

RatingsDirect®

Summary:

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

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Credit Profile

US\$8.8 mil GO mun purp loan of 2022 bnds due 08/15/2042

<i>Long Term Rating</i>	AA+/Stable	New
Taunton GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Taunton GO mun purp loan		
<i>Long Term Rating</i>	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AA+' from 'AA' on the City of Taunton, Mass.' general obligation (GO) municipal purpose loans outstanding.
- At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the city's GO municipal purpose loan of 2022 bonds (\$8.8 million).
- The upgrade reflects formalization of a number of financial policies and practices as well as continued strength in financial performance, leading to steady growth in the city's reserves, which stand at a very strong level in our view.
- The outlook on all ratings is stable.

Security

The bonds are secured by Taunton's full-faith-and-credit pledge, subject to the limitations of Proposition 2 1/2. Based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, we do not differentiate between the city's limited-tax GO debt and general creditworthiness.

Proceeds from the series 2022 bonds will finance various city capital improvements.

In addition, we note a previously issued series of debt outstanding also carries the program rating enhancement Chapter 44A Massachusetts Qualified Bond Act, which moves in tandem with the commonwealth rating.

Credit overview

Taunton's general creditworthiness is characterized by a residential economic base that benefits from the city's location about 16 miles east of Providence, R.I., in addition to the historical maintenance of strong financial operations. Furthermore, in 2021, management initiated a comprehensive review of its financial policies and practices and formally adopted a range of policies, which we believe will aid the city in maintaining its strong financial position, which has only strengthened in the past two years since the start of the COVID-19 pandemic. According to audited fiscal 2021 results, Taunton had an excellent year, increasing reserves by \$9.6 million due to good growth in revenues as well as to cost-containment measures management implemented the previous fiscal year following the onset of the

pandemic. For fiscal 2022, we understand revenues are an estimated \$4 million above budget while expenses again came in well below the budget of about \$13 million, which should result in another sizable surplus once the audit is finished. We believe Taunton is very well positioned to maintain its very strong reserve position over the outlook horizon.

A mitigant to these strengths is Taunton's below-average economic indicators relative to that of similarly rated peers, in addition to the potential for increased fixed charges in future years relating primarily to what we consider to be a large pension and other postemployment benefit (OPEB) liability.

The long-term rating reflects our view of the following factors for the city:

- Diverse, primarily residential tax base east of Providence that has experienced good long-term growth and is poised to continue experiencing strong growth;
- Historically strong financial position, with operating surpluses each year over the past decade, supported by enhanced financial policies and practices solidified over the past year; and
- Low overall net debt burden that we expect will remain consistent despite addition debt plans.

Environmental, social, and governance

We analyzed Taunton's environmental, social, and governance risks relative to the city's economy, management, financial measures, and debt and liability profile and determined that all are credit neutral within our analysis. We note the city recently updated its hazard mitigation plan, which aids in its contingency planning.

Outlook

The stable outlook reflects the city's strong historical financial position and a strong growing tax base, which provides predictability and strength to revenues. We believe Taunton will continue to maintain strong finances, aided by its recently formalized financial policies and practices.

Downside scenario

We could lower the rating if budget performance were to significantly worsen, resulting in materially lower reserves, without a credible action to quickly restore reserves, or if the city's long-term liabilities were to materially worsen.

Upside scenario

We could raise the rating if Taunton's economic indicators improve to levels more commensurate with those of higher-rated peers, and if the city is able to materially reduce its pension and OPEB liabilities.

Credit Opinion

Diverse, primarily residential tax base east of Providence that is experiencing moderate growth

Taunton, with an estimated population of nearly 57,900, is in Bristol County in the Providence-Warwick metropolitan statistical area, which we consider to be broad and diverse. The city is 37 miles south of Boston and 16 miles east of Providence. Taunton is primarily residential, with about 79% of the tax base composed of residential properties and

about 17% composed of commercial/industrial properties. The city's assessed value has steadily increased in the past few years and is expected to continue to rise due to revitalization efforts downtown and various new projects adding to the tax base.

One of the major developments is the Wampanoag Tribe Casino. Construction of the casino has been put on hold for years because of a dispute filed with the Indian Bureau of Affairs but has gained momentum in the past year. Officials expect 1,000 new jobs will 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 Myles Standish Industrial Park, which is one of the largest industrial parks in the area. Based on the city's various ongoing and proposed developments, we believe Taunton is poised to see tax base growth and an overall improvement in the local economy in the next few years.

Adoption of comprehensive set of formalized financial policies and practices

We revised our view of the city's financial policies and practices to good from adequate following Taunton's adoption of a comprehensive array of formal financial policies and practices over the past year through the city's consolidated financial policies. As a result, we have also revised our assessment of the city's management to strong from standard.

Highlights of the city's revised financial policies and practices include:

- The maintenance of a conservative approach to financial budgeting that Taunton has a history of outperforming, with modest revenue and expenditure assumptions rooted in historical trend analysis.
- Monthly budget-to-actual financial updates that are review by city council.
- The advent of a formalized five-year financial plan, with detailed assumptions that management plans to update annually.
- Creation of a rolling five-year formalized capital improvement plan (CIP) currently underway, set to be enacted in fiscal 2023, and that if maintained, all else being equal, could result in further improvement to our Financial Management Assessment on the city.
- Taunton has adopted an investment policy. The investment policy limits investment vehicles to a predefined list, which includes U.S. treasuries and certificates of deposit. The city reports on investment holdings and earnings quarterly on an internal basis.
- A debt policy requiring regular reporting of debt levels and pending capital needs, and that contains a number of affordability measures including: general fund debt service as a percent of general fund revenues not exceeding 5%; the payout ratio will remain equal to at least 65% minimum over a 10-year period; and the city shall not issue debt equal to more than 5% of equalized value.
- A reserve policy with multiple components that includes a \$500,000 reserve in the general fund for cash flow purposes with a target of maintaining general fund reserves equal to 3%-8% of the general fund budget. In addition, the city's reserve policy includes a stabilization reserve equal to 3%-10% of Taunton's total operating budget in order to provide long-term financial stability for the city while improving financial flexibility and creditworthiness.

The institutional framework score for Massachusetts municipalities is strong.

Historically strong financial position with increases to reserves

In our analysis of budgetary performance, we account for recurring transfers into and out of the general fund to other

governmental funds as well as to various enterprise accounts. Taunton's main source of revenue comes from property tax collections, which represent about half of total general revenues. State aid accounts for about 40% of revenues. Annual surpluses flow through the stabilization fund and, as a general practice, are appropriated to the following year budget, with appropriations replenished through better-than-budgeted results.

The strong positive operating result of \$9.6 million in 2021 continues a trend of operating surpluses over the past decade, supported by conservative budgeting and continued good revenue growth, as well as to cost-containment measures implemented both pre-pandemic and additional discretionary cuts once the pandemic began. Some of the cuts made over the past couple of years include the elimination of Taunton's nursing home, which historically required some general fund support, in addition to modifying future health benefits.

City officials indicate financial performance has remained strong in fiscal 2022 in part due to keeping discretionary expenses at a minimum. Management reports unaudited fiscal 2022 revenues are trending about \$4.2 million above budget, while expenses are an estimated \$13 million below budget. As a result, we understand that city officials expect to end fiscal 2022 with similarly positive results relative to the previous few years.

For fiscal 2023, the general fund budget increased by 3.7% over the previous year, with primary cost increases for health insurance, retirement, and the school department funding. We understand management expects at least continued balanced operations for the year.

Low overall net debt with rapid amortization of existing debt

Following this issuance, Taunton will have about \$154.6 million in total direct debt outstanding, close to \$89 million of which is self-supporting through the city's enterprise funds and state aid reimbursements.

We understand most of Taunton's capital needs at this time pertain to the city's enterprises, which will be funded with revenues from the sewer, water, and municipal light plant enterprise funds. The remaining 30% of the CIP are for departments funded out of Taunton's general fund, including transportation improvements and repairs, renovations to the city's fire stations, and a number of school facility projects. Despite the additional capital needs and possibility of new money debt, given Taunton's rapid amortization of existing debt, we do not expect a material change to the city's overall debt profile.

Pension and OPEB

- In our opinion, a credit weakness is Taunton's large pension and OPEB obligation. While the city is currently incorporating retirement costs into its budget, we view pension and OPEB liabilities as a long-term credit concern due to lower funding and our expectation of rising costs.
- We believe some of the assumptions used to build the system's pension actuarially determined contributions are built on what we view as weak assumptions and methodologies, including a 7.75% pension discount rate, which we believe increases the risk of unexpected contribution escalations.
- Although OPEB liabilities are primarily funded on a pay-as-you-go basis, costs remain low despite what we view as a large liability, and we expect Taunton will continue adding to its OPEB trust fund.

Taunton participates in the following pension plan as of June 30, 2021:

- Taunton Contributory Employees' Retirement System (TCRS), which is 82.3% funded. As of January 2021, the

system had a net pension liability of about \$84.9 million.

- A defined-benefit health care plan for retired employees of the city departments: 0.7% funded, with a net OPEB liability of about \$413 million.

TCRS is a cost-sharing, multiple-employer pension plan. We expect the plan's annual costs will largely outpace budgetary growth of local governments and could challenge operating budgets over time. (For more information on the plan, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.) The city made its full annual required pension contribution in 2021 and contributions were above static funding, resulting in progress being made in the most recent year. There is an actuarial plan in place to reach full funding and contributions are expected to increase by approximately 6.5% through fiscal 2028 and then 4%-5% each year thereafter, due to an increasing amortization basis. With a discount rate of 7.3%, we see some risk of market volatility, but primarily the risk of cost escalation is due to an increasing contribution schedule that aggressively defers contributions.

Regarding OPEBs, officials have contributed an average of \$500,000 over the past three years to the OPEB trust annually. For 2022 and 2023, Taunton appropriated the same amount in each fiscal year. Although funded ratios are low, we expect these costs will remain manageable in the short-to-medium term. In addition the city's consolidated financial policies include specifications to transfer a minimum of 70% of current pension fund allocations directly to its OPEB trust in perpetuity once the pension obligation is satisfied, equating to an estimated \$13.3 million annually.

Taunton, Mass.--Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	93			
Market value per capita (\$)	121,976			
Population (no.)		57,864	57,969	57,706
County unemployment rate(%)		6.5		
Market value (\$000)	7,057,996	6,359,585	5,789,763	
Ten largest taxpayers % of taxable value	6.2			
Strong budgetary performance				
Operating fund result % of expenditures		3.9	4.8	1.5
Total governmental fund result % of expenditures		6.4	5.6	(0.8)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		24.7	22.1	19.1
Total available reserves (\$000)		61,315	51,706	44,151
Very strong liquidity				
Total government cash % of governmental fund expenditures		46	34	32
Total government cash % of governmental fund debt service		2422	2038	1493
Strong management				
Financial Management Assessment		Good		

Taunton, Mass.--Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		1.9	1.7	2.1
Net direct debt % of governmental fund revenue	24			
Overall net debt % of market value	1.6			
Direct debt 10-year amortization (%)	69			
Required pension contribution % of governmental fund expenditures		4.4		
OPEB actual contribution % of governmental fund expenditures		4.9		

Strong institutional framework

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of September 23, 2022)

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

Many issues are enhanced by bond insurance.

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