

RatingsDirect®

Summary:

Duxbury, Massachusetts; General Obligation

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Credit Profile

US\$3.489 mil GO mun purp loan bnds ser 2014 dtd 06/06/2014 due 12/15/2023

<i>Long Term Rating</i>	AAA/Stable	New
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Duxbury Twn GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Duxbury, Mass.' \$3.2 million series 2014 general obligation (GO) municipal purpose loan bonds. We also affirmed our 'AAA' long-term rating on the town's outstanding GO debt. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. The rating is based on Standard & Poor's local GO criteria released Sept. 12, 2013, on RatingsDirect.

Proceeds will be used to finance renovations to the Powder Point Bridge and for other water enterprise-related purposes.

Our opinion reflects the following factors for the town, specifically its:

- Very strong economy with access to the diverse Boston metropolitan statistical area (MSA);
- Strong management environment and a "good" financial management policies under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas;
- Strong budgetary flexibility with fiscal 2013 available reserves of 13.3% of general fund expenditures and no plans to draw them down materially;
- Strong budgetary performance and stable revenue profile that is largely independent of state and federal revenues;
- Very strong liquidity, providing very strong cash to cover debt service and operating expenditures; and
- Weak debt and contingent liabilities position attributed to a sizable school building construction project, weakened further by our view of the town's exposure to sizable pension and other postemployment benefit (OPEB) liabilities, although we acknowledge management is proactively managing them.

Very strong economy

Duxbury's local economy is, in our view, very strong, with projected per capita effective buying income at 208% of the national average and per capita market value at roughly \$216,000. In our view, residents benefit from participation in the broad and diverse Boston MSA. According to the U.S. Bureau of Labor Statistics, Plymouth County unemployment was 7.2% in 2013. Based on our forecasts, we expect that employment growth will likely continue modestly through 2015 and that unemployment will likely remain steady.

Strong management

Duxbury's management conditions are, in our view, strong with "good" financial 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. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and a long-term financial plan. The town also maintains a basic debt management policy and informal reserve and liquidity policies.

Very strong budgetary flexibility

Duxbury's budgetary flexibility is, in our view, very strong, with available reserves at 13.3% of operating expenditures in fiscal 2013. We expect reserves to be maintained at these levels over the next few years because we understand officials do not currently plan to draw on them considerably. In addition, we anticipate budgetary performance remaining stable.

Very strong liquidity

We believe very strong liquidity supports Duxbury's finances, with total government available cash to government fund expenditures and cash to debt service at 20% and 1.8x, respectively. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Strong budgetary performance

In our opinion, Duxbury's budgetary performance is strong overall. Despite a challenging revenue environment over the past several fiscal years, Duxbury's operations have remained positive. We believe good financial planning, conservative budgeting, and an improving economy have lead to a stable budgetary environment. In 2013, the town reported a slight deficit of 0.2% for the general fund. Across all governmental funds, however, the town reported a surplus of 2.1%.

For fiscal 2014, the town expects balanced operating results. Based on our macroeconomic forecasts, (please see "U.S. State And Local Government Credit Conditions Forecast," published April 7, 2014, on RatingsDirect), credit conditions in New England remain stable, which should translate to ancillary revenue and taxable levy growth coming in as expected. In our view, however, management will need to remain proactive to ensure spending remains in line with revenue.

Weak debt and contingent liabilities

We view Duxbury's debt and contingent liabilities profile as weak. The town has roughly \$96.9 million of total direct debt outstanding, roughly \$3.5 million of which is self-supporting enterprise debt. Net direct debt is 111% of total governmental funds revenue, and total governmental funds debt service is an estimated 11% of total governmental funds expenditures in 2014.

In our view, Duxbury's pension and OPEB liabilities are large, but we acknowledge management has been proactively managing them. Currently, the combined annual pension and OPEB cost is a manageable 6% of total government expenditures. We believe, however, costs will rise over the next few years due to the low funding levels of the liabilities. The town participates in the Plymouth County retirement system and contributes 100% of the required amount. In fiscal 2013, Duxbury paid \$2.3 million, or about 3.2% of expenditures. As of Jan. 1, 2012, the system as a

whole was 49% funded; Duxbury's portion of the total unfunded actuarial accrued liability was \$32.9 million. Due to the county retirement system's below-average funded ratio, we believe this will remain a growing cost for the town over the next few years. Duxbury also provides OPEBs to retirees. As of the last actuarial valuation, the town reported a \$66 million OPEB liability. Duxbury has traditionally funded this through pay-as-you-go financing; it paid \$2.4 million into the fund in fiscal 2013.

Strong institutional framework

We consider the Institutional Framework score for Massachusetts towns strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Duxbury's strong management and very strong economy due to high wealth and incomes and location within the Boston MSA. We do not expect to change the rating within the next two years because we believe the town will likely maintain what we consider strong reserves and balanced operations.

In addition, we expect Duxbury will not likely add to its debt burden as there are no sizable long-term capital needs that will push debt measures higher. Due to its weak debt and liabilities profile, credit factors that could lead to a negative rating action would include deterioration of budgetary performance and weakened reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- Institutional Framework Overview: Massachusetts Local Governments

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