

# RatingsDirect®

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## Summary:

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

### Primary Credit Analyst:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

### Secondary Contact:

Apple Lo, Boston (1) 617-530-8316; apple.lo@standardandpoors.com

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## Summary:

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

### Credit Profile

US\$9.039 mil GO st qual mun purp ln bnds ser 2013 due 09/01/2033

*Unenhanced Rating*

AA-(SPUR)/Stable

New

#### **Taunton GO**

*Unenhanced Rating*

AA-(SPUR)/Stable

Upgraded

## Rationale

Standard & Poor's Ratings Services raised its unenhanced rating on Taunton, Mass.' general obligation (GO) debt to 'AA-' from 'A+' based on our recently released local GO criteria, as well as the city's improving financial performance and position following several years of fiscal imbalance. The upgrade also reflects an improving regional economy and the anticipation of new tax base growth and stronger per-capita market values spurred by increased economic development. The outlook is stable.

In addition, we assigned our 'AA' long-term rating and 'AA-' underlying rating (SPUR) to the city's series 2013 GO state qualified municipal purpose loan of 2013 bonds.

The 'AA' long-term rating on the issue reflects the bonds' eligibility under the commonwealth's Chapter 44A Qualified Bond Act (Massachusetts General Law), which Standard & Poor's rates 'AA/Stable'.

The 'AA-' SPUR rating is based on our recently released local GO criteria and reflects:

- A strong and improving economy in the Providence-Warwick, R.I. metropolitan area;
- The city's strong budgetary flexibility with 2012 available reserves (unassigned and assigned) at 8% of general fund expenditures;
- Improved financial performance following several years of general fund drawdowns;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Standard management practices, albeit with a renewed emphasis on building operating reserves to stronger levels; and
- Adequate debt and contingent liabilities, bolstered by the city's low debt to market value and aggressive debt amortization.

Although the city is continually working toward mitigating the long-term effects of its pension and other postemployment benefit (OPEB) liabilities, we view the size of its unfunded liabilities as an offsetting factor for the rating.

Taunton's full faith and credit GO pledge secures the bonds. It intends to use about \$4.7 million of bond proceeds toward acquiring land and about \$2.2 million toward its municipal light plant. It is the expectation that general

revenues of the municipal light plant will be used to pay debt service on the bonds. The remaining bonds will be used to fund several water and sewer projects and also to repair a school roof.

### **Strong economy**

Taunton, with a population of about 56,000, is in southeastern Massachusetts, about 37 miles south of Boston and 16 miles east of Providence. We view its economy as strong as it participates in the Providence-Warwick metropolitan area. The city's projected per-capita effective buying income is 89% of the U.S. level, and unemployment averaged 9.3% in 2012, down from 10% in 2011 and 10.9% in 2010. In 2013, the per-capita market value for the city was \$79,595. While we note the city's assessed values (AVs) have declined by 23% since peaking in fiscal 2007, there are signs in the local economy that the city's tax base is stabilizing.

Based on our regional forecasts, we anticipate the regional economy will remain stable, but with lower growth compared with the nation. On a positive note, recent data indicate that the region's median home prices continue to improve, and that housing starts will remain positive. In addition, the city has signed an intergovernmental agreement with the Wampanoag Tribe for a proposed resort and casino project, although plans have not been finalized as they await final state and federal approvals. On the whole, we believe Taunton stands poised to see improved growth and development to its tax base through the intermediate term that should also continue to underpin its near-term financial performance.

About 78% of its tax base is residential properties, while 18% is commercial and industrial. The top 10 taxpayers constitute a very diverse 5.9% of AV. The three largest taxpayers are Norton Hospital, Silver City Galleria, and Verizon New England, each paying upwards of \$1 million in annual taxes and are all stable.

### **Strong budget flexibility**

Despite several years of general fund declines, the city's budgetary flexibility improved to strong levels in 2012, and the expectation is that the city will improve reserves further in 2013. Taunton closed fiscal 2012 with available reserves at 8.8% of expenditures. Available reserves are estimated to close fiscal 2013 with a \$15.2 million balance or roughly 9.8% of expenditures, making it two consecutive years of increasing reserves. Looking ahead, the city is hopeful to continue to build reserves over the next few years back up to prerecessionary levels, particularly if economic development takes hold. At the very least we anticipate reserves remaining at current levels through 2014, as management anticipates balanced operations in 2014.

### **Strong budgetary performance**

Following several years of fiscal imbalance, reflecting lower state aid and local receipts, the city's budgetary performance has improved. For fiscal 2012, the general fund closed with an operating surplus of \$5.4 million, or 3.5% of expenditures. Total governmental funds also had a surplus of 8.3 million, or 3.9% of total governmental expenditures. Taunton's improved financial performance stems from several factors. The city has raised its tax levy each year up to its allowable limit and has also been active in negotiating with its collective bargaining unions for budgetary savings. State aid and local receipts have also improved as the economy has gotten better. On the whole, property taxes comprise 47% of revenues and state aid accounts for 37%. Tax collections are strong and stable, with the city typically receiving 98% on a current basis.

Given its stable revenue profile, we expect budgetary performance to remain at least adequate. Taunton is anticipating

a general fund surplus in 2013, and balanced operating results in 2014. Education is the city's largest expenditure, accounting for 44% of expenditures.

### **Very strong liquidity**

Supporting the city's finances is what we consider very strong liquidity, with total government available cash as a percent of total governmental fund expenditures at 10.7% and as a percent of debt service at 192%. Additionally, we believe the city has strong access to external liquidity. The city has issued bonds frequently over the past several years, including GO bonds and short-term bond anticipation notes.

### **Standard management**

We consider Taunton's financial policies "standard" under Standard & Poor's Financial Management Assessment methodology, indicating that the finance department maintains adequate policies in some, but not all, key areas. Highlights include regular budget monitoring and generally conservative revenues and expenditure assumptions. The city does not maintain any reserve or liquidity policies, nor does it maintain a comprehensive capital plan. Budget forecasts are done informally and within each department.

We note, over the past few years, Taunton's financial statements were issued on a delayed basis. The delays were the result of staffing and difficulty in collecting data regarding various state aid amounts due to the city. Recently, however, management has been better at producing financial disclosures on a timelier basis. Management anticipates the 2013 financial audit will be available later this year, or early in 2014.

### **Adequate debt & contingent liability profile**

In our opinion, the city's debt and contingent liabilities profile is adequate, with total governmental funds debt service as a percent of total governmental funds expenditures at 5.6% and with net direct debt as a percent of total governmental funds revenue at 58%. Taunton's overall net debt as a percent of market value is low at 2.9%, and its amortization of principal debt is fairly aggressive. Roughly 72% of debt will be retired over 10 years and 100% by 2034.

A long-term credit consideration, however, is the city's pension and OPEB liabilities. Pension and OPEB costs have risen over the past few years to about 9% of total governmental fund expenditures in 2012. Taunton's pension plan had an unfunded accrued actuarial liability of \$129 million as of January 2012, a 62% funded level. Favorably, the city has been funding 100% of the annual required contribution (ARC), and is on schedule to fully fund the liability by 2029. These costs are expected to remain stable through the medium term.

Taunton's unfunded OPEB liability is also sizable, at \$322 million. While the city has explored ways to lower the liability, fully funding the ARC will remain a considerable challenge. The ARC for 2012 was \$19.8 million and the city's contribution (pay-as-you go) was \$6.7 million, about 34% of that level.

### **Adequate institutional framework**

We consider the Institutional framework score for Massachusetts Municipalities as strong. (See Institutional Framework score for Massachusetts.)

## Outlook

The stable outlook on the state qualified bond issues mirrors the outlook on the commonwealth.

The stable outlook on the SPUR reflects the improving economy and the city's focus on rebuilding its operating flexibility. We believe Taunton's improved budgetary outlook is likely to translate into stronger available reserves, particularly as the economy rebounds. Moreover, we believe there is a strong possibility that economic measures will improve as new development projects gain traction. We also believe the debt and liabilities profile will remain adequate. In our view, while the city's sizable unfunded pension and OPEB liabilities will remain a credit constraint, at the moment, those costs are manageable and do not pose an immediate budgetary challenge. For these reasons, we do not anticipate changing the rating over the two-year horizon of the outlook.

## Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- . U.S. State And Local Government Credit Conditions Forecast, July 8, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

### Ratings Detail (As Of September 16, 2013)

Taunton GO state qual bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Taunton GO</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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