

RatingsDirect®

Summary:

Canton, Massachusetts; General Obligation

Primary Credit Analyst:

Melissa Stoloff, Boston (1) 617-530-8030; melissa.stoloff@spglobal.com

Secondary Contact:

Jennifer K Garza (Mann), Dallas + 1 (214) 871 1422; jennifer.garza@spglobal.com

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Credit Profile

US\$11.935 mil GO mun purp loan of 2023 bnds dtd 02/08/2023 due 02/01/2043

Long Term Rating AAA/Stable New

Canton Twn GO

Long Term Rating AAA/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the Town of Canton, Mass.' \$11.935 million series 2023 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' rating on the town's existing GO debt.
- The outlook is stable.

Security

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

Proceeds from the series 2023 bonds will finance the purchase of two historic properties, water main replacement projects, and minor equipment purchases.

Credit overview

The town of Canton is a suburban residential community about 15 miles south of Boston; its location along major roadways and two commuter-rail stations provide residents with easy access to numerous regional employment centers. The local economy is supported by a stable property tax base and its assessed value continues to grow due to a healthy real estate market, even as rising mortgage rates are beginning to slow down demand across the regional economy. While management anticipates stability in its housing stock, broader trends may weigh on it should economic headwinds accelerate. Management also continues to monitor the impact of the Point32 health group consolidation that was expected to add about 2,500 jobs at the Canton headquarters.

Canton has reported eight consecutive years of operating surpluses; for fiscal 2022, the town's revenues fully recovered from pandemic-related impacts as its excise taxes in particular exceeded budgeted amounts. The town is about mid-way through fiscal 2023 and so far, both revenues and expenditures are on target with budgets. Canton's solid financial performance is further supported by a very strong budgetary flexibility position. It has approximately \$1.6 million in unused levy capacity with no immediate plans to tap into it, coupled with reserve levels slightly above those of peers. The town maintains a strong financial management environment, and we note the smooth manager

transition in September 2022 upon the previous town administrator's retirement.

Canton's debt profile is currently manageable, with low debt service costs. While the town has no major medium-term debt plans over the next two years, it is in the early stages of planning for a school construction project for its one middle school. The town has just begun the feasibility study and expects it would bring the project to voters in about three years, most likely seeking voter approval for a debt exclusion from Proposition 2 1/2 limitations. Finally, a credit weakness is Canton's large pension and other postemployment benefit (OPEB) obligation and our expectation that costs will escalate as the pension system works toward full-funding by fiscal 2029. We recognize that management is working to mitigate these risks by pre-funding its OPEB obligations, with an annual increase to contributions, as well as a plan to redirect pension assessment savings toward the OPEB liability upon full funding of the pension system.

The 'AAA' rating further reflects our opinion of the town's:

- Strong local economy, supported by above-average wealth and income levels, that also benefits from participation in the Boston broad and diverse metropolitan statistical area (MSA);
- Good financial policies and practices under our Financial Management Assessment (FMA), highlighted by formal five-year budget forecasting and capital planning and adherence to the informal fund balance target minimum of 15% of expenditures, coupled with a strong institutional framework;
- Robust financial operations supported by a primarily property-tax funded budget (75% in fiscal year 2022), which also contributes to Canton's maintenance of very strong reserves; and
- Low overall debt profile with manageable debt service carrying costs but a large pension and OPEB obligation.

Environmental, social, and governance

We assessed Canton's environmental, social and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that they are neutral in our credit rating analysis. Canton participates in the state's Municipal Vulnerability Preparedness Plan to identify and mitigate environmental risks, including flood-prone areas.

Outlook

The stable outlook reflects the town's solid history of financial performance, further supported by very strong reserve levels and a robust property tax base.

Downside scenario

We could lower the rating if finances were to deteriorate significantly or the town were to experience budgetary pressure due to increasing retirement benefit contributions, leading to a drawdown on reserves.

Rating Above the Sovereign

Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, 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.

Canton, Massachusetts Key Credit Metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	165		174	169
Market value per capita (\$)	259,899	259,899	237,418	222,531
Population			23,566	23,530
County unemployment rate(%)			5.1	
Market value (\$000)	6,124,774	6,124,774	5,595,001	
Ten largest taxpayers % of taxable value	9.0			
Strong budgetary performance				
Operating fund result % of expenditures		2.0	5.1	1.9
Total governmental fund result % of expenditures		2.6	5.7	2.0
Very strong budgetary flexibility				
Available reserves % of operating expenditures		23.6	23.9	19.3
Total available reserves (\$000)		26,469	26,952	21,041
Very strong liquidity				
Total government cash % of governmental fund expenditures		42	32	23
Total government cash % of governmental fund debt service		1082	738	574
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		3.9	4.3	4.0
Net direct debt % of governmental fund revenue	39			
Overall net debt % of market value	0.9			
Direct debt 10-year amortization (%)	76			
Required pension contribution % of governmental fund expenditures		5.2		
OPEB actual contribution % of governmental fund expenditures		4.1		
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

Ratings Detail (As Of January 12, 2023)		
Canton Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of January 12, 2023) (cont.)		
Canton Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Canton Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Canton Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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