million, or 10.5% of the 2014 operating budget.

Outlook

The stable outlook reflects our view of the ongoing strength of the local economy, which benefits from its participation in the greater Boston metropolitan statistical area. The outlook also reflects Standard & Poor's expectation that town's stable tax base and strong tax collections will enable officials to maintain structural budget stability and a strong financial position. We could raise the rating over time if Burlington maintains its consistent financial performance, as well as continues to address its long-term liabilities.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- U.S. State And Local Government Credit Conditions Forecast, July 8, 2013

Ratings Detail (As Of July 12, 2013)

Burlington GO	AA+/Stable	Affirmed
Long Term Rating		

Ratings Detail (As Of July 12, 2013) (cont.)

Burlington GO BANs ser 2013 dtd 07/26/2013 due 07/24/2014

<i>Short Term Rating</i>	SP-1+	Affirmed
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Burlington GO

<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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