

RatingsDirect®

Summary:

Brockton, Massachusetts; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

Brockton GO

Unenhanced Rating

AA-(SPUR)/Negative

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' underlying rating on Brockton, Mass.' general obligation (GO) debt. The outlook is negative.

In June 2014, Standard & Poor's revised the outlook on the city'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 secures the bonds.

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

- Adequate economy, with market value per capita of \$58,273 and projected per capita effective buying income at 79.7%, but that is benefitting from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment 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 38.7% of total governmental fund expenditures and 12.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges of 3.2% of expenditures and net direct debt that is 36.2% of total governmental fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 65.1% of debt scheduled to be retired in 10 years, but 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, Mass. MSA, which we consider to be broad and diverse. Brockton has a projected per capita effective buying income of 79.7% of the national level and per capita market value of \$58,273.

Overall, the city's market value grew by 1.9% in 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 MassDevelopment 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 Financial Management Assessment 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. 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.

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.

This negative balance is the city's fourth consecutive audited general fund deficit. For fiscal 2015, the city anticipates a further draw on reserves of about \$4.3 million, suggesting general fund performance will remain weak. 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.

In our opinion, the city's budgetary environment remains challenged despite recent cost-saving measures related to capital expenditure deferral and other budget cuts. Although deferring costs associated with capital expenditures will alleviate short-term budget pressure, this practice will have long-term effects in the form of deferred maintenance costs. The city estimates the current budget gap at \$6 million to \$7 million, and projects through 2021 that the gap could grow from \$10 million and \$14 million depending on various scenarios. Currently, approximately 35% of revenues are from property taxes, and the city is proposing to keep the levy essentially flat heading into the 2016 budget. We believe the city's lack of willingness to raise the levy up to the full 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, barring any significant structural reforms, the city's financial 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 view, 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 balance, which is available for general fund operations. Despite the projected 2015 general fund drawdown, we believe available reserves will remain strong at about \$33.9 million or 10.1% of general fund expenditures. However, we have observed 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 38.7% of total governmental fund expenditures and 12.2x 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 the city'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 the city's 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 36.2% of total governmental fund revenue. Overall net debt is low at 2.6% of market value and the city plans to repay approximately 65.1% of the direct debt within 10 years, which are in our view positive credit factors. Negatively affecting our view of the city's debt profile is its exposure to speculative contingent liabilities.

Brockton has about \$222.9 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 currently 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%.

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 negative outlook 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. We would likely lower the rating if reserves continue to deteriorate, which would continue to suggest a chronic structural imbalance with no plan to correct. However, a downgrade would be less likely 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: 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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- 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 July 23, 2015)		
Brockton GO muni purp loan of 2014 bnds due 08/15/2034		
<i>Long Term Rating</i>	AA-/Negative	Affirmed
Brockton GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Negative	Affirmed
Many issues are enhanced by bond insurance.		

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