

RatingsDirect®

Summary:

Canton, Massachusetts; General Obligation; Note

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Credit Profile

US\$3.685 mil GO BANs dtd 03/24/2016 due 03/24/2017

Short Term Rating SP-1+ New

US\$3.038 mil GO mun purp loan bnds ser 2016 dtd 03/17/2016 due 01/15/2026

Long Term Rating AAA/Stable New

Canton GO

Long Term Rating AAA/Stable Affirmed

Canton GO

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to the Town of Canton, Mass.' series 2016 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

At the same time, Standard & Poor's assigned its 'SP-1+' rating to the town's series 2016 GO bond anticipation notes (BANs), reflecting the town's very strong capacity to pay principal and interest when the notes come due. Canton maintains a low market risk profile with strong legal authority to issue long-term debt to take out the notes, and is a frequent issuer that regularly provides ongoing disclosure to market participants.

The town's full-faith-and-credit pledge secures the GO debt. We note the town voted to exclude a portion of this debt issue from Proposition 2 1/2 levy limitations, which limits Canton's ability to raise taxes annually. Canton, however, remains subject to the primary limitation that the tax levy cannot exceed 2.5% of the full-and-fair cash value. Despite these limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. We understand officials intend to use series 2016 bond proceeds to refund municipal purpose loan of 2008 bonds and the BANs to finance various municipal projects.

The long-term rating reflects our assessment of the following factors for the town:

- 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 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 14.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.5% of total governmental fund expenditures and

5.0x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 5.5% of expenditures and net direct debt that is 32.8% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 75.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Canton's economy very strong. The town, with an estimated population of 22,221, is located in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 155% of the national level and per capita market value of \$194,443. Overall, the town's market value grew by 6.2% over the past year to \$4.3 billion in 2016. The county unemployment rate was 5.0% in 2014.

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

Assessed value (AV) increased 10% from fiscal years 2014 to 2016, an increase that was mostly attributable to residential properties. An assisted living facility under construction will be completed this spring that will likely add \$25 million to AV. A new 250-room hotel should begin construction soon and would provide an additional increase annually in property taxes as well as hotel and meals taxes.

The tax base is diverse with the 10 leading taxpayers accounting for 8.2% of AV.

Strong management

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

In developing the budget, the town uses conservative assumptions grounded in a historical trend analysis and careful tracking of state aid and local tax revenues. Management regularly monitors Canton's budgetary performance and presents monthly reports to department heads and the town administrator. Management also performs a five-year budget forecast that it communicates to department heads. Canton maintains a five-year capital improvement program that identifies funding sources, as well as a reserve target to keep 10%-15% of budgeted expenditures in fund balance. The town follows state investment policy while monitoring and reporting of investments is done monthly. The town does not have a formal debt policy.

Strong budgetary performance

Canton's budgetary performance is strong in our opinion. The town had operating surpluses of 1.7% of expenditures in the general fund and of 2.9% across all governmental funds in fiscal 2015. General fund operating results of the town have been stable over the last three years, with a result of 1.3% in 2014 and a result of 1.0% in 2013.

The surplus is a result of revenues exceeding budgeted numbers. Auto excise taxes came in \$1 million ahead of budget, permit revenue exceeded the budget by \$600,000, and property taxes came in higher by \$400,000. The

positive operating performance was in spite of an unusually strong winter, which caused a deficit in the snow and ice budget of \$900,000.

For fiscal 2016, Canton is expecting an operating surplus of \$2 million. Management attributes this surplus to new growth and auto excise tax coming in over budget. The town plans to use about \$1 million of cash reserves for capital projects instead of issuing new debt. Overall, management expects an increase to reserves. Fiscal 2017's revenues have been estimated to be about 5% more than what was budgeted for fiscal 2016.

Strong budgetary flexibility

Canton's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 14.9% of operating expenditures, or \$12.2 million.

Management has no plans to spend fund balance down at present. We expect the fund balance to remain at least strong, and in keeping with the town's fund balance target.

Very strong liquidity

In our opinion, Canton's liquidity is very strong, with total government available cash at 27.5% of total governmental fund expenditures and 5.0x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

The town is a frequent issuer of GO debt. Canton has no variable-rate or direct purchase debt. We expect the township's liquidity profile to 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 5.5% of total governmental fund expenditures, and net direct debt is 32.8% of total governmental fund revenue. Overall net debt is low at 0.7% of market value, and approximately 75.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Total direct debt is \$58.4 million, approximately \$3.6 million of which is BANs outstanding. The town is expecting to issue an additional \$7 million-\$8 million in debt over the next two to three years to finance various capital improvement projects.

Canton's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.6% of total governmental fund expenditures in 2015. Of that amount, 4.4% represented required contributions to pension obligations, and 4.2% represented OPEB payments. The town made its full annual required pension contribution in 2015.

The town contributes to the Norfolk County Retirement System, which is a cost-sharing, multi-employer, defined benefit pension plan. As of Jan. 1, 2014, the most recent data available, the pension was about 56% funded. In 2015, the town contributed \$3.5 million, which represents its full annual required contribution.

Canton's OPEB liability was \$89.6 million, as of July 1, 2014; the annual required contribution was \$5 million in fiscal 2015, or 6% of general fund expenditures. The actual payment in fiscal 2015 was \$4.3 million. Canton established an OPEB trust fund in fiscal 2012 that has a current balance of roughly \$1.1 million. Officials indicate they plan to add at

least \$500,000 annually to the OPEB trust.

Strong institutional framework

The institutional framework score for Massachusetts is strong.

Canton's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the town has a predominantly locally derived revenue source, with 77% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

Outlook

The stable outlook reflects Standard & Poor's opinion of Canton's very strong economy, bolstered by the town's access to the broad and diverse Boston MSA, and strong finances. We expect the town's tax base to remain a stable revenue source, which should allow management to maintain its strong finances. We do not expect to change the rating within the two-year outlook period because we expect the town to maintain consistently strong reserves and make progress on funding long-term liabilities. While unlikely to occur, if finances were to deteriorate significantly leading to a drawdown on reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in

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