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Ratings

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Summary:

Attleboro, Massachusetts; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$47.265 mil GO municipal purp ln ser 2019 dtd 02/18/2019 due 02/15/2049		
Long Term Rating	AA/Stable	New
Attleboro GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Attleboro, Mass.' series 2019 general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the city's existing GO debt.

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

Officials plan to use series 2019 bond proceeds to finance a portion of the city's existing bond anticipation notes permanently and fund various projects, including a new high school project.

The rating reflects our view of Attleboro's strong management, strong overall economy with a growing property tax base, and balanced operations during the past few fiscal years that have led reserves to increase to levels we consider adequate. We believe increasing retirement costs due to low-funded retirement-plan ratios and large unfunded liabilities, as well as additional debt plans, will likely continue to stress the budget and somewhat constrain the rating.

The rating reflects our opinion of the city's:

- 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 a slight operating surplus in the general fund and an operating surplus at the total governmental-fund level in fiscal 2017;
- Adequate budgetary flexibility, with available fund balance in fiscal 2017 of 7% of operating expenditures;
- Very strong liquidity, with total government available cash at 26.2% of total governmental-fund expenditures and 9.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 2.8% of expenditures and net

direct debt that is 47.8% of total governmental-fund revenue, and significant medium-term debt plans and a large pension and other-postemployment-benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and

- Strong institutional framework score.

Strong economy

We consider Attleboro's economy strong. The city, with an estimated population of 44,894, is in Bristol County in the Providence-Warwick MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 108.4% of the national level and per capita market value of $107,909. Overall, market value has grown by 8.1% during the past year to $4.8 billion in fiscal 2019. County unemployment was 4.7% in 2017.

The tax base is diverse with the 10 leading taxpayers accounting for 5.1% of assessed value (AV). Overall, commercial and industrial properties account for roughly 14% of AV. During the past few years, new developments have been, in our view, stable with new taxable levy growth averaging 5% annually during the past three fiscal years. City projections, however, have growth in the downtown area increasing, led by the ongoing construction of the Intermodal Transit Center that will accommodate a 1,000-vehicle Massachusetts Bay Transportation Authority commuter parking garage and a regional bus terminal.

Construction continues on New England Sports Village, a state-of-the-art sports complex in the city's industrial business park. However, management reports the project's first phase--which involves an ice-hockey arena, a restaurant, and other sports facilities--is complete and in operation. Officials report this phase is a success so far with the city already receiving revenue from operations in the form of property taxes and local receipts. The project's second phase--which will include additional sports facilities, a parking lot, and other amenities--is currently underway. In addition, private developers of the $20 million project expect further expansion with a hotel and additional sports fields.

In addition, Attleboro completed construction of Riverfront Drive and Riverfront Park, which management indicates will allow for additional commercial and residential development along the road. There is additional development at two shopping plazas, and Attleboro continues to focus on redeveloping its downtown area into high-end residential multifamily complexes and commercial buildings by attracting private development at some of its older industrial and unused buildings.

Finally, the developer of the completed Renaissance Station North project--a $12 million mixed-use development including luxury residential units and commercial floor space in the city's Central Business District--is currently constructing a new $40 million mixed-used development, including 120 residential units and 9,600 square feet of additional retail space for the area known as Renaissance Station South; the project's groundbreaking is in early summer 2019. Officials believe the project should significantly add to the tax base once complete.

Due to the city's growing tax base because of a stable real estate market and new and ongoing development, we believe Attleboro's economy and property value will likely continue to improve during the next few years.

Strong management

We view the city'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.

Revenue and expenditure assumptions are, what we consider, conservative, coupled with a 10-year historical trend analysis and quarterly reports on budget-to-actual results to the city council. The city also maintains a formal five-year capital improvement plan it updates annually that identifies funding sources. In addition, its formal investment policy calls for quarterly reports to the council. There are no long-term financial-planning or debt-management policies outside of commonwealth guidelines. Furthermore, Attleboro's reserve policy affirms its goal of targeting stabilization reserves at 5% of expenditures.

Strong budgetary performance

Attleboro's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 0.5% of expenditures and surplus results across all governmental funds of 1.7% of expenditures in fiscal 2017. General fund operating results have been stable during the past three fiscal years with a negative 0.4% of expenditures in fiscal 2016 and 0.9% of expenditures in fiscal 2015.

We adjusted fiscal 2017 results for recurring transfers. Officials attribute fiscal 2017 positive operations to higher-than-budgeted local receipts, including building permits, property taxes, and motor-vehicle-excise taxes. Overall, general fund revenue outperformed the budget by $2.3 million. A majority of expenses came in underbudget, coupled with higher-than-expected snow-and-ice-removal costs. Excluding the current-year carryover of encumbrances and continuing appropriations, expenses were roughly $606,000 underbudget.

For fiscal 2018, officials estimate the city ended with a general fund surplus of about $3.8 million. They attribute positive performance primarily to above-budget revenue and cost savings across various areas of the budget.

The fiscal 2019 budget totals $132.7 million and includes a $749,000 fund-balance appropriation. Officials indicate budget-to-actual results are performing favorably, and they currently expect at least balanced operations at fiscal year-end 2019.

Attleboro maintains a stable and predictable revenue profile with property taxes and state aid as its two leading revenue sources. Property taxes generate 49% of revenue, and tax collections are strong and stable at 98%. State aid accounts for 41% of revenue, and the state aid environment has been relatively stable.

We expect strong budgetary performance to continue during the next few fiscal years because the budgetary environment is stable. However, we believe future pension costs will likely remain a budgetary pressure due to the plan's low funded ratio. We note management is actively managing these liabilities and making adjustments when needed.

We recognize Attleboro is funding the actuarially determined contributions for retirement and prefunding OPEB. We believe these liabilities could strain operations, particularly if economic or business conditions worsen and management does not meet, revise, or find actuary assumptions to be inadequate at current levels.

Adequate budgetary flexibility

Attleboro's budgetary flexibility is adequate, in our view, with available fund balance in fiscal 2017 of 7% of operating expenditures, or $9.5 million.

Officials indicate the city ended fiscal 2018 with another increase in available reserves. The fiscal 2019 budget includes a $749,000 fund-balance appropriation, but management does not currently plan to draw down fund balance during the next few fiscal years. Therefore, we expect budgetary flexibility will likely remain, at least, adequate as the city continues to build stabilization reserves in accordance with its reserve policy.

Very strong liquidity

In our opinion, Attleboro's liquidity is very strong, with total government available cash at 26.2% of total governmental-fund expenditures and 9.2x governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

Attleboro has issued GO bonds during the past 15 years, supporting its strong access to external liquidity. In addition, it does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, we do not expect liquidity to deteriorate during the next two fiscal years. Therefore, we expect Attleboro will likely maintain its very strong liquidity.

Weak debt-and-contingent-liability profile

In our view, Attleboro's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 2.8% of total governmental-fund expenditures, and net direct debt is 47.8% of total governmental-fund revenue. Negatively affecting our view of the city's debt profile is its significant medium-term debt plans. Overall net debt is low at 1.5% of market value, which is, in our view, a positive credit factor.

Following this issuance, Attleboro will have about $99 million in total direct debt outstanding. According to management, it could issue an additional $75 million of debt for various capital projects citywide during the next two years, including $70 million for the high-school project. The project's total cost should be about $259.9 million. Attleboro expects to receive a Massachusetts School Building Authority grant for 66.65% of project costs. In addition, the electorate approved the project for debt exclusion from Proposition 2 1/2. While the timing and final amounts could vary, based on these plans, we expect Attleboro's net direct debt to increase; we have incorporated this into our view of the city's debt profile.

In our opinion, Attleboro's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. Attleboro's combined required pension and actual OPEB contribution totaled 8.6% of total governmental-fund expenditures in fiscal 2017: 4.1% represented required contributions to pension obligations and 4.5% represented OPEB payments. The city made 100% of its annual required pension contribution in fiscal 2017. The largest pension plan's funded ratio is 62.3%.

Attleboro contributes to Attleboro Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the city's proportionate share of the net pension liability was about $77.4 million with 62.3% funded in fiscal 2017 based on an assumed rate of return of 7.875%. Due to the low funded ratio, we believe contributions will likely continue to increase during the next few fiscal years.

Attleboro provides OPEB to retirees. At July 1, 2017, the most recent actuarial valuation, it reported a $207.6 million OPEB liability. Attleboro has traditionally funded OPEB through pay-as-you-go financing. It paid $6.6 million, or 4.5% of expenditures, which was 35% of the annual required contribution, in fiscal 2017.

The OPEB trust fund has a current balance of roughly $490,000, according to the city. Officials plan to add an additional $135,000 to the trust annually. We note this is not enough to address the OPEB plan fully based on the liability growth rate. In our opinion, large growing pension and OPEB liabilities could add budgetary pressure.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Attleboro's strong local economy, supported by its access to the Providence MSA. We believe the city's strong management, strong budgetary performance, and very strong liquidity further support the rating. We think Attleboro's predictable operating profile and conservative management practices will likely support a balanced budgetary performance and maintenance of, at least, adequate available reserves. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

Over time, we could raise the rating if available reserves were to increase through consistent positive financial performance while management addresses long-term liabilities or if wealth and income were to continue to improve.

Downside scenario

While not expected, we could lower the rating if weak budgetary performance were to occur, resulting in significantly decreased available reserves, and if economic conditions were to weaken.

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

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.