

RatingsDirect®

Summary:

Foxborough, Massachusetts; General Obligation

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Credit Profile

US\$7.635 mil GO rfdg bnnds ser 2015 due 08/15/2026

<i>Long Term Rating</i>	AA+/Positive	New
Foxborough Twn GO		
<i>Long Term Rating</i>	AA+/Positive	Outlook Revised

Rationale

Standard & Poor's Ratings Services has revised its outlook on the Town of Foxborough, Mass.' general obligation (GO) bonds to positive from stable and affirmed its 'AA+' rating on the town's debt outstanding. At the same time, Standard & Poor's assigned its 'AA+' rating and positive outlook to the town's GO refunding bonds.

We base the outlook revision on a history of favorable operating performance, very strong reserves, and a very strong and growing economy. Should Foxborough sustain its trajectory of balanced operations while continuing to add to reserves, and should officials introduce formal financial policies, we could raise the rating within our two-year outlook time frame. However, if budgetary performance becomes imbalanced, leading to a draw on reserves, we could revise the outlook to stable.

The town's full faith and credit pledge secures the bonds. We understand that proceeds will be used to refund a portion of 2005 and 2006 series bonds for an estimated net present value savings of \$804,000.

The long-term rating reflects our assessment of the following factors for the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" 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;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash of 31.2% of total governmental fund expenditures and 7.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 4.3% of expenditures and net direct debt that is 38.0% of total governmental fund revenue and low overall net debt at less than 3.0% of market value and rapid amortization, with 71.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Foxborough's economy very strong. The town, with an estimated population of 17,309, 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 148% of the national level and per capita market value of \$156,129. The county unemployment rate was 5.0% in 2014.

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 initiated \$30 million in renovations to existing facilities in Foxborough, and Schneider executives have committed to maintaining operations in the town.

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 15.4% of assessed value.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

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 an informal reserve policy to maintain a stabilization fund balance of 5% of annual operating expenditures. Town management is working to adopt a more formal debt management and reserve policy. Foxborough relies on a capital improvement and a long-range financial plan to guide budget planning from year-to-year. The town does not have a debt policy, but has an informal reserve policy to maintain stabilization funds at 5% of annual operating expenses.

Strong budgetary performance

Foxborough's budgetary performance is strong in our opinion. The town had slight operating surpluses of 0.6% in the general fund and 0.8% across all governmental funds in fiscal 2014. General fund operating results of the town have been stable in the past three years, with a result of 2.2% in 2013 and a result of 2.3% in 2012.

Town officials believe that fiscal 2015 will end in a surplus for the town, allowing Foxborough to increase its reserves by as much as \$2.5 million. The surplus is driven largely by expenses coming in under budget and revenues tracking

ahead of forecasts. The fiscal 2016 budget is balanced and includes a 4.6% increase over the previous year. Officials report that revenues are already trending ahead of budgeted figures and that the expense budget is showing no stress. Property taxes make up 60% of revenues, followed by state aid, which comprises 25% of revenues.

In 2014, Foxborough bought its share of a joint sewer system with Mansfield and Norton. Previously, Mansfield owned the system and the other two towns were customers. The purchase enables the shared system to expand capacity. The town is aiming to purchase and upgrade the sewer system to be self-supporting with both current and new rate payments.

Very strong budgetary flexibility

Foxborough's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 19% of operating expenditures, or \$12.7 million.

Management has indicated a desire to increase the fund balance in the coming years through conservative budgeting and new growth. As mentioned previously, Foxborough has an informal policy to maintain its stabilization fund at 5% and is currently in excess of this. The town is considering formalizing this policy in the next six months.

Very strong liquidity

In our opinion, Foxborough's liquidity is very strong, with total government available cash of 31.2% of total governmental fund expenditures and 7.3x governmental debt service in 2014. 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 41.2% of total governmental fund revenue. Overall net debt is low at 1.1% of market value and approximately 71.8% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Total direct debt is \$39 million, approximately \$11 million of which we consider self-supporting via water and sewer rate payments. Management is anticipating a bond placement in March 2016 for a \$7 million upgrade of the town hall. It is also planning for a school project, but does not expect this to begin for several years. The pending sale of surplus town properties will reduce the amount borrowed for the school project. The water fund will also be borrowing as much as \$15 million by 2020 to be paid for by water rates.

The town's combined pension and OPEB contributions totaled 5.7% of total governmental fund expenditures in 2016. Of that amount, 4.4% represented contributions to pension obligations and 1.3% represented OPEB payments. Foxborough 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 and 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 \$5.6 million payment on behalf of Foxborough in 2014. The town's 2016 contribution to the Norfolk County Contributory Retirement System was \$3.3 million, which represents its annual required contribution (ARC). The system was 56% funded as of Jan. 1, 2014.

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 2009 to \$22.7 million in fiscal 2015. In addition, the town has \$5.2 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 \$600,000 of the meal tax toward the OPEB liability in fiscal 2015 and \$700,000 in fiscal 2016. Foxborough is increasing its yearly funding toward OPEB until it reaches its ARC. In fiscal 2014, contributions represented 73% of the ARC.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The positive outlook reflects our expectation that Foxborough's financial position will remain at a level we consider strong, that the town will continue to add to reserves, and that it will maintain its low debt profile. The outlook also indicates that there is at least a one-in-three chance that we could raise the rating if these conditions persist. We could also raise the rating with the formalization (and subsequent integration) of the town's reserve and debt policies, which would give us evidence Foxborough can sustain its strong financial performance. However, we could revise our outlook to stable if performance were to become imbalanced, pressuring reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

- Institutional Framework Overview: Massachusetts Local Governments

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