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Summary:
Brockton, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$7.338 mil GO muni purp loan of 2014 bnds due 08/15/2034		
Long Term Rating	AA-/Negative	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to Brockton, Mass.' series 2014 general obligation (GO) municipal purpose bonds. Standard & Poor's also affirmed its 'AA-' rating on the city's outstanding GO debt. The outlook is negative.

On June 2014, Standard & Poor's revised its rating outlook on the city's GO bonds to negative from stable, reflecting the city's weak budgetary performance and declining general fund balance position.

A pledge of the city's full-faith-and-credit secures the bonds. Proceeds from the bonds will be used to retire notes outstanding issued toward the city's school building remodeling project.

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

- Adequate economy, which benefits from participation in the broad and diverse Boston metropolitan statistical area (MSA);
- Adequate management conditions with standard financial policies;
- Weak budgetary performance over the past few years initially reflecting cuts in state funding, but now based on costs outpacing revenues;
- Strong budgetary flexibility with 2013 audited reserves of 14% general fund expenditures, but we estimate these reserves will decline in 2014 to about 11%;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures; and
- Adequate debt and contingent liabilities profile with our opinion bolstered by the city's rapid amortization schedule and low overall net debt as percent of market value. However, we believe the city has an exposure to high pension and other postemployment benefit (OPEB) liabilities and no credible plan to address them, and also has a speculative contingent liability due to a lawsuit it is facing.

Adequate economy

In our opinion, Brockton's local economy is adequate, with projected per capita effective buying income at 81% of the national average and per capita market value at roughly $57,000. The Plymouth County unemployment rate (2013) was 7.2%, according to the Bureau of Labor Statistics. Residents benefit, in our view, from participation in the broad and diverse Boston-Cambridge-Newton, Mass.-N.H. MSA, which we view as a credit strength.

Market values in Brockton have remained pressured, but we have observed that year–over-year declines in assessed values to have moderated. We estimate the city's total market value for fiscal 2014 to be $5.3 billion, down 2% over the prior year. Looking ahead, based on our regional forecasts, we expect modest economic growth in New England compared with national levels. Recent data indicate that median home prices are improving in the broader New England region, and that housing starts are gaining traction. However, when this improvement in median home prices will be reflected in the city's reported market values remains uncertain.

Adequate management

In our opinion, Brockton's management conditions are adequate. We consider the city's financial management practices "standard" under our Financial Management Assessment methodology, indicating the government, in our opinion, maintains adequate policies in some, but not all, key areas. Strengths of the assessment, in our opinion, include strong oversight in terms of monitoring progress against the budget during the year. However, the city lacks formal reserve and liquidity policies, aside from what it is legally restricted to maintain as an emergency reserve.

Weak budgetary performance

In our opinion, Brockton's budgetary performance is weak overall, with a deficit of 2.0% for the general fund and a deficit of 2.7% for the total governmental funds in fiscal 2013. This is the city's third consecutive audited general fund deficit. For fiscal 2014, the city anticipates a further draw on reserves, suggesting general fund performance will remain weak. We note that Brockton has implemented some cost-saving measures to achieve balanced operations over the medium term, but we believe the budgetary environment remains challenged as costs are outpacing revenues. Currently, roughly 35% of revenues are from property taxes, and the city is proposing to keep the levy flat heading into the 2015 budget. State aid represents 56% of revenues and growth in this revenue has also been tepid. We believe, barring any reforms, the city's financial performance will remain weak, particularly as both variable and fixed costs rise.

Strong budgetary flexibility

Despite Brockton's weak budgetary performance, we consider its budgetary flexibility strong, with available reserves at 14.6% of operating expenditures in fiscal 2013. Factoring in the projected declines in the general fund balance, we estimate reserves will remain above 8% of expenditures heading into 2015 budget year. While we believe cash reserves will remain strong, we have recently observed political resistance to raising revenues and a limited capacity to cut spending. For now, we do not consider this a negative factor, but over time, if these conditions persist and budgetary performance remains weak, this could have a negative effect on our view of the city's budgetary flexibility.

Very strong liquidity

In our opinion, very strong liquidity supports Brockton's finances, with total government available cash at 27% of total government fund expenditures and at 8.4x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Adequate debt and contingent liability profile

In our opinion, Brockton's debt and contingent liability profile is adequate. Following this issue, we consider the city to have rapid debt amortization, with more than 65% of principal to be repaid in 10 years. Brockton has roughly $221.3 million in total direct debt; of that amount, we calculate roughly $96.9 million is self-supporting enterprise debt from water and sewer funds. Net direct debt to total governmental funds revenue and total governmental funds debt service to total governmental fund expenditures are 34.5% and 3.2%, respectively. We understand the city has no near-term debt issuance plans that could weaken its score. A further credit positive for its debt factor is that overall net debt is 2.4% of market value.

While Brockton's debt measures are low, in our view, we do acknowledge the city has been embroiled in a $68 million lawsuit with Brockton Power Co. LLC since 2012. For now, we consider this a speculative contingent liability as the ongoing lawsuit could result in significant payments by the city as it currently accounts for roughly 19% of total governmental funds revenue.

In addition, pension and other postemployment benefit (OPEB) liabilities remain a long-term pressure, and the city does not have a specific and credible plan to address them. Currently, pension and OPEB costs amount to 9% of expenditures. For pensions, the city's funded ratio is 70% and the unfunded liability is $136 million. Brockton funds its OPEB liability--estimated at $504 million--on a pay-as-you-go basis.

Strong institutional framework

We consider the Institutional Framework score for Massachusetts municipalities strong.

Outlook

The negative outlook reflects our view that Brockton's reserve position could weaken over the next two years if the city doesn't implement cuts or raise revenues and if budgetary performance remains weak. We would likely lower the rating if reserves continue to deteriorate, which could suggest a chronic structural imbalance. However, a downgrade would be less likely in the near term if budgetary performance stabilizes and the reserve position stays unchanged.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- 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 28, 2014)		
Brockton GO		
Unenhanced Rating	AA-(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.

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