

# RatingsDirect®

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## Summary:

# Canton Town, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$8.72 mil GO mun purp loan 2019 bnds due 05/01/2039

*Long Term Rating* AAA/Stable New

Canton GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Canton, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on Canton's existing GO debt.

The rating reflects our view of the town's very strong economy, supported by a wealthy property tax base and high income. In addition, the town's maintenance of its very strong budgetary flexibility, with available reserves averaging more than 17% during the past three fiscal years, is due to positive financial performance and strong management, supporting our view of the rating. Although we think retirement liabilities and costs could pressure the long-term budget, we expect management will likely manage these costs appropriately due to its conservative budgeting and active funding of an other-postemployment-benefits (OPEB) trust fund.

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limits, secures the bonds. We rate the limited-tax GO debt on par with our view of Canton's general creditworthiness because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on resource fungibility, supporting our view of the town's overall ability and willingness to pay debt service.

We understand officials intend to use series 2019 bond proceeds to fund various capital improvement projects and refund Canton's series 2011 GO bonds.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we rate Canton higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. In 2018, local property taxes generated 74% of revenue, which demonstrated a lack of dependence on central government revenue.

The rating reflects our opinion of the town's:

- 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 operating surpluses in the general fund and at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.3% of total governmental-fund expenditures and 6.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 23.9% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.7% of debt scheduled to be retired within 10 years, but a large pension and OPEB obligation; and
- Strong institutional framework score.

### **Very strong economy**

We consider Canton's economy very strong. The town, with an estimated population of 22,817, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 168% of the national level and per capita market value of \$218,656. Overall, market value has grown by 5.1% during the past year to \$5 billion in fiscal 2019. County unemployment was 3.3% in 2017.

The suburban, primarily residential Canton is 15 miles south of Boston. Canton's location along Route 128 and Interstate 95 and two commuter-rail train stations provide local residents with easy access to numerous employment centers, including downtown Boston; the Route 128 high-tech corridor; and Providence, R.I.

Assessed value continues to grow due to a healthy real estate market and ongoing development. Royall Development is also completing a new hotel and restaurant worth about \$19.2 million that it should complete within the next year. Canton Holdings LLC is currently redeveloping the former Plymouth Rubber site into 272 residential apartments and 252 garden-style apartments. Top Golf is also looking to build a new recreational complex in the town within the next few years. In addition, Prodrive Technologies plans to open its first U.S. headquarters in Canton and expects to hire more than 200 full-time employees. Finally, Spear Street Capital purchased Reebok's previous site; it is actively looking for a tenant.

Canton has also been actively improving and expanding infrastructure to support new developments and the expansion of its commercial and industrial sectors. Therefore, we expect Canton's economy will likely remain very strong. Leading employers include Dunkin Brands Inc., Meditech, Computershare, and Destination XL Group.

### **Strong management**

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

In developing the budget, officials use conservative assumptions grounded in historical trend analysis and careful state aid and local-tax-revenue tracking. Management regularly monitors budgetary performance and presents monthly reports to department heads and the town administrator. Management also performs a five-year budget forecast and communicates the results to department heads. Canton maintains a five-year capital improvement program that

identifies funding sources. In addition, its reserve target is to maintain unassigned fund balance above 15% of budgeted expenditures, which the town has adhered to since fiscal 2017. Management follows the commonwealth's investment policy and monitors and reports investments monthly. The town does not currently have a formal debt policy.

### **Strong budgetary performance**

Canton's budgetary performance is strong, in our opinion. The town had operating surpluses of 2% of expenditures in the general fund and 3.8% of expenditures across all governmental funds in fiscal 2018. General fund operating results have been stable during the past three fiscal years, with results of 2.4% of expenditures in fiscal 2017 and 3.6% in fiscal 2016.

Fiscal 2018 results include adjustments for one-time capital expenditures paid for with bond proceeds. Management primarily attributes the fiscal 2018 positive performance to overall conservative budgeting that led to higher-than-expected revenue. Some better-performing revenue items included motor-vehicle-excise taxes, building permits, investment income, solar-facility revenue, and Medicaid reimbursements.

The fiscal 2019 budget totals \$97.5 million, a 6% increase over fiscal 2018. Officials indicate budget-to-actual results are tracking the budget favorably with motor-vehicle-excise taxes and investment income exceeding the budget by about \$1 million. However, management elected to use about \$1.5 million in available reserves during fiscal 2019 to fund ice rink repairs. Therefore, officials are conservatively projecting a slight reserve drawdown by fiscal year-end 2019.

However, due to Canton's historically positive financial operations and conservative budgeting, we expect budgetary performance will likely remain strong. However, should the projected drawdown of reserves fully materialize and lead to negative financial results, we could change our assessment of budgetary performance. In addition, while we expect the town to continue to manage its budget accordingly, we think it could face some budgetary challenges as fixed costs associated with long-term liabilities increase. Property taxes generate 73% of general fund revenues, followed by intergovernmental revenue at 18%. Collections remain, in our view, strong, averaging 99% during the past three years.

### **Very strong budgetary flexibility**

Canton's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 of 19% of operating expenditures, or \$18.8 million.

The town consistently maintained very strong reserves during the past three fiscal years. Although management indicates it could use about \$1.5 million of reserves by fiscal year-end 2019 for capital purposes, we expect budgetary flexibility will likely remain very strong. In addition, the town's reserve target is to maintain unassigned fund balance above 15% of expenditures, which management does not expect to draw down below.

### **Very strong liquidity**

In our opinion, Canton's liquidity is very strong, with total government available cash at 27.3% of total governmental-fund expenditures and 6.1x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

Canton is a frequent issuer of GO debt, illustrating its strong access to external liquidity. Canton confirmed it does not have any contingent-liquidity risk from financial instruments with payment provisions that change upon the

occurrence of certain events. We expect liquidity will likely remain very strong.

### **Very strong debt-and-contingent-liability profile**

In our view, Canton's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 4.5% of total governmental-fund expenditures, and net direct debt is 23.9% of total governmental-fund revenue. Overall net debt is low at 0.6% of market value and roughly 82.7% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about \$48.4 million in total direct debt outstanding. Officials currently expect to issue an additional \$6.4 million in debt during the next two years to finance various capital improvement projects

In our opinion, Canton's large pension and OPEB obligation is a credit weakness. Canton's combined required pension and actual OPEB contribution totaled 8.3% of total governmental-fund expenditures in fiscal 2018: 4.4% represented required contributions to pension obligations and 3.9% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2018. The largest pension plan's funded ratio is 63.5%.

Canton contributes to a cost-sharing, multiemployer, defined-benefit plan administered by Norfolk County Retirement System. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the town's proportionate share of the net pension liability was about \$41.4 million with a 63.5% funded ratio at Dec. 31, 2017, based on an assumed rate of return of 7.75%, which we view as above average when compared nationally. We think this low funded ratio is due to numerous years of underfunding, aggressive assumptions, and weak market performance. Due to this low funded ratio, we expect contributions will likely continue to increase during the next few fiscal years. While costs remain manageable, we believe the town has a limited ability to control future pension-liability growth.

Canton also provides OPEB to retirees. It has set up an OPEB trust to prefund the liability, which we view as positive. At July 1, 2017, the most recent actuarial valuation, Canton reported an \$87.5 million OPEB liability. The OPEB trust had a \$4.2 million balance in fiscal 2018. The town has added an additional \$800,000 to the OPEB trust in fiscal 2019; it plans to budget an additional \$1 million for fiscal 2020. Although we recognize that management is attempting to mitigate the risks associated with the large pension and OPEB obligation and that costs are currently manageable, we expect unfunded liabilities will likely remain a challenge because costs continue to grow and pressure the long-term budget.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion of Canton's very strong economy and budgetary flexibility, supported by strong management. We believe the town's very strong debt-and-liquidity profile further supports the rating. We expect the town's tax base to remain a stable revenue source, which should allow management to maintain strong budgetary performance. Therefore, we do not expect to change the rating within the two-year outlook period.

While unlikely, we could lower the rating if finances were to deteriorate significantly or experience budgetary pressure due to low pension funding, leading to a draw down on reserves.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov. 8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of April 3, 2019)

Canton Twn st qual go rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Canton Twn GO mun purp loan bnds ser 2017 dtd 03/16/2017 due 06/15/2037		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Canton Twn GO mun purp loan bnds (Tax-exempt)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
<b>Canton GO</b>		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

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. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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