

RatingsDirect®

Summary:

Taunton, Massachusetts; General Obligation; Non-School State Programs

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Summary:

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Credit Profile

US\$5.369 mil mun purp st qual loan bnds ser 2015 due 12/01/2035

Long Term Rating AA/Negative New

Underlying Rating for Credit Program AA-/Stable New

Taunton GO st qual mun purp ln bnds

Underlying Rating for Credit Program AA-/Stable Affirmed

Taunton GO NONSCHSTPR

Underlying Rating for Credit Program AA-/Stable Affirmed

Taunton GO

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term (program) rating, with a negative outlook, and its 'AA-' underlying rating, with a stable outlook, to Taunton, Mass.' series 2015 general obligation (GO) state-qualified municipal purpose loan bonds. At the same time, Standard & Poor's affirmed its 'AA-' rating, with a stable outlook, on the city's GO debt.

The 'AA' program rating reflects our assessment of the security provided for the bonds by the Massachusetts Qualified Bond Act. Under this act (Massachusetts General Law, Chapter 44A), the state treasurer pays debt service directly to the paying agent and withholds the amount of the payment from the borrower's annual state aid appropriation. Approval is required from the municipal finance oversight board (formerly the state emergency finance board), which oversees and monitors the program.

The city's full-faith-and-credit pledge, subject to the limitations of Proposition 2½, secures the bonds and the city's previously issued bond anticipation notes (BANs). Officials intend to use bond proceeds to refund the BANs, issued for various projects.

The ICR reflects our opinion of the city's general creditworthiness, including its:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2014;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 12.0% of operating expenditures;

- Very strong liquidity, with total government available cash at 18.5% of total governmental fund expenditures and 7.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.6% of expenditures, net direct debt that is 20.1% of total governmental fund revenue, low overall net debt at less than 3% of market value, and rapid amortization, with 70.0% 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 the obligation; and
- Strong institutional framework score.

Adequate economy

We consider Taunton's economy adequate. The city, with an estimated population of 56,261, is located in Bristol County, Mass. in the Providence-Warwick (Rhode Island) MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 100.3% of the national level and per capita market value of \$79,143. Overall, the city's market value grew by 0.7% over the past year to \$4.5 billion in 2015. The county unemployment rate was 7.3% in 2014.

Based on our regional forecasts, we expect the regional economy to remain stable, albeit with lower growth compared to the nation in 2015, but with slightly higher growth in 2016. Recent data indicates the region's median home prices continue to improve, and that housing starts will remain positive. In addition, the Wampanoag Tribe plans to build a resort and casino in the area starting in spring 2016. Although the land for the deal has been placed into a trust by the Bureau of Indian Affairs as the tribe's reservation, establishment of this plan is still subject to various state and federal approvals. We believe Taunton is poised to see improved tax base growth over the next few years based on active and proposed development within the city.

About 78% of Taunton's tax base consists of residential properties, while about 18% is commercial and industrial property. The 10 leading taxpayers account for, what we consider, a very diverse 9.85% of AV. The three leading taxpayers are Morton Hospital, Jordan's Furniture Inc., and Silver City Galleria. These entities, which we consider stable, pay about \$1 million annually in taxes.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas. Highlights include management's regular budget monitoring and, what we regard as, generally conservative revenue and expenditure assumptions. However, the city does not maintain any formal reserve or liquidity policies, and it does not maintain a comprehensive capital plan. Furthermore, management does not have a formal long-term financing plan, although they do perform budget forecasts informally for each department. The city does not maintain its own investment policy; however, they do follow state guidelines, and reporting of investments occurs via the annual audit. The city does not maintain its own formal (written) debt policy.

Strong budgetary performance

Taunton's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 3.0% of expenditures, but a deficit result across all governmental funds of negative 4.1% in fiscal 2014. Our assessment accounts for the fact that we believe budgetary results could improve from 2014 results in the near term. General fund operating results have been stable over the last three years, with results of 3.6% and 3.5% in 2013 and

2012, respectively.

The city's drop in budgetary performance is attributed to the city's total governmental funds deficit. This deficit is largely due to decreases in intergovernmental fund revenue and transfers from enterprise funds to the general fund. Although budgetary performance has declined, the city has raised its tax levy annually to its allowable limit, and enacted health insurance changes for budgetary savings. Property taxes are the city's largest revenue source, accounting for little over half of its general fund revenue. About 37% of the city's general fund revenue comes from state aid. Tax collections are, what we view as, strong and stable, with the city receiving 97% of current collections in fiscal 2014.

Although Taunton's budgetary performance score has fallen, we still consider its revenue profile stable. Educational needs represent the city's largest use of funds, accounting for 44% of general fund expenditures.

Although the fiscal 2015 audit is not yet available, management expects a slight surplus for the year. The 2016 budget calls for the use of roughly \$2 million in reserves.

Strong budgetary flexibility

Taunton's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 12.0% of operating expenditures, or \$19.7 million.

Despite general fund drawdowns between 2009 and 2011, the city has posted general fund surpluses for each of the past three audited years. Taunton closed fiscal 2014 with available reserves of 12% of expenditures. The city projects a small general fund surplus for 2015. Although management is in the preliminary stage of its fiscal 2016 budget formulation, we understand they expect a small drawdown of reserves during fiscal 2016. Barring any unusual or unexpected items, we expect reserves to remain strong.

Very strong liquidity

In our opinion, Taunton's liquidity is very strong, with total government available cash of 18.5% of total governmental fund expenditures and 7.1x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city does not have any debt, loans, or other obligations that could provide the debt holder with preferential treatment upon the occurrence of any events that would allow that debt holder to accelerate the debt against the issuer. The city also has no variable-rate debt, swaps, or debt with large bullet maturities that could affect our view of liquidity. We are not aware of any contingent liabilities.

Adequate debt and contingent liability profile

In our view, Taunton's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.6% of total governmental fund expenditures, and net direct debt is 20.1% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, and approximately 70.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

In our opinion, Taunton's large pension and OPEB liability is a credit weakness, without a plan in place that we believe would sufficiently address the obligation. Taunton's combined required pension and actual OPEB contributions were

11.4% of total governmental fund expenditures in 2014. Of that amount, 7.1% represented required contributions to pension obligations, and 4.2% represented OPEB payments. The city made its full annual required pension contribution in 2014. The funded ratio of the largest pension plan is 65.6%.

Taunton's unfunded OPEB liability is, in our opinion, a sizable \$326 million. While the city has explored ways to lower this liability, we believe funding the city's annual required pension contribution (ARC) in full will remain a considerable challenge. The ARC for fiscal 2014 was \$17.9 million, and the city's pay-as-you-go contribution was \$8.2 million, or about 46%.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The negative outlook on the state-qualified bond issues mirrors the outlook on the commonwealth. The stable outlook on the underlying rating reflects our opinion of Taunton's very strong liquidity and strong budgetary flexibility scores, which we do not believe will change during the two-year outlook horizon. While the city's economy score has eroded somewhat since our last review, we do not anticipate further declines. As budgetary pressures arise, we believe management will adjust accordingly to preserve the city's current performance and flexibility.

Upside potential

We view upside rating potential as limited given the city's current wealth figures and financial pressures related to the city's sizable unfunded pension and OPEB liabilities. If these metrics were to improve, with no declines in other rating factors, the likelihood of upward rating movement would increase, although we do not view this as a significant possibility within the outlook horizon. Upward rating movement would also be consistent with more formalized, well-embedded financial policies that could affect our view on management.

Downside potential

If the city were to experience budgetary imbalance resulting in a more-than-nominal decline in reserves, the ratings could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Private Elementary And Secondary Schools, June 13, 2007
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, Oct. 20, 2015
- Institutional Framework Overview: Massachusetts Local Governments

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