

RatingsDirect®

Summary:

Burlington, Massachusetts; General Obligation; Note

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

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Credit Profile		
US\$13.44 mil GO BANs due 04/28/2023		
<i>Short Term Rating</i>	SP-1+	New
US\$4.5 mil GO muni purp ln ser 2022 due 06/15/2042		
<i>Long Term Rating</i>	AAA/Stable	New
Burlington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Burlington GO BANs due 04/28/2023		
<i>Short Term Rating</i>	SP-1+	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Burlington, Mass.' approximately \$4.5 million 2022 general obligation (GO) municipal-purpose loan bonds and its 'SP-1+' short-term rating to the town's \$13.4 million series GO bond anticipation notes (BANs), maturing April 28, 2023. At the same time, we affirmed our 'AAA' rating on the town's existing GO debt and our 'SP-1+' rating on its GO BANs outstanding. The outlook, where applicable, is stable.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds and BANs. We rate the limited-tax GO debt on par with our view of Burlington's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource-fungibility limitations, supporting our view of the town's overall ability and willingness to pay debt service.

Officials intend to use the series 2022 bond proceeds to make road improvements and for Phase II of the project to connect Burlington's water supply to the Massachusetts Water Resources Authority (MWRA). The 2022 BAN proceeds will be used for the MWRA water connection project, a public safety communication network, sewer reconstruction, and a per- and polyfluoroalkyl substance (PFAS) filter addition to Mill Pond. The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Burlington maintains a very strong capacity to make principal and interest payments when BANs come due. The town has what we view as a low market-risk profile because it 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.

Credit overview

The rating reflects our view of the town's very strong economy and stable financial operations over the past few years, including during the pandemic. Burlington has maintained a very strong reserve profile due to management's ability and willingness to make budgetary adjustments to maintain financial balance. The stable outlook reflects our view of its strong financial management conditions, as we believe management will continue to make the necessary budgetary

adjustments to maintain balanced operations and will continue to manage its retirement liabilities and costs, which we view as a long-term rating pressure. Therefore, we do not expect to change the rating during our outlook period.

Under our "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" criteria, published Nov. 19, 2013, on RatingsDirect, we rate Burlington higher than the nation because we think the town can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. The town's primary revenue source is local property taxes, demonstrating a lack of dependence on central government revenue.

The long-term rating further reflects our view of Burlington's:

- Very strong economy, with access to the Boston-Cambridge-Newton broad and diverse metropolitan statistical area (MSA);
- Conservative financial management, with good financial policies and practices;
- Strong budgetary performance and flexibility, with consistent positive operating results and robust reserve levels;
- Manageable debt and contingent liability profile, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance

We analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If financial performance deteriorates, leading to a continuous reduction of reserves and weakening of budgetary flexibility, or its retirement costs continue to increase and pressure the town's finances and reserve levels, we could lower the rating.

Credit Opinion

Strong local economy with mix of commercial and residential growth

The town of Burlington is in Middlesex County, about 14 miles northwest of Boston, and has an estimated population of 26,846. Burlington is along Interstate 95 and Routes 128 and 3, providing good access to the major employment centers in the state and making the town an attractive location for large regional employers. The town has a very strong commercial tax base, with 33% of its assessed value (AV) made up of commercial properties. Management is working to expand and diversify its commercial tax base, and reports that commercial office space is being repositioned for current and future development in life sciences. A series of commercial development projects have

recently concluded or are underway, including a \$100 million redevelopment at the town's mall and new construction at Northwest Park that has already been fully tenanted. There are also various residential developments underway, with 300 units of multifamily housing permitted and about half of those units currently under construction.

We expect the town will continue to see both residential and commercial development, leading to growth in the tax base and stability in its underlying wealth and income metrics.

Conservative and strong financial management

Burlington has demonstrated strong financial management, with many formal financial policies in place, to which it has historically adhered. The town uses conservative revenue and expenditure assumptions in its budget process, as well as a five-year historical trend analysis to formulate the budget. Management maintains strong oversight in monitoring the budget, makes regular adjustments as needed, and reports budget-to-actuals on a quarterly basis at town meetings. A 10-year capital plan is reviewed and updated on an annual basis.

Multiyear financial forecasts are done informally. The town adopted a formal reserve policy in 2017 that limits unassigned reserves to no less than 10% of revenues and maintains stabilization reserves at a minimum 5% of operating revenues, to which it has adhered. If the balance falls below 5% of revenues, management will seek to appropriate 25% of annual surplus until the balance is replenished. Burlington also has a basic formal debt management policy and maintains an investment policy, with monthly reporting of holdings and earnings to elected officials.

Consistent positive operating performance bolstered by strong reserve levels

We adjusted the town's budgetary performance to reflect recurring transfers and large, one-time capital expenditures. Local property taxes accounted for about 71% of 2021 audited general fund revenues, helping support a predictable revenue base. The town takes a generally conservative budgeting approach that has produced consistent surplus operational results over the past five fiscal years.

The town ended fiscal 2021 with an adjusted surplus operating result of approximately \$2.6 million, which management attributes primarily to better-than-budgeted revenue collections and department returns of unspent appropriations. The majority of pandemic-related expenses were also reimbursed with available federal funds, which provided additional flexibility.

The town's fiscal 2022 budget totals approximately \$153 million and restored many of the fiscal 2021 cuts, including the OPEB trust contribution. Management did not make any major adjustments in revenue and expenditure assumptions while formulating the budget and maintained conservative budgeting practices. We understand both revenue collections and expenditures are on track compared with budget, and the town expects to end the fiscal year with a positive operating result.

Burlington has been allocated \$8.5 million from the American Rescue Plan Act (ARPA) and has made funding allocations for about one-third of the funds. We understand the town intends to use \$1.5 million over three years to help offset local revenue in local receipts and plans to use \$1 million to address a backlog in mental health and youth and family service caseloads that were affected by the pandemic. Lastly, the town is considering the viability of using the remaining funds to offset water infrastructure project costs, but a final decision has not yet been made.

We expect management to continue to adjust its budget to maintain balance, leading to sustained strong budgetary performance. The town has consistently produced robust operating results that, in turn, have improved operating flexibility in the past several years. We do not expect a material change in reserves. Burlington adopted a formal reserve policy that maintains unassigned fund balance above 10% of operating revenues, and its stabilization fund above 5%. The town has unused levy capacity, which has steadily increased by more than \$6 million since fiscal 2016 to \$11.8 million in fiscal 2022, equivalent to 7% of audited 2021 expenditures. It can use up to that amount without the need to seek an operating override under Proposition 2 1/2 constraints. According to officials, the town does not plan to draw down on this in the near term and will continue to increase the levy to offset any potential significant increases in expenditures or unexpected revenue shortfalls.

Manageable debt profile with moderate medium-term debt plans

Following this issuance, Burlington will have about \$101 million in debt outstanding. We anticipate the town will continue to issue new-money debt as necessary for capital projects, but generally expect debt ratios to remain constant. We do not expect to revise our view of the debt profile during the outlook period.

Elevated pension and OPEB liabilities that are likely to grow

- In our opinion, a credit weakness is Burlington's large pension and OPEB obligation. We believe the low pension-funded ratio, permissive assumptions, and large OPEB liability collectively result in a liability profile likely to pressure the operating budget, particularly if assumptions are not met.
- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as weak assumptions and methodologies, which we believe increases the risk of unexpected contribution escalations.
- Although management pays OPEB costs on a pay-as-you-go basis, it is prefunding a trust. However, due to claims volatility and medical cost and demographic trends, pay-as-you-go costs are likely to lead to escalating costs. The town has legal flexibility to alter OPEB, which we view as a potential means of mitigating escalating costs.

The town participates in the following plans:

- Middlesex County Retirement System (MCRS): 53.4% funded, with a \$133 million net pension liability.
- Burlington's defined-benefit, OPEB health care plan, which is 11% funded, with an unfunded OPEB liability of about \$103 million.

Burlington made its full required pension contribution in 2021, as it does annually. There is an actuarial plan in place to reach full pension funding. Total plan contributions are expected to increase by approximately 6.5% through fiscal 2028, with smaller projected increases through projected full funding in 2037, due to an increasing amortization basis. Burlington's actual contributions will likely differ from the contribution growth rate of the plan as a whole, but overall, we expect costs to increase. Full funding is expected within a closed 16 years, which we view positively. However, despite revising the discount rate and assumed rate of return to 7.3%, we see some risk of market volatility due to the elevated rate. For more on our view of the state's pension plans and recent reforms, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020.

The town also contributes to an OPEB plan. It set up a trust fund to prefund its OPEB liability, supported by a funding

policy that increases the amount contributed to the fund by 9.3% annually. The town did not make a contribution in fiscal 2021 due to the pandemic, but has budgeted and expects to make a full contribution in fiscal year 2022. We expect that it will generally adhere to its OPEB trust funding policy.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Burlington--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	160			
Market value per capita (\$)	296,140			
Population		26,846	26,672	
County unemployment rate(%)		7.3		
Market value (\$000)	7,950,163	7,672,263	7,446,196	
Ten largest taxpayers % of taxable value	0.0			
Strong budgetary performance				
Operating fund result % of expenditures		1.4	1.0	2.4
Total governmental fund result % of expenditures		3.3	3.4	5.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		27.5	27.3	27.3
Total available reserves (\$000)		46,595	44,907	43,137
Very strong liquidity				
Total government cash % of governmental fund expenditures		51	30	29
Total government cash % of governmental fund debt service		1556	880	891
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.3	3.4	3.3
Net direct debt % of governmental fund revenue	50			
Overall net debt % of market value	1.2			
Direct debt 10-year amortization (%)	40			
Required pension contribution % of governmental fund expenditures		5.8		
OPEB actual contribution % of governmental fund expenditures		3.2		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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