

RatingsDirect®

Summary:

Burlington, Massachusetts; General Obligation

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US\$22.65 mil GO mun purp loan bnds ser 2020 due 07/15/2049

Long Term Rating AAA/Stable New

Burlington GO

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Burlington, Mass.' series 2020 general obligation (GO) municipal purpose loan bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

Under our "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" criteria, published Nov. 19, 2013, 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 are at limited risk of negative sovereign intervention. In 2019, local property taxes generated 69% of revenue, which demonstrated a lack of dependence on central government revenue.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. 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.

We understand officials intend to use the series 2020 bond proceeds to permanently finance existing short-term debt, provide funding for a department of public works facilities project, and refund the town's series 2007, 2009, and 2010 GO bonds.

Credit overview

The rating reflects our view of the town's very strong economy and stable financial operations over the past few years, which have led to continued improvements in reserve levels. While the overall impact of COVID-19 remains to be seen, we expect the state's and the town's economy will experience slower growth as a result of recessionary pressures that could lead to a decrease in local and state revenues and potentially strain finances. However, the stable outlook reflects our view that given its strong management conditions, the town will continue to make the necessary budgetary adjustments in order to maintain balanced operations and will continue to manage its retirement liabilities and costs, which we view as long-term rating pressure. Therefore, we do not expect to change the rating during our outlook period.

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

- 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;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.2% of total governmental fund expenditures and 8.9x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 3.3% of expenditures and net direct debt that is 37.6% 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 benefits (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We analyzed the town's environmental, and governance 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 less 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

Very strong economy

We consider Burlington's economy very strong. The town, with an estimated population of 25,634, is 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 158% of the national level and per capita market value of \$290,481. Overall, the town's market value grew 12.6% over the past year to \$7.4 billion in 2020. The county unemployment rate was 2.7% in 2018.

Burlington is 14 miles northwest of Boston, 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. Burlington's major employers include the Lahey Clinic, Oracle, Siemens-Nixdorf Information, Avid Tech, and the Burlington Mall. The town has a very strong commercial tax base, with 33% of its assessed value (AV) made up of commercial properties. Furthermore, the tax base is diverse as the 10-leading taxpayers account for about 14.9% of AV.

Burlington continues to see development across different parts. Millipore Sigma, a global life science company, opened its new headquarters in the town in 2017 and completed a new facility. Other businesses, such as Desktop Metals and Vulcan, two 3-D printing companies, have expanded operations while several smaller businesses have either begun operations or expanded as a result of growth in Lahey Clinic--the town's largest employer. Officials indicate The District and Third Avenue development areas continue to grow and thrive and The Simon Company has begun renovations at the former Sears site at the Burlington Mall, which will add retail/restaurant space for the future. There are also various residential developments underway including two 300-unit, high-end luxury apartment buildings.

While we expect the town's economy to will likely remain relatively stable, we believe its economic metrics could weaken during the next few years due to regional and national economic trends and recessionary pressures related to COVID-19. (For more information, read "An Already Historic U.S. Downturn Now Looks Even Worse" published April 16, 2020, on RatingsDirect).

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, in our view, 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. 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, which the town has adhered to. In the event that the balance falls below 5% of revenues, the town 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.

Adequate budgetary performance

The town had operating surpluses of 2.9% of expenditures in the general fund and of 5.1% across all governmental funds in fiscal 2019. Although the town's budgetary performance has been stable the past few years, our assessment considers our view of the town's future budgetary results over the next two years could deviate from previous years due to recessionary pressures and economic and financial uncertainty related to COVID-19.

Fiscal 2019 include adjustments for one-time capital expenditures paid for with bond proceeds and recurring transfers.

According to management, fiscal 2020 budget-to-actuals are relatively on target and it expects to end the year with balanced operations. Although Burlington expects some lower-than-budgeted local receipts such as meals and hotel taxes as a result of COVID-19, the town believes it has budgeted conservatively enough that it should not have a material impact on finances. In addition, the town has implemented a spending freeze on non-essential services and

purchases and has not had any large COVID-19 expenses so far this fiscal] year. The town has also received a majority of its property and excise taxes and currently is not experiencing any major delays or delinquencies from these revenues. Burlington's leading revenue source is property taxes, at 69% of general fund revenues, and collections have been very healthy at 99%. State aid is the second-largest revenue source, at 13%, and the majority of those funds are Chapter 70 money that has traditionally been less volatile than other state revenue.

The town experienced three-consecutive general surpluses from fiscal 2017-2019, which management indicates has been primarily due to the town's conservative budgeting. In fiscal 2019, the town experienced higher-than-budgeted revenues including building permit revenues, hotel and meal taxes, as well as property taxes coupled with cost savings across different areas of its budget.

For fiscal 2021, while the town continues to work on its fiscal 2021 budget, officials are evaluating their assumptions and projections for the upcoming year. The town plans to budget state revenues and local receipts at flat levels compared with the previous year. In addition, it expects the budget to increase by only 3.5% between the town and school department coupled with a tax increase of approximately 5.0%. While management will continue to adjust the budgets as conditions change, officials indicate the town will seek to make budgetary adjustments on the expense side before considering using reserves, in the event of any unanticipated shortfalls in state or local revenues in fiscal 2021. Therefore, although we think the town should maintain stable finances during the next two fiscal years, we imagine the unprecedented widespread effects of COVID-19 will impair state revenue and many local economies, including Burlington, which could potentially result in weaker budgetary performance for fiscal 2021 and beyond. If management maintains balanced financial results during the next two fiscal years, or until we think the threat of stagnating or decreasing revenue due to negative economic shocks has subsided, we could revise our view of budgetary performance to strong.

Over the long-term, although Burlington is managing its pension and OPEB costs, we expect these costs to increase and stress the budget given the low funded ratios and large liabilities. However, management indicates it will control these costs by adjusting the town's tax rate and levy accordingly, and mitigate any short-term budget impacts by continuing to build its unused levy capacity, improve reserves, and continue to fund its OPEB trust.

Very strong budgetary flexibility

Burlington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 27% of operating expenditures, or \$43.1 million.

The town has consistently produced robust operating results that, in turn, have improved operating flexibility in the past several years. The town does not expect to draw down on reserves by fiscal year-end fiscal 2020 or 2021.

Burlington has also adopted a formal reserve policy that maintains unassigned fund balance above 10% of operating revenues, and its stabilization fund above 5%. Providing the town additional operating flexibility is its unused levy capacity, which has steadily increased by more than \$6 million since fiscal 2016 to \$12.7 million in fiscal 2020, equivalent to 8.6% of expenditures. The town can use up to that amount without the need to seek an operating override under Proposition 2 1/2 constraints. According to officials, the town does not plan to draw down on this in the near term and will continue to increase the levy in order to offset any potential significant increases in expenditures or unexpected revenue shortfalls.

Very strong liquidity

In our opinion, Burlington's liquidity is very strong, with total government available cash at 29.2% of total governmental fund expenditures and 8.9x governmental debt service in 2019. 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. The town does not anticipate any liquidity issues over the next few months and does not plan to issue any cash flow notes. Therefore, 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 3.3% of total governmental fund expenditures, and net direct debt is 37.6% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, which is in our view a positive credit factor.

With this issuance, the town will have about \$66 million in total direct debt. Management expects to issue approximately \$6.5 million in additional debt over the next two-to-three years for various capital improvement projects. We don't expect the additional debt plans to change our assessment of the town's debt profile.

Pension and OPEB

- 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 that will likely 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 increase the risk of unexpected contribution escalations.
- Although management funds OPEB liabilities on a pay-as-you-go basis, which, due to claims volatility and medical-cost and demographic trends, are likely to lead to escalating costs, the town has legal flexibility to alter OPEB, which we view as a potential means to mitigate escalating costs.

As of June 30, 2019, the town participates in the following plans:

- Middlesex County Retirement System (MCRS): 46.4% funded with a \$127 million proportionate share of the net pension liability.
- Burlington's defined-benefit, OPEB health care plan, which is 7.57% funded, with an OPEB liability of about \$100.4 million.

Burlington's combined required pension and actual OPEB contributions totaled 9.5% of total governmental fund expenditures in 2019. Of that amount, 5.6% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The town made its full annual required pension contribution in 2019.

Funding progress was not made in the most recent year, as contributions fell short of static funding. There is an

actuarial plan in place to reach full funding and contributions are expected to increase by approximately 6.5% through fiscal 2024 and then 4.0% each year thereafter, due to an increasing amortization basis. Full funding is expected within a closed 17 years. With a discount rate of 7.5%, we see some risk of market volatility, but primarily the risk of cost escalation is due to a faster-than-payroll increasing contribution schedule that aggressively defers contributions.

The town also contributes to an OPEB plan. The total unfunded liability was \$100.4 million as of fiscal 2019. The town has set up a trust fund for its OPEB liability, with a balance of \$8.2 million as of fiscal 2019. It also has a policy for funding OPEB that increases the amount contributed to the fund by 9.3% annually. Officials indicate the town contributed about \$1.2 million towards the fund in fiscal 2020 and its balance as of March 2020 stood at \$8.9 million.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

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