

RatingsDirect®

Summary:

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

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Credit Profile

US\$6.124 mil GO BANs dtd 06/22/2018 due 06/21/2019

<i>Short Term Rating</i>	SP-1+	New
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US\$4.986 mil GO st qual mun purp bnds ser 2018B due 06/01/2038

<i>Long Term Rating</i>	AA/Stable	New
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<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
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US\$1.6 mil GO st qual bnds (Subject To Federal And Mass Taxation) ser 2018A due 06/01/2034

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

S&P Global Ratings assigned its 'AA' long-term rating and its 'AA-' underlying rating to the City of Brockton, Mass.' 2018 general obligation (GO) state qualified 2018 series A bonds and GO state qualified municipal purpose loan of 2018 series B bonds, based on the city's participation in the Massachusetts qualified bond program. We also affirmed our 'AA-' underlying rating on the city's GO bonds outstanding and our 'AA' long-term rating on certain state-qualified bonds. The outlook is stable.

At the same time, we assigned our 'SP-1+' short-term rating to Brockton's 2018 bond anticipation notes (BANs). The short-term rating reflects our view that Brockton maintains a very strong capacity to pay principal and interest when the notes come due. The city maintains 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 disclosure to market participants.

The long-term rating on the bonds supported by the Commonwealth of Massachusetts qualified bond program moves in tandem with the long-term GO rating on the commonwealth. The outlook on the program rating is stable.

The city's full-faith-and-credit pledge, subject to limitations of Proposition 2 1/2, secures the BANs and bonds outstanding. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge because of Brockton's flexibility under the levy limit.

BAN proceeds will be used to fund capital projects, including school improvements and street lighting repairs. Bond proceeds will be used to fund city capital projects.

The long-term rating reflects what we view as Brockton's:

- Adequate economy, with projected per capita effective buying income at 76.8% and market value per capita of \$75,582, though that is gaining an advantage 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;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2017 of 14.7% of operating expenditures, as well as limited capacity to raise revenues because of consistent and ongoing political resistance;
- Very strong liquidity, with total government available cash at 24.4% of total governmental fund expenditures and 7.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.1% of expenditures and net direct debt that is 28.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 80.3% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Adequate economy

We consider Brockton's economy adequate. The city, with a population of 94,903, is located in Plymouth County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 76.8% of the national level and per capita market value of \$75,582. Overall, the city's market value grew by 7.2% in the past year to \$7.2 billion in 2018. The county unemployment rate was 3.9% in 2017.

Brockton is 20 miles south of Boston, along State Route 24. The city maintains direct access to Boston via three commuter rail stations and access to Interstate 93 and Route 128-Interstate 95. The city recently launched the Brockton Initiative, with the help of Mass Development and local real estate investors, to transform the city into a more transit-oriented economy. Market value growth has been strong over the last two years, exceeding at least 7.2%, led by multi-family residential conversions of industrial or commercial buildings located by commuter rail.

The city is the largest local employer (3,400 employees) with health, human, and social service providers rounding out the top five employers in the city. W.B. Mason and Massasoit Community College are also within the top 10. City unemployment has trended downward, following the state and nation, and dropped below 5% in 2017.

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.

Brockton's strengths, based on our assessment, 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 for the first two quarters and every two months thereafter. 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 has no debt management policy or comprehensive long-term capital planning. It follows state guidelines for its investment policy and reports holdings and earnings annually.

Strong budgetary performance

Brockton's budgetary performance is strong, in our opinion. The city had slight operating surpluses of 1.5% of expenditures in the general fund and 1.1% across all governmental funds in fiscal 2017. General fund operating results have been stable over the last three years, with results of 2.6% in 2016 and 0.8% in 2015.

Brockton reported its third consecutive operating surplus in fiscal 2017 after four years of deficits, with positive operating results driven by conservative revenue and expenditure estimates. In 2017, revenues outperformed budgetary amounts by \$7.2 million, led by increases to property taxes; motor vehicle excise taxes; and fees, including for licenses and permitting. Expenditures also had a positive variance, driven by lower costs in public safety, education, public works, and pension and fringe benefits. The city has kept health benefit expense growth manageable through competition among its carriers.

We believe Brockton will report a surplus in the current year as well, driven by similar positive variance trends. Year-to-date fiscal 2018 budget-to-actual reporting shows the city is tracking closely with fiscal 2017. The city is currently reviewing its recommended fiscal 2019 budget, with schools making up almost half of expenditures and fringe benefits at about 22% of operating expenditures. Accordingly with school spending, more than half of the city's operating revenues come from state aid. We do not expect the city to use fund balance to manage operations in fiscal 2019.

Pressure is likely to come from school district operations and retiree benefits. State aid, particularly as it pertains to schools, is not sufficient to cover increasing service costs, including charter school tuition, which has accelerated rapidly in recent years. Costs associated with pension and OPEB liabilities are projected to increase by 29% by 2023. However, we believe projected gaps are manageable given the city's recent budgeting history and performance should remain strong in the near term.

Adequate budgetary flexibility

Brockton's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2017 of 14.7% of operating expenditures, or \$57.2 million. Negatively affecting budgetary flexibility is limited capacity to raise revenues because of consistent and ongoing political resistance.

Our calculation above includes the addition of \$16.6 million in committed fund balances, which can be made available for general fund operations, and restricted funds available set aside for unforeseen expenditures and emergencies. While it could return to the use of reserves if education funding remains stagnant as costs rise, Brockton has been able to avoid persistent budgetary imbalances through cuts, including staff layoffs; however, we note there has been political resistance in the past to increasing taxes, which we view as a negative credit factor. We do not expect sizable draws on reserves over the next few years and with an expected surplus in fiscal 2018 and balanced results for 2019, available reserves should remain at levels we consider strong in the near term.

Very strong liquidity

In our opinion, Brockton's liquidity is very strong, with total government available cash at 24.4% of total governmental fund expenditures and 7.8x governmental debt service in 2017. In our view, the city has strong access to external liquidity, if necessary.

Brockton's frequent debt issuances, including GO bonds and BANs, illustrate strong market access and external liquidity. Furthermore, the city has maintained very strong liquidity across all funds despite past declines to general fund reserves prior to the recent period of strong budgetary performance. We expect Brockton's liquidity profile to remain very strong.

Very strong debt and contingent liability profile

In our view, Brockton's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 28.0% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and approximately 80.3% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Our assessment of the city's debt profile adjusts for self-support provided for by sewer and water revenues on associated debt. While the city may consider taking on capital projects, including upgrading school facilities, it has not authorized the issuance of new debt in the next two years. We do not expect the city's debt profile to change substantially in the near term.

In our opinion, a credit weakness is Brockton's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Brockton's combined required pension and actual OPEB contributions totaled 7.2% of total governmental fund expenditures in 2017. Of that amount, 4.2% represented required contributions to pension obligations, and 2.9% represented OPEB payments. The city made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 60.7%.

City employees are part of the Brockton Contributory Retirement System, a cost-sharing, multiple-employer defined benefit plan. As of 2016, the plan was funded at a below-average level. The plan's net pension liability totaled \$240.3 million. Its net position as a percent of the total pension liability was 60.7%. We note that the discount rate and underlying assumptions are also fairly optimistic. Brockton's investment rate of return is set at 8%, which is higher than average and could lead to escalating cost pressures if returns weaken.

Brockton also provides OPEB to its retirees. It pays this liability on a pay-as-you go basis and the unfunded actuarial accrued liability is \$495.5 million as of June 30, 2017, based on a valuation as of June 30, 2016. Tenured employees may be eligible for coverage at 45 or 55, depending on the year of their employment, and medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare. The city has not created a trust fund, nor has it set aside money for the liability. Given the size of the liabilities and our review of assumptions, we believe pension and OPEB costs will continue to increase and over time strain operations, and the city's efforts to manage these liabilities do not fully mitigate potential cost increases.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Brockton's growing tax base, strong reserve levels, and recent trend of positive operations. Supporting our view of the stable outlook are the city's very strong liquidity and

expectations that cash balances will remain strong. For these reasons, we don't expect to change the rating within our two-year outlook horizon.

Downside scenario

If the city's financial performance reverts to weak and, as a result, budgetary reserves deteriorate to adequate levels without a credible plan to rebuild them, then we could lower the rating.

Upside scenario

While not expected over our outlook horizon, if economic indicators and budgetary performance improve to strong levels, and budgetary concerns associated with schools, pension, and OPEB subsidy, then we could raise the rating.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 5, 2018)		
Brockton GO muni purp loan of 2014 bnds due 08/15/2034		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Brockton GO st qual rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
Brockton GO BANs ser 2017 dtd 06/07/2017 due 06/29/2018		
<i>Short Term Rating</i>	SP-1+	Affirmed
Brockton GO BANs dtd 06/22/2018 due 06/21/2019		
<i>Short Term Rating</i>	SP-1+	Affirmed
Brockton GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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