

RatingsDirect®

Summary:

Brockton, Massachusetts; General Obligation; Non-School State Programs

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Summary:

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Credit Profile

US\$7.26 mil GO st qual rfdg bnds due 06/01/2025

<i>Long Term Rating</i>	AA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Negative	New

Brockton GO

<i>Unenhanced Rating</i>	AA-(SPUR)/Negative	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and 'AA-' underlying rating to the City of Brockton, Mass.' general obligation (GO) state qualified municipal purpose loan of 2015 municipal refunding bonds. The outlook on the long-term rating is stable and the outlook on the underlying rating is negative.

Standard & Poor's also affirmed its 'AA-' rating, with a negative outlook, on the city's GO debt outstanding.

In June 2014, Standard & Poor's revised its outlook on Brockton's GO bonds to negative from stable, reflecting the city's weak budgetary performance and declining general fund balance position. We believe Brockton continues to face an ongoing budget gap that has resulted in a steady decline in its available reserve position. If city officials continue to use fund balances in lieu of implementing a plan to restore structural balance, we could lower the rating within the next year.

A pledge of the city's full faith and credit, subject to Proposition 2 1/2, secures the bonds. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the city's flexibility under the levy limit. The commonwealth's Chapter 44A Qualified Bond Act provides additional security. Pursuant to the Massachusetts Qualified Bond Program, the state treasurer will pay debt service on the bonds with amounts withheld from Brockton's state aid. Officials plan to use bond proceeds to refund a portion of the city's series 2005 GO bonds outstanding for debt service savings taken over the life of the bonds with no extension of maturity.

The 'AA' ratings reflect the bonds' eligibility for the commonwealth's Chapter 44A Massachusetts Qualified Bond Act.

The 'AA-' rating reflects our assessment of the following factors for the city:

- Adequate economy, with projected per capita effective buying income at 78.8% and market value per capita of \$58,273, although that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;

- Weak budgetary performance, with an operating deficit in the general fund and a slight operating deficit at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2014 of 11.3% of operating expenditures, as well as limited capacity to raise revenues due to consistent and ongoing political resistance;
- Very strong liquidity, with total government available cash of 26.5% of total governmental fund expenditures and 8.3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 3.2% of expenditures and net direct debt that is 29.9% of total governmental fund revenue, and low overall net debt at less than 3.0% of market value and rapid amortization with 71.2% of debt scheduled to be retired in 10 years, but significant medium-term debt plans, exposure to speculative contingent liabilities, and a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Adequate economy

We consider Brockton's economy adequate. The city, with an estimated population of 93,748, is located in Plymouth County in the Boston-Cambridge-Newton, MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 78.8% of the national level and per capita market value of \$58,273. Overall, the city's market value grew by 1.9% over the past year to \$5.5 billion in 2015. The county unemployment rate was 6.0% in 2014.

Brockton is 20 miles south of Boston, along State Route 24. The city has what we consider good access to Boston, with three commuter rail stations and access to Interstate 93 and Route 128-Interstate 95. We understand that the city recently launched the Brockton Initiative with the help of Mass Development and other local real estate investors to transform the city into a more transit-oriented economic base. Although this plan is in its preliminary stages, we believe that new tax base growth is imperative to the city's future economic and financial stability.

The city's leading employers include:

- City of Brockton (2,700 employees);
- Signature Health (2,500); and
- Caritas Good Samaritan Medical Center (1,800).

We believe the city's economic characteristics will remain adequate in the next two years given the modest trends in per capita income and property tax base growth.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Strengths of the assessment, in our opinion, include conservative revenue and expenditure assumptions demonstrated by positive budget-to-actual variances on an audited basis, and strong oversight in terms of monitoring progress against the budget during the year with detailed spending reports quarterly for first two quarters and then every two months. At the same time, management maintains long-term projections for general fund revenues and expenditures. However, the city lacks formal reserve and liquidity policies, aside from what it is legally restricted to maintain as an emergency reserve and no debt management policy or comprehensive long-term capital planning. The city follows

state guidelines for its investment policy and reports holdings and earnings annually.

We have observed a political resistance to raising revenues, which has led to a persistent budgetary gap. If city officials are unable to implement a plan to restore structural balance, this would signal a weak management environment.

Weak budgetary performance

Brockton's budgetary performance is weak in our opinion. The city had deficit operating results in the general fund of 1.8% of expenditures, and slight deficit results across all governmental funds of 1.1% in fiscal 2014.

The fiscal 2014 negative balance is the city's fourth consecutive audited general fund deficit. Initially, for fiscal 2015, the city expected a further draw on reserves of about \$4.3 million; however, current projections indicate a general fund surplus of about \$2.4 million due to the collection of outstanding property taxes, as well as stronger-than-anticipated revenue performance and expenditure savings across departments. We note that, as with fiscal years 2013 and 2014, in fiscal 2015, the city absorbed costs related to the contract settlements within public safety, which included three years of retroactive pay.

Brockton's fiscal 2016 general fund budget totals about \$336 million, and appropriates \$13.1 million in the fund balance. Management has historically been conservative in its revenue and expenditure assumptions and typically experiences positive revenue and expenditure variances. However, city officials have continued to rely on fund balance appropriations to close the budget gap, which we believe will continue to erode its budgetary flexibility and exacerbate the structural imbalance. Given the city's current available reserve profile, we believe it maintains the budgetary flexibility to absorb such declines.

Despite the projected positive general fund results for fiscal 2015, which were aided by one-time revenues, we believe the city's budgetary environment remains challenged. Although management has instituted cost-saving measures related to capital expenditure deferral and other budget cuts, we believe deferring costs associated with capital expenditures will only alleviate short-term budget pressure, and this practice will have long-term effects in the form of deferred maintenance costs. Brockton estimates the current budget gap at \$6 million-\$7 million, and projects that through 2021 the gap could grow from \$10 million-\$14 million depending on various scenarios. Approximately 35% of revenues are from property taxes, and the city is proposing to keep the levy essentially flat heading into the 2016 budget.

In our opinion, the city's lack of willingness to raise the levy up to the full Proposition 2 1/2 allotment has constrained Brockton's revenue profile, thus allowing the budget gap to grow. State aid represents 56% of revenues and growth in this revenue has also been tepid.

We believe that barring any significant structural reforms, the city's budgetary performance will remain weak, particularly as both variable and fixed costs rise. If management is unable to institute a plan to limit the use of the fund balance and close the budget gap with recurring revenues and expenditures, we could lower the rating, possibly by multiple notches.

Adequate budgetary flexibility

Brockton's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2014 of 11.3% of operating expenditures, or \$37.6 million. Negatively affecting budgetary flexibility, in our opinion, is limited capacity to

raise revenues due to consistent and ongoing political resistance.

Our calculation above includes the addition of \$13.4 million in committed fund balances, which are available for general fund operations. The city is expecting to close fiscal 2015 better than previously expected in our July 2015 review. Current unaudited projections for fiscal 2015 show that Brockton added about \$2.4 million to available reserves, improving budgetary flexibility to \$40.1 million or 12% of general fund expenditures.

However, we believe there has been a political resistance to raising revenues. Consequently, this has resulted in revenue pressure and the subsequent trend in declining available reserves.

Very strong liquidity

In our opinion, Brockton's liquidity is very strong, with total government available cash of 26.5% of total governmental fund expenditures and 8.3x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Our calculation includes an adjustment of \$23.3 million in restricted cash in the city's other governmental funds. We believe that Brockton's frequent debt issuances, including GO bonds and bond anticipation notes, support its strong access to external liquidity. Furthermore, Brockton has consistently maintained very strong liquidity across all city funds, and despite recent declines to general fund reserves, we do not expect a substantial deterioration of its liquidity metrics that would weaken the factor score.

Adequate debt and contingent liability profile

In our view, Brockton's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.2% of total governmental fund expenditures, and net direct debt is 29.9% of total governmental fund revenue. Overall net debt is low at 2.1% of market value and 71.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the city's debt profile are its significant medium-term debt plans and exposure to speculative contingent liabilities.

Brockton has about \$209.9 million in total direct debt; of that amount, we calculate about \$85.5 million is self-supporting enterprise debt from water and sewer funds. We understand the city has about \$3.4 million in near-term general fund debt issuance plans for various capital equipment purchases and capital projects. However, we do not expect it will weaken the city's current debt metrics.

Although Brockton's debt measures are low, in our view, the city has been embroiled in a \$68 million lawsuit with Brockton Power Co. LLC since 2012. Until this issue is resolved, we consider this litigation to be a speculative contingent liability as the ongoing lawsuit could result in significant payments by the city because it accounts for about 19% of total governmental funds revenue.

In our opinion, a credit weakness is Brockton's large pension and OPEB liability, without a plan in place for OPEB that we think will sufficiently address the obligation. Brockton's combined pension and OPEB contributions totaled 8.6% of total governmental fund expenditures in 2015. Of that amount, 4.7% represented contributions to pension obligations and 3.9% represented OPEB payments. The city made its full annual required pension contribution in 2015. The pension funded ratio is 67.0%.

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As of the latest actuarial valuations, the city's pension-funded ratio is 67% and the unfunded liability is \$173.8 million. The system is expected to be fully funded by 2033. Brockton funds its OPEB liability--estimated at \$417 million--on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook on the program rating reflects Standard & Poor's assessment of the strength and liquidity of the Massachusetts Qualified Bond Act Program.

The negative outlook on the underlying rating reflects our view that Brockton's reserve position could continue to weaken in the next year if the city does not implement expenditure cuts or raise revenues to close the budget gap. Although fiscal 2015 is expected to close with a positive general fund performance, and available reserves are expected to improve slightly, the fiscal 2016 budget continues to rely on reserves to close the recurring budget gap. We would likely lower the rating if reserves deteriorate in fiscal 2016, which would continue to suggest a chronic structural imbalance with no plan to correct. However, a downgrade would be less likely and we could revise the outlook back to stable within the next year if budgetary performance improves due to structural reform and the reserve position subsequently stabilizes at current levels.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- 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

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of October 30, 2015)

Ratings Detail (As Of October 30, 2015) (cont.)

Brockton GO muni purp loan of 2014 bnds due 08/15/2034

<i>Long Term Rating</i>	AA-/Negative	Affirmed
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Brockton GO

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

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