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## Summary:

# North Attleborough, Massachusetts; General Obligation

### Primary Credit Analyst:

Victor M Medeiros, Boston + 1 (617) 530 8305; victor.medeiros@spglobal.com

### Secondary Contact:

Tyler Fitman, Boston (1) 617-530-8021; tyler.fitman@spglobal.com

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## Summary:

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### Credit Profile

US\$10.47 mil GO muni purp ln ser 2022 dtd 04/06/2022 due 04/01/2042

*Long Term Rating* AA+/Stable New

North Attleborough GO bnds

*Long Term Rating* AA+/Stable Upgraded

North Attleborough GO (AGM)

*Unenhanced Rating* AA+(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

## Rating Action

S&P Global Ratings raised its underlying rating to 'AA+' from 'AA' on North Attleborough, Mass.' general obligation (GO) debt. At the same time, we assigned our 'AA+' long-term rating to the town's series 2022 \$10.12 million GO municipal-purpose loan bonds. The outlook on all ratings is stable.

The rating revision reflects the town's ongoing positive operating results through the pandemic, supported by continued strengthening in its financial monitoring and budget development tools, leading to growth in reserves. We do not expect to change the rating further during the two-year outlook period.

North Attleborough'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 our view of the town's general creditworthiness because the ad valorem tax is not from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of North Attleborough's overall ability and willingness to pay debt service.

Officials plan to use proceeds for capital improvement projects.

## Credit overview

The rating reflects our view of the town's consistent positive financial operations and conservative budgeting, which have led to stronger reserves, even amid the pandemic. Its main revenues have proven resilient, and due to strong budgetary management, the town was able to produce an operating surplus in fiscal 2021, with another surplus anticipated in fiscal 2022. Following this issuance, the debt burden remains low comparatively, and retirement costs remain manageable despite the high liabilities. We believe ongoing economic development and a strong real estate environment should continue to translate into healthy tax base growth. Increasing assessed values (AVs) will keep tax rates steady and give management the ability to maintain strong overall financial flexibility to address short-term volatility stemming from the pandemic and position the town to manage its unfunded liabilities over the long term. We note that the town is receiving upward of \$8.5 million in funds from the American Rescue Plan Act (ARPA), and the

schools are also benefiting from Elementary and Secondary School Emergency Relief Funds (ESSER), which should provide support to operations over our outlook period.

The rating reflects our view of the town's:

- Strong growing per capita taxable market values, higher-than-average residential incomes as a percentage of the U.S., and participation in the broad and diverse Providence metropolitan statistical area (MSA) economy;
- Strong budgeting practices and good financial policies under our Financial Management Assessment (FMA) methodology, and strong Institutional Framework score;
- Robust budgetary performance exhibited over several years and increasing reserves and liquidity that should provide it flexibility to manage long-term liabilities; and
- Strong debt and contingent liability profile, with a net direct debt that is 35% of total governmental fund revenue. The town's debt burden is low and affordable when compared to its tax base. Pension and other postemployment benefits (OPEBs) are a long-term credit consideration that weigh down our assessment, but we believe costs should remain manageable.

### **Environmental, social, and governance**

We have analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

## **Stable Outlook**

### **Upside scenario**

While we do not anticipate changing the rating over our outlook horizon, over time, a consideration of a higher rating would require that the town demonstrate a record of sustaining operating reserves at very strong levels through a period of weak economic growth. A greater emphasis on forward-looking management and planning given the expectation of rising costs and stronger underlying economic metrics, are additional factors supporting an upgrade.

### **Downside scenario**

While not currently likely given recent operating performance, we could lower the rating if the debt and contingent liability profile leads to deterioration of its financial position because of unmanageable debt or increased retirement costs and liabilities.

## **Credit Opinion**

### **Strong local economic base benefiting from the broader regional economy within the broader Providence MSA**

North Attleborough is a residential community, about 30 miles south of Boston and 12 miles north of Providence, R.I. The town is off interstates 95 and 295, lending itself well to trade, transportation, and retail sectors; it also provides residents convenient access to additional jobs throughout the Providence-Warwick and Boston MSAs. Emerald Square Mall, a super-regional mall with more than 1 million square feet of retail space, is the town's leading employer, with

1,800 employees. Despite the presence of the mall, the tax base is very diverse, with the 10 leading taxpayers accounting for 5.5% of assessed value (AV).

Officials report the town's economy has remained stable in the past year. Although some small restaurants and businesses have closed due to the pandemic, we understand the town's largest employers and businesses remain operational and its real estate market continues to thrive. This includes the Emerald Mall, which saw a change in ownership recently. Currently, the new owners and developers are working with the town on projects around the mall area creating residential and new commercial developments.

Overall, property values in the town have been rising. Since 2018, taxable market values in North Attleborough have increased 20%, due in part to commercial and industrial development, but also because of general real estate appreciation. This has led to increasing new growth and property tax revenues and lower tax rates.

We note the county unemployment rate was comparatively high in 2020, increasing because of the stay-at-home orders. Unemployment remains above its average, but it has come down over the past few months as the economic recovery has taken hold. Strengthening of the macroeconomic environment is likely to further support continued growth in the tax base. (For more information on our view of the national economy, see the article, titled "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.)

### **Strong budgetary assumptions, monitoring, and capital planning highlight management's strengths**

The town's budgetary assumptions are conservative, with a minimum three-year historical trend analysis and quarterly reporting of budget-to-actuals to the council, including investment holdings. Town bylaws require management to prepare a five-year capital improvement plan (CIP) annually that identifies funding sources. North Attleborough also has a formal stabilization-reserve policy of maintaining 5% of expenditures. The town is compliant with this policy as of fiscal 2020. Its established debt-management policy limits GO debt in the general fund to 1.5% of equalized value (EV) and no more than 5% of EV for total indebtedness. Furthermore, the policy suggests keeping net debt service carrying charges at 7.5% of general fund expenditures.

### **Significant surplus in the most recent audited year leading to very strong reserves, with at least balanced operations expected in the near term despite growing costs**

North Attleborough has maintained consistent positive financial operations during the past several years, which we attribute to stronger emphasis on planning and budgeting. Since 2016, the town has produced five years of operating surpluses, which has led to a very strong unencumbered fund balance in fiscal 2021 of 17.6% of operating expenditures, or \$18.0 million. This is an overall improvement from \$3.7 million, roughly 4% of expenditures it had in reserves during fiscal 2016, illustrating marked improvement in its financial position.

At the onset of the pandemic, the town implemented several cost-saving initiatives to preserve operating stability. It lowered its revenue estimates in several key areas and kept a tight control of its operating budget. The town receives most of its general fund revenues from property taxes and intergovernmental aid, at 57% and 24%, respectively, and collections remain in line with previous years.

The town had a bottom-line fiscal 2021 general fund surplus of approximately \$7.1 million. We believe it is unlikely to maintain positive operating results of this magnitude, although we expect it will maintain at least balanced results over

the next few years. North Attleborough is receiving upward of \$8 million in funds from the ARPA, and the schools are benefiting from ESSER funds, which should continue and provide support to operations over our outlook period. North Attleborough anticipates earmarking the stimulus funds for eligible infrastructure and economic development initiatives.

The fiscal 2022 budget totals \$112.4 million, a 1.9% increase compared with fiscal 2021. The town increased the property tax levy by 4.2% to approximately \$65.5 million. Management indicates budget-to-actual results are currently on target and will continue to monitor some key revenue items throughout the year, including state aid and local receipts.

We note that the town successfully passed its first override in 2019, totaling \$6.5 million. Most of the override was to support key departments and avoid steep budgetary cuts. A successful override illustrates the community's willingness to exceed the limitations of Proposition 2-1/2 to support ongoing spending initiatives and ultimately maintain structural budgetary balance.

While we believe management will maintain structural balance, we imagine the town could face some long-term budgetary challenges as fixed costs associated with long-term liabilities, including pensions and OPEBs, continue to grow. This could place pressure on reserves and constrain the town's financial position if revenues don't keep pace. Favorably, North Attleborough's overall flexibility has improved along with its liquidity, providing management ample time to make proper budgetary adjustments.

### **Strong debt and contingent liability profile**

Following this bond issuance, North Attleborough will have about \$61.6 million of total direct debt outstanding. The town does not plan to issue any significant additional debt over the next two-to-three years, outside of its CIP.

Total governmental fund debt service is 2.9% of total governmental fund expenditures and net direct debt is 34.9% of total governmental fund revenue. Overall net debt is low, at 1.1% of market value, and approximately 67.4% of the direct debt is payable within 10 years, which are, in our view, positive credit factors.

Pension and OPEB highlights include:

- While the town is managing these costs, we think pension and OPEB liabilities will likely remain a long-term credit concern due to lower OPEB funding, large liabilities, and our expectation that costs will likely increase.
- Because the pension plan's actuarially determined pension contribution reflects what we view as somewhat weak assumptions and methodologies, particularly its discount rate, we imagine the risk of unexpected contribution escalations will likely increase. However, we also expect higher contributions will likely remain affordable, at least during the next few fiscal years, due to the strength of the town's revenue base, strong reserves, and conservative budgeting.
- Although OPEB liabilities are funded on a pay-as-you-go basis, which given claims volatility, as well as medical cost and demographic trends, is likely to lead to escalating costs, the town has legal flexibility to alter OPEB benefits, which we view as a potential means of mitigating escalating costs.

North Attleborough participated in the following plan as of June 30, 2021:

- North Attleborough Retirement System (NARS): 84% funded, a cost-sharing, multiple-employer, defined-benefit pension administered by the town with a net pension liability equal to \$29.4 million.
- A defined-benefit health care plan that provides retiree health care until death: 3.15% funded, with an OPEB liability of about \$161.5 million.
- North Attleborough's combined required pension and actual OPEB contributions totaled 9.2% of total governmental fund expenditures in 2021. Of that amount, 3.6% represented required contributions to pension obligations and 5.6% represented OPEB payments.

There is an actuarial plan to reach full funding within a closed 15 years, with a payroll growth assumption of 3%, which we believe should be sustainable and allow the plan to reach full funding within its planned timetable. However, with a 7.25% discount rate, the plan could also be susceptible to market-volatility risk.

North Attleborough also maintains an OPEB plan for eligible retirees. The plan's unfunded liability is sizable and has increased over the last few years. We understand the town plans to divert all pension funding after fiscal 2032 to its OPEB trust, which was \$3.5 million funded as of fiscal 2020. North Attleborough plans to add at least \$300,000 to the trust every year and increase this contribution by a minimum of \$50,000 year over year. The town plans to add about \$400,000 into the trust fund in fiscal 2021.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

North Attleborough, MA -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	133			
Market value per capita (\$)	152,263			
Population		29,810	29,393	
County unemployment rate(%)		10.2		
Market value (\$000)	4,538,971	4,259,287	4,087,036	3,968,090
Ten largest taxpayers % of taxable value	5.5			
<b>Very strong budgetary performance</b>				
Operating fund result % of expenditures		6.9	2.8	3.3
Total governmental fund result % of expenditures		7.3	4.0	4.8
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		17.5	12.1	9.8
Total available reserves (\$000)		18,087	12,511	9,587
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		29	30	32
Total government cash % of governmental fund debt service		1,026	854	877
<b>Strong management</b>				
Financial Management Assessment	Good			

**North Attleborough, MA -- Key Credit Metrics (cont.)**

	<u>Most recent</u>	<u>Historical information</u>		
		2021	2020	2019
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		2.9	3.5	3.6
Net direct debt % of governmental fund revenue	35			
Overall net debt % of market value	1.0			
Direct debt 10-year amortization (%)	67			
Required pension contribution % of governmental fund expenditures		3.6		
OPEB actual contribution % of governmental fund expenditures		5.6		

**Strong institutional framework**

EBI--Effective buying income. OPEB--Other postemployment benefits.

**Related Research**

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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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