

# RatingsDirect®

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## Summary:

# Foxborough Town, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$26.34 mil GO mun purp loan of 2020 bnds due 03/15/2040

<i>Long Term Rating</i>	AAA/Stable	New
Foxborough Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to the 'Town of Foxborough, Mass.' series 2020 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt. The outlook is stable.

### Security and use of proceeds

Foxborough's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. Despite limitations imposed by the commonwealth's levy-limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledges due to the town's operating flexibility under the levy limit. We rate the limited-tax GO debt on par with our view of Foxborough's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no fungibility-resource limitations, supporting our view of its overall ability and willingness to pay debt service.

Proceeds of the 2020 bonds will finance renovations to Burrell Elementary School and several improvements to the town's water system.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, Foxborough is eligible to be rated higher than the nation because we think it can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2018, locally-derived taxes generated 78% of revenue, which demonstrates a lack of dependence on central government revenue.

### Credit overview

The rating reflects continued strength in the town's local economy that exhibits steady growth every year, and that is expected to continue to grow as various developments are currently underway. The town also benefits from participation in the broad and diverse Boston metropolitan statistical area (MSA), which will only become more accessible with the recent addition of more commuter rail service. In addition, prudent budgeting and very strong financial management practices and policies continue to support the town's strong financial performance and

flexibility.

The rating reflects our opinion of the following credit factors:

- Very strong economy, with access to the broad and diverse Boston 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 a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 52.4% of total governmental fund expenditures and 13.8x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 57.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### **Very strong economy**

We consider Foxborough's economy very strong. The town, with an estimated population of 17,720, is located in Norfolk County in the Boston-Cambridge-Newton, MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 159% of the national level and per capita market value of \$190,218. Overall, the town's market value grew by 5.1% over the past year to \$3.4 billion in 2020. The county unemployment rate was 3.0% in 2018.

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.

Overall, the town's tax base is diverse, with the top ten taxpayers accounting for 14.5% of total assessed value (AV). The town's AV has increased 20% since 2017, growing about 5% annually on average. According to management, recent construction of several new residential communities as well as re-development of downtown and a hospital district have contributed to growth. Continued redevelopment in the downtown area is expected, as several apartment and condominium projects are underway. In addition, the town has successfully adopted numerous zoning amendments that will allow for development along Route 1, and commuter rail service has been added to access Gillette stadium, which will allow people to commute to and from the stadium, the new office park, and Boston.

### **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 board 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 unassigned fund balance of at least 7.5% of the budget with a goal to maintain 10-15%. The current reserve balance of 20% exceeds the formal policy for both minimum and target fund balance levels. Foxborough relies on a capital improvement and a long-range financial plan to guide budget planning from year-to-year. The 5-year capital improvement plan is updated annually and includes project details, timing, costs, and funding sources. The long-term financial plan includes five-year projections of general fund revenues and expenditures, and incorporates various growth assumptions. The town has a formal debt policy that requires at least 50% of principal to retire in 10 years, total outstanding debt service to remain at or below 9% of expenditures, and total net debt not exceed 2.5% of equalized value. The town is currently in compliance with all debt policy metrics.

In addition, we believe management has demonstrated a proactive approach to cyber-security. The town's technology department has implemented strategies for planning and mitigation, early warning and detection, and response and business continuity. Data traffic is regularly monitored and evaluated, and the town operates two data centers so that in the event one goes down, all of the information is still secure and accessible at the other center. The town also has a cyber-security insurance policy in place and has implemented training initiatives for all staff. Cybersecurity is a growing issue that falls within the governance factor of Environmental, Social, and Governance (ESG) factors that we are monitoring, especially given that municipalities are uniquely situated when it comes to cyberattack risk due to several characteristics of the sector, including an aging workforce, growing presence of technology and digital data, and transparent reporting of financial information. Therefore, we view the town's planning in this area as a credit positive.

### **Strong budgetary performance**

Foxborough's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of 0.3% of expenditures, and slight surplus results across all governmental funds of 1.4% in fiscal 2018. After adjusting for recurring transfers in to and out of the general fund, the town has experienced positive operating results in each of the last three audited fiscal years, ranging from 0.3% in 2018 to 5.5% in 2016. The town adopted balanced budgets for fiscal 2019 and fiscal 2020. Unaudited financials for fiscal 2019 project another consecutive surplus. Management also projects surplus results in fiscal 2020, as revenues and expenditures are trending favorably. Therefore, we expect budgetary performance to remain strong throughout the outlook period.

### **Very strong budgetary flexibility**

Foxborough's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 20% of operating expenditures, or \$15.9 million. The town has maintained very strong budgetary flexibility in each of the past three audited fiscal years, with available fund balance ranging from \$15.7 million to \$16.0 million, or 20% to 22% of general fund expenditures. This fund balance level meets and exceeds formal reserve policy targets. With no plans to

draw on reserves in the next two years, we expect budgetary flexibility to remain very strong during the outlook period.

### **Very strong liquidity**

In our opinion, Foxborough's liquidity is very strong, with total government available cash at 52.4% of total governmental fund expenditures and 13.8x governmental debt service in 2018. In our view, the town has strong access to external liquidity if necessary, which it has demonstrated through its prior issuance of general obligation and enterprise debt over the past decade. 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.

### **Strong debt and contingent liability profile**

In our view, Foxborough's debt and contingent liability profile is strong. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 57.8% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, which is in our view a positive credit factor.

Proceeds of the \$26.34 million 2020 bonds will finance renovations to Burrell Elementary School (\$15.34 million) and water system improvement projects (\$11.0 million). Subsequent to this issuance, the town plans to issue \$7 million on GO bonds in late 2020 to finance additional water system improvements. The bonds issued for water projects are expected to be repaid from water revenues, despite being secured by the town's GO pledge. Therefore, we do not expect the additional debt to impair the town's overall debt profile or operating performance.

### **Pension and other post-employment benefit (OPEB) obligations**

While the town is managing these costs, we think pension and OPEB liabilities will likely remain a long-term credit risk due to lower funding and our expectation of cost increases.

Foxborough participates in the following pension and OPEB plans as of June 30, 2018:

- Norfolk County Retirement System, a cost-sharing, multiple-employer defined-benefit pension plan, which is 63.5% funded, with the town's net pension liability at \$34.7 million. Management expects the pension liability will be fully funded by the end of 2029. In our opinion, the plan's assumed long-term rate of return of 7.75% could lead to contribution volatility. However, we view the closed amortization schedule, and a plan to fully fund as positive factors.
- Town of Foxborough OPEB plan, a single-employer, defined-benefit health care plan that provides medical, dental, and life insurance to eligible retirees. The OPEB plan is funded on a pay-as-you-go basis, and at fiscal-year-end had a funded ratio of 20.6% and a net OPEB liability of \$26.6 million. Management expects the OPEB liability to be fully-funded by the end of 2035. The town established an OPEB Trust, which allows pre-funding of future liabilities. In fiscal 2018, the town contributed \$964,069 to the trust, which brought the total balance in the trust to \$8.3 million.

The town's combined required pension and actual OPEB contribution totaled 7.5% of total governmental-fund expenditures in fiscal 2018: 4.8% represented required contributions to pension obligations and 2.8% represented OPEB payments. The town funds 100% of its actuarially determined contribution and fiscal 2018 actual contributions exceeded our view of minimal funding progress, as well as static funding.

## **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**

We could lower the rating if the town experiences financial pressures, from pension and OPEB costs or otherwise, which result in sustained budgetary imbalance or material declines in reserves.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

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