

RatingsDirect®

Summary:

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

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Credit Profile

US\$10.615 mil GO state qual rfdg bnds ser 2016 due 06/01/2029

<i>Long Term Rating</i>	AA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA/Stable	New

Taunton GO

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
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Rationale

Standard & Poor's Ratings Services raised its rating on Taunton, Mass.' general obligation (GO) debt to 'AA' from 'AA-'. The outlook is stable.

At the same time, Standard & Poor's assigned its 'AA' rating and stable outlook to the city's series 2016 GO state-qualified refunding bonds.

The upgrade to the underlying rating is based on Taunton's consistently strong budgetary performance, improved reserve levels due to continuous effort by the city to grow available funds, supported by the city's burgeoning local economy.

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 outlook on the program rating is negative due to a projected decline in reserves at the state level.

A pledge of the city's full-faith-and-credit, subject to the limitations of Proposition 2½, secures the bonds. Proceeds from the bonds will advance refund a portion of the city's outstanding 2008 GO municipal purpose loan bonds, and a portion of the city's outstanding 2009 GO municipal purpose loan bonds for a total approximate present value savings of \$390,000.

The rating reflects our assessment of the city's general creditworthiness based on our opinion of the following:

- Strong 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 (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to

fiscal 2015, which closed with a slight operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.4% of total governmental fund expenditures and 8.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.7% of expenditures and net direct debt that is 19.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 70.7% 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.

Strong economy

We consider Taunton's economy strong. The city, with an estimated population of 56,261, is located in Bristol County in the Providence-Warwick, R.I.-Mass. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 101.8% of the national level and per capita market value of \$80,239. Overall, the city's market value grew by 1.4% over the past year to \$4.5 billion in 2016. The county unemployment rate was 7.3% in 2014.

Taunton is located approximately 37 miles south of Boston and 16 miles east of Providence. The city is mostly residential, with about 78% of the tax base comprised of residential properties and about 19% comprised of commercial/industrial properties. Assessed value (AV) for the city has steadily increased over the past few years, and is expected to continue growing due to various new projects adding to the tax base.

One of the major developments is the Wampanoag Tribe casino. Construction for the casino started in 2016, and officials anticipate the grand opening to be in June or July of 2017. Officials expect a thousand new jobs to be created for the construction phase alone, and hundreds of new jobs when the casino officially opens. In addition, Taunton is experiencing new growth in other areas of the city as well. New developments are slated to take place in Myles Standish Industrial Park, which is one of the largest industrial parks in the area, and the Silver City Galleria mall, which will complement numerous other residential and commercial expansions.

Based on the city's various ongoing and proposed developments, we believe Taunton is poised to see a growth in the tax base, and overall improvement in the local economy over the next few years.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Taunton maintains a conservative approach to financial practices. Management keeps revenue and expenditure assumptions modest when formulating the budget, and utilizes some historical trend analysis. However, current data is mostly taken into consideration for each year's budget. Management keeps track of the city's budget performance with monthly budget-to-actual updates. The city currently does not have either a long-term financial plan or capital plan. Any of the city's capital expenditure needs are discussed and approved through meetings involving members from each of the city's departments and city council members. The city follows state guidelines and does not have any formal policies in place for debt or investment management. All reporting for investments are done yearly via the

annual audit. The city also lacks a formal reserve policy and utilizes best practice when maintaining reserve levels.

Strong budgetary performance

Taunton's budgetary performance is strong in our opinion. The city had slight surplus operating results in the general fund of 0.8% of expenditures, but a deficit result across all governmental funds of 2.5% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term.

Despite a recent decline in budgetary performance, the city has managed to keep general fund operating results positive for the past few years. Local receipts for the city were higher than anticipated, with the largest gains stemming from licenses and permits, and insurance reimbursements. The city's main source of revenue comes from tax collections, which represented 87% of total general revenues in fiscal 2015. The city was also able to incur budgetary savings with recent cost-cutting changes to health insurance. Like other communities in the New England area, Taunton experienced an extreme winter season, resulting in a significant snow-and-ice deficit of nearly \$2.9 million.

For 2016, the city reports an improved financial performance from fiscal 2015. Building permit revenues have grown tremendously due to the city's numerous new developments. Expenditures have been performing in line with budget except for a one-time appropriation toward the nursing home fund of approximately \$1.3 million.

Although the budgeting process has not yet begun for fiscal 2017, management does expect to raise the tax levy to the maximum 2½ threshold, as it usually does. Management also anticipates the budget to include some appropriation of reserves. While the amount is not yet certain, management is estimating approximately \$2.3 million of reserves appropriated.

Considering management's report of a positive financial performance for the current year, along with the many new developments adding to the tax base, we expect budgetary performance to remain at least strong.

Very strong budgetary flexibility

Taunton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 17% of operating expenditures, or \$29.3 million.

Taunton's general fund has had a surplus for each of past three audited years. Management expects to maintain, if not grow, the city's available reserves. Although the city lacks a formal target regarding reserve levels, the city has traditionally transferred all surplus revenues at year-end into a committed fund for economic stabilization, which we consider available. Currently, the stabilization fund has a balance of approximately \$10 million. We believe that if the city continues its practice of appropriating funds toward reserves, budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Taunton's liquidity is very strong, with total government available cash at 23.4% of total governmental fund expenditures and 8.7x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We expect Taunton's liquidity profile to remain very strong. The city retains strong access to external liquidity with frequent entry into the bond market to fulfill any capital project needs. In addition, we note that Taunton does not have any variable-rate debt or direct-purchase debt, reducing the city's exposure to any contingent liquidity risks.

Very strong debt and contingent liability profile

In our view, Taunton's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.7% of total governmental fund expenditures, and net direct debt is 19.7% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, and approximately 70.7% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issuance, Taunton will have roughly \$94.8 million in total direct debt outstanding. The city also has two school roof repair projects and middle school construction on the horizon, although the total cost of these projects is not yet known. The city is currently working with the Massachusetts School Building Authority regarding cost-sharing for these projects.

The city has received an order from the Department of Environmental Protection (DEP) to restore the city's sewer system. The majority of the project has already been completed, with only the final stage of renovating the facilities left. The final stage is scheduled to last over a period of ten years and cost a total of more than \$50 million. Officials expect to issue around \$9 million-15 million of that amount within the next two to three years. The entire project is self-supporting and funded with revenues generated by the sewer fund. The city is working with the DEP to extend the deadline beyond 10 years in an effort to relieve the cost burden to the rate payers.

Additionally, the city also expects to issue short-term debt for another sewer project with the Taunton Municipal Light Plant (TMLP). The city is expecting to issue approximately \$13.2 million of short-term loans to finance the purchase and installation of equipment for the plant.

In our opinion, a credit weakness is Taunton's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Taunton's combined required pension and actual OPEB contributions totaled 17.2 % of total governmental fund expenditures in 2016. Of that amount, 7.2% represented required contributions to pension obligations, and 10% represented OPEB payments. The city made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 65.9%.

The city provides pension benefits through its own City of Taunton Contributory Employees' Retirement System. As of January 2014, the system had a net pension liability of about \$109 million. The city's current funding schedule is presently scheduled for 2030 but the city is hoping to further reduce that date to 2028.

OPEB for the city is provided on a pay-as-you-go basis. The unfunded accrued liability was roughly \$326 million, as of June 2014. Recently, the city established an OPEB trust fund to finance the liability for the long-term. Currently, the city has not funded the trust yet but it expects to put about \$50,000 to \$100,000 into the trust this year. For 2017, the city is expecting to deposit \$100,000 into the fund each year.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The negative outlook on the state-qualified program rating mirrors the outlook on the commonwealth. The stable

outlook reflects Standard & Poor's opinion that we do not expect any change in the rating over our two-year outlook horizon. Taken into consideration are Taunton's very strong liquidity and debt profile, along with the city's very healthy reserve levels. The city also continues to demonstrate strong budgetary performance. These factors are further enhanced by the city's developing economy. Therefore, we do not anticipate to change the rating within our two-year outlook horizon.

Upside scenario

Positive rating potential is possible if Taunton's economic wealth indicators continue improving, along with the application of formalized management practices and financial policies.

Downside scenario

If reserves were to significantly decline resulting in a weaker budgetary performance, 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: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Massachusetts Local Governments

Ratings Detail (As Of April 11, 2016)

Taunton mun purp st qual loan bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Upgraded
Taunton GO st qual mun purp ln bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Upgraded
Taunton GO NONSCHSTPR		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Upgraded

Many issues are enhanced by bond insurance.

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.

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

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