

RatingsDirect®

Summary:

Foxborough, Massachusetts; General Obligation

Primary Credit Analyst:

Timothy W Little, New York (212) 438-7999; timothy.little@spglobal.com

Secondary Contact:

Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Foxborough, Massachusetts; General Obligation

Credit Profile

US\$23.36 mil GO muni purp ln bnds ser 2016 due 05/15/2046

Long Term Rating AAA/Stable New

Foxborough Twn GO

Long Term Rating AAA/Stable Upgraded

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AAA' from 'AA+' on Foxborough, Mass.'s general obligation (GO) bonds. At the same time, Standard & Poor's assigned its 'AAA' long-term rating to series 2016 general obligation municipal purpose loans. The outlook is stable.

The rating action reflects our view of Foxborough's continued strong budgetary performance leading to very strong budgetary flexibility along with the strengthening of financial policies and practices under our Financial Management Assessment methodology.

We rate Foxborough higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2015, local property taxes generated 63% of revenue, demonstrating a lack of dependence on central government revenue.

Officials plan to use the series 2016 bond proceeds for town hall remodeling and a water treatment facility. The town's full-faith-and-credit pledge, subject to limitations of Proposition 2 1/2, secures the bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 34.7% of total governmental fund expenditures and 8.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 39.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and

- Strong institutional framework score.

Very strong economy

We consider Foxborough's economy very strong. The town, with an estimated population of 17,493, is located in Norfolk County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 143% of the national level and per capita market value of \$154,486. Overall, the town's market value was stable over the past year at \$2.7 billion in 2016. The county unemployment rate was 4.3% in 2015.

Foxborough serves as home to the New England Patriots football team and the New England Revolution soccer team, which play out of Gillette Stadium, a 68,000-seat stadium on the northeast end of town. The Kraft Group, which owns the stadium and teams, has proposed a technology office park complex across the street from the stadium, which could add as much as \$200 million to the town's commercial property base or an estimated \$2.9 million in annual tax revenue. Two new hotels are under development, one near the stadium and one on the other side of town, which will increase excise tax revenue.

The town's largest employer, Invensys, was acquired by French multinational Schneider Electric in January 2014. The company had just completed \$30 million in renovations to existing facilities in Foxborough, and Schneider executives have committed to maintaining operations in Foxborough.

In June 2015, the Massachusetts Department of Transportation purchased a commercial freight line that runs through Foxborough. Transportation officials plan on investing in track and signal improvements to introduce an express train from Foxborough to Readville to Boston, which could come online as soon as 2017.

The town's tax base is diverse, in our view, with the 10 leading taxpayers accounting for 15.6% of assessed value.

Very strong management

We view the town's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The budget process starts with a detailed line-by-line development of revenue projections. Proposed expenses are reviewed with each department head. Historical trend analysis is performed and a regular effort is made to determine if trends are deviating from past performance. Budget-to-actuals are presented monthly to the town manager and town management generally has the flexibility to transfer funds as needed. Investment statements are reviewed monthly by the treasurer and finance director, and upon request from any other interested parties. The town uses a third-party investment management firm for other postemployment benefit (OPEB) investments and reviews statements quarterly with the firm. Foxborough maintains an investment policy and has a formal policy to maintain at least unassigned fund balance 7.5% of budget with a goal to maintain 10%-15%. Foxborough relies on a capital improvement and a long-range financial plan to guide budget planning from year to year. The town does have a formal policy that at least 50% of outstanding debt will mature in 10 years with a target of 60% or greater, total outstanding debt service will not exceed 9% of expenditures, and total net direct will not exceed 2.5% of equalized value.

Strong budgetary performance

Foxborough's budgetary performance is strong in our opinion. The town had balanced operating results of negative 0.2% of expenditures in the general fund and of 0.1% across all governmental funds in fiscal 2015.

Town officials believe that fiscal 2016 will end in a surplus for the town, allowing Foxborough to increase its reserves by as much as \$1 million. The surplus is driven largely by very strong Gillette Stadium (payment in lieu of taxes revenue) and building permit revenues. The fiscal 2017 budget is balanced and includes a 5.5% increase over the previous year. Property taxes make up 63% of revenues, followed by state aid, which comprises 21% of revenues.

Very strong budgetary flexibility

Foxborough's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 19% of operating expenditures, or \$12.7 million.

We understand that the town currently has no plans to significantly spend down reserves, and we believe they will likely remain very strong. Foxborough has a formal policy to maintain its unassigned fund balance at 7.5% with a goal of 10-15%.

Very strong liquidity

In our opinion, Foxborough's liquidity is very strong, with total government available cash at 34.7% of total governmental fund expenditures and 8.1x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

The majority of the town's investments are in highly liquid certificates of deposit and treasuries. Foxborough has no variable-rate or direct purchase debt. We expect the town's liquidity profile to remain very strong.

Very strong debt and contingent liability profile

In our view, Foxborough's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.3% of total governmental fund expenditures, and net direct debt is 39.6% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, which is in our view a positive credit factor.

Total direct debt is \$56 million, approximately \$27 million of which we consider self-supporting via water and sewer rate payments. Management is anticipating a school project to bond out \$5 million, but does not expect this to begin until 2018.

Foxborough's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.0% of total governmental fund expenditures in 2016. Of that amount, 4.5% represented required contributions to pension obligations, and 2.5% represented OPEB payments. The town made its full annual required pension contribution in 2016.

Foxborough is part of the Norfolk County Contributory Retirement System, a cost-sharing, multiple-employer, defined benefit pension plan, which covers almost all of town employees except for public school teachers. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about \$33 million with 60% funded as of 2015. Certain school administrators who are members of the Massachusetts Teachers' Retirement System (MTRS). The town does

not contribute to MTRS. Instead, the state made a \$3.5 million payment on behalf of Foxborough in 2015.

The town contributes to OPEB expenses on a pay-as-you-go basis. As a result of proactive funding, Foxborough's OPEB unfunded actuarial accrued liability dropped from \$62.2 million in fiscal year 2009 to \$22.6 million in 2015. In addition, the town has \$5.3 million in an OPEB Trust. The board of selectmen recently adopted a policy to stream revenues from a new meal tax toward non-operating uses such as funding the OPEB liability. The town allocated \$800,000 of the meal tax toward the OPEB liability for 2017. Foxborough is currently funding the OPEB at the ARC.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion that Foxborough will continue to maintain very strong reserves supported by strong management practices. The town's participation in the broad and diverse Boston MSA lends additional stability to the rating; therefore, we do not expect to change the rating within the outlook's two-year period.

Downside scenario

While currently unlikely, if the town's budgetary performance were to deteriorate significantly, leading to diminished reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology For Assessing The Impact Of Securitized Debt On The Ratings Of U.S. Public Finance Waterworks, Sanitary Sewer, Electric And Gas Enterprise Issuers And Their Unsecuritized Debt, March 17, 2015
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can

be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.