

RatingsDirect®

Summary:

Burlington, Massachusetts; General Obligation; Note

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Credit Profile		
US\$9.54 mil GO BANs dtd 07/25/2014 due 07/24/2015		
<i>Short Term Rating</i>	SP-1+	New
Burlington GO		
<i>Long Term Rating</i>	AAA/Stable	Upgraded
Burlington GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Burlington, Mass.' general obligation (GO) bonds to 'AAA' from 'AA+', based on its local GO criteria released Sept. 12, 2013.

At the same time, Standard & Poor's assigned its 'SP-1+' short-term rating to the town's bond anticipation notes (BANs) payable July 24, 2015.

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 what we view as a low market risk profile. The town 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 secures the bonds. Proceeds will refund BANs that are maturing as well as provide additional proceeds for various capital improvement projects.

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

- Very strong economy, which benefits from participation in the broad and diverse Boston metropolitan statistical area (MSA);
- Strong budgetary flexibility, with 2013 audited reserves at 21% of adjusted general fund expenditures;
- Strong budgetary performance, with another operating surplus projected for 2014;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions, with good financial policies; and
- Strong debt and contingent liabilities position, driven by Burlington's low overall net debt burden as a percent of market value; we do acknowledge that the town does maintain sizable pension and other postemployment benefit (OPEB) liabilities.

Very strong economy

Burlington's local economy is, in our view, very strong, with per capita market value at approximately \$189,600 and projected per capita effective buying income at 146% of the national average. Moreover, we believe residents benefit from participation in the broad and diverse Boston-Cambridge-Newton, Mass.-N.H. MSA, which we view as a credit strength.

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. 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, has relocated its headquarters to Burlington. County unemployment continues to fall. According to the Bureau of Labor Statistics, unemployment in Middlesex County was 5.6% in 2013.

Home price data for the Boston metropolitan area indicate that home prices are appreciating once again. The town's overall assessed value (AV) increased for the third consecutive year by 2.2% to \$4.7 billion for fiscal 2014.

Management expects AV to continue growing in the near term. 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. 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.

Strong management conditions

In our opinion Burlington's management conditions are strong, with "good" financial practices under our Financial Management Assessment 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 assessment 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 long-term capital plan that is reviewed and reprioritized annually.

Multiyear financial forecasts are done informally. The town also maintains an informal reserve policy limiting available fund balance (including stabilization reserves) to 10% of expenditures.

Very strong budgetary flexibility

Considering the town's available reserves were at 21.7% of operating expenditures in fiscal 2013, it is our opinion that Burlington's budgetary flexibility is very strong. Burlington has consistently produced robust operating results, which have in turn improved operating flexibility in the past several years. Fiscal 2013 closed with an unassigned fund balance of \$21.7 million and an assigned fund balance of \$5.2 million. The town is projecting available reserves to improve further into 2014, again a reflection of its recent budgetary performance.

Strong budgetary performance

We view Burlington's budgetary performance to be strong overall, with a surplus of 3.8% for the general fund and a surplus of 2.2% for the total governmental funds in fiscal 2013. The general fund surplus marks the town's sixth consecutive surplus and its third consecutive surplus above 3% of expenditures.

We believe the positive operating results have been due to an improving economy, bolstering local receipts, strong management conditions, and conservative budgeting of both revenues and expenditures. Burlington's leading revenue source is property taxes at 67% of general fund revenues, and collections have been very healthy at 98% of the levy. State aid is the second-largest revenue at 16%, and we note the majority of those funds are Chapter 70 money that has traditionally been less volatile than other commonwealth revenue.

We do anticipate Burlington's operating performance to remain strong as long as management remains prudent in managing future costs. Providing the town additional operating flexibility is its unused levy capacity, which totaled \$3.2 million, equivalent to 2.4% of expenditures. The town can use up to that amount without the need to seek an operating override under proposition 21/2 constraints.

Based on our macroeconomic forecasts (please see the article, titled "U.S. State And Local Government Credit Conditions Forecast," published April 7, 2014, on RatingsDirect), credit conditions in the New England region are improving slightly, which should cater to a stable budgetary environment. For fiscal 2014, Burlington is projecting balanced operating results in-line with previous fiscal years, and the fiscal 2015 proposed budget totals \$121 million, an increase of about 3.7% from the fiscal 2014 budget.

Very strong liquidity

In our opinion, very strong liquidity supports Burlington's finances, with total government available cash to government fund expenditures and cash to debt service at 27% and 6.5x, respectively.

Strong debt and contingent liabilities profile

In our view, Burlington's debt and contingent liabilities profile is strong, but the town maintains what we consider to be a large exposure to pension and OPEB liabilities; we believe the town is actively managing them, however.

Burlington has about \$61.5 million of total direct debt outstanding. Debt service is 4.1% of total governmental funds expenditures, and net direct debt is 43.7% of total governmental funds revenue. Overall net debt is 1.3% of market value, which we consider low.

In our opinion, although Burlington has taken steps to manage its long-term pension and OPEB costs, overall pension and OPEB liabilities remain high, in our view. Annual pension and OPEB costs accounted for 9% of the total government expenditures in fiscal 2013. For pensions, Burlington contributes to the Middlesex Retirement System, which is currently only 44% funded. In fiscal 2015, it has budgeted to contribute \$7.5 million toward the system, or 100% of its annual required contribution (ARC), and approximately 5.5% of expenditures. The town's estimated share of the liability is about \$91.5 million. The system is scheduled to fully fund the plan by 2035.

As for OPEB, in 2013 Burlington paid \$4.7 million, approximately 66% of the ARC. The unfunded actuarial accrued liability is approximately \$101.5 million and the ARC is approximately \$7.0 million. The town has established an OPEB trust fund to which it contributed \$500,000 in fiscal 2013. The current balance in the fund is \$1.9 million.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts municipalities as strong. See "Institutional Framework Overview: Massachusetts Local Governments," Sept. 12, 2013.

Outlook

The stable outlook reflects Standard & Poor's opinion of Burlington's very strong economy and strong management conditions that will likely translate to the town continuing to show strong budgetary performance. The stable outlook also reflects the town's very strong liquidity position and budgetary flexibility. Although Burlington maintains an adequate debt and liability profile, and despite high pension and OPEB liabilities, we do not anticipate weakened performance or liquidity measures, as those costs are currently 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 aid tax base growth and provide additional future tax revenue 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 Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments, Sept. 12, 2013

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