

RatingsDirect®

Summary:

Burlington, Massachusetts; General Obligation; Note

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Summary:

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Credit Profile

US\$11.39 mil GO mun purp ln ser 2015

Long Term Rating

AAA/Stable

New

US\$0.75 mil GO BANs ser 2015

Short Term Rating

SP-1+

New

Burlington GO

Long Term Rating

AAA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Burlington, Mass.' general obligation (GO) 2015 bonds and affirmed the 'AAA' rating, with a stable outlook, on the town's existing GO debt.

At the same time, Standard & Poor's assigned its 'SP-1+' short-term rating to the town's bond anticipation notes (BANs) payable July 22, 2016.

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. 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 and BANs. Proceeds will be used to fund capital improvements at the middle school and high school, road work and water main improvements, a land acquisition, and to refund the 2005 bonds for an estimated present value savings of \$175,000.

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 methodology;
- Strong budgetary performance, with an operating surplus in the general fund and balanced operating results at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash of 28.3% of total governmental fund expenditures and 6.8x governmental debt service, and access to external liquidity we consider strong;

- Strong debt and contingent liability position, with debt service carrying charges at 4.2% of expenditures, net direct debt that is 37.5% of total governmental fund revenue, and low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Very strong economy

We consider Burlington's economy to be very strong. The town, with an estimated population of 25,590, is located in Middlesex County in the Boston-Cambridge-Newton, Mass.-N.H. MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 150% of the national level and a per capita market value of \$206,710. Overall, the town's market value grew by 11% over the past year to \$5.3 billion in 2015. The county unemployment rate was 4.6% in 2014.

Burlington 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). Recent developments include a planned expansion of the Lahey Clinic, which will add 210,000 square feet of space to become a Level One clinic with a new emergency center, and it may introduce a cancer center. Keurig Green Mountain and Wegmans Supermarket both began operations in Burlington in 2014. In addition, the town welcomed several new restaurants.

Home price data for the Boston metropolitan area indicate that they are appreciating once again. The town's overall assessed value (AV) increased for the fourth consecutive year. Management expects AV to continue growing in the near term. The town's commercial tax base constitutes about 29% of total AV. The tax base is diverse, with the 10 leading taxpayers accounting for about 18% of AV.

Strong management

We view the town's management as strong, with "good" financial policies and 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 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 long-term capital plan that is reviewed and reprioritized annually.

Multiyear financial forecasts are done informally. The town also maintains an informal reserve policy with a minimum fund balance of 10% of expenditures. The town does not have a debt policy, but it does have 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 surplus operating results in the general fund of 3.5% of expenditures, and balanced results across all governmental funds of negative 0.4% in fiscal 2014. General fund operating results of the town have been stable over the past three years, with a result of 3.8% in 2013 and

2.9% in 2012.

According to town officials, the surplus in the operating fund is a result of strong collections on local receipts and of the motor vehicle excise tax. The balanced result across governmental funds accounts for one-time expenditures for school construction and public works that will be paid for with bond proceeds, which we subtracted from total governmental fund expenditures for this analysis. Management expects similar operating performance for 2015 despite a challenging winter that resulted in \$700,000 of cost overruns in the snow and ice removal accounts. 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 source, at 15%, and we note the majority of those funds are Chapter 70 money that has traditionally been less volatile than other commonwealth revenue. The fiscal 2016 budget is balanced with an estimated increase in appropriations of 3.86%.

Very strong budgetary flexibility

Burlington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 25% of operating expenditures, or \$32.7 million.

Burlington has consistently produced robust operating results, which have, in turn, improved operating flexibility in the past several years. The town is projecting available reserves to remain level or increase slightly with favorable performance anticipated for fiscal year 2015. Burlington maintains an informal reserve policy to keep reserves above 10% of operating expenditures, which it has historically adhered to. Providing the town additional operating flexibility is its unused levy capacity, which totaled \$4.3 million, equivalent to 3.4% of expenditures. The town can use up to that amount without the need to seek an operating override under Proposition 21/2 constraints.

Very strong liquidity

In our opinion, Burlington's liquidity is very strong, with total government available cash of 28.3% of total governmental fund expenditures and 6.8x governmental debt service in 2014. 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 its investment policy, the town'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 4.2% of total governmental fund expenditures, and net direct debt is 37.5% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, which is, in our view, a positive credit factor.

Burlington has about \$55.6 million of total direct debt outstanding. The town has limited immediate capital needs, but management expects to issue an additional \$3.5 million to complete a senior and recreation center renovation. They also expect to issue the town's share of a school project, which they anticipate will be near \$10 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 liability. Burlington's combined pension and OPEB contributions totaled 9.1% of total governmental fund expenditures in 2015. Of that amount, 5.1% represented

contributions to pension obligations and 4.0% represented OPEB payments. The town made its full annual required pension contribution in 2015. The pension funded ratio is 44.0%.

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. As of July 2015, the town had \$4 million in an OPEB trust fund. The unfunded liability decreased from to \$73 million in 2015 from \$102 million due to a higher discount rate and a shift to a high deductible health plan.

Strong institutional framework

The institutional framework score for Massachusetts is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Burlington's very strong economy and strong management conditions, which 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. 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, aid tax base growth, 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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of July 1, 2015)

Burlington GO

Unenhanced Rating

AAA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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