

RatingsDirect®

Summary:

Duxbury, Massachusetts; General Obligation

Primary Credit Analyst:

Timothy J Daley, Boston (1) 617-530-8121; timothy.daley@standardandpoors.com

Secondary Contact:

Christina Marin, Boston 617-530-8312; christina.marin@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Duxbury, Massachusetts; General Obligation

Credit Profile

US\$4.5 mil sch bnnds dtd 06/30/2015 due 06/15/2025

Long Term Rating AAA/Stable New

Duxbury Twn GO

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Duxbury, Mass.' \$4.5 million series 2015 general obligation (GO) municipal purpose loan bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

Duxbury's full-faith-and-credit pledge secures the bonds. Proceeds will finance the town's school construction project.

The 'AAA' long-term rating reflects the following factors for Duxbury:

- Very strong economy, with access to the broad diverse Boston metropolitan statistical area (MSA);
- Strong management environment, with "good" financial management policies under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental funds level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 12.4% of operating expenditures and no plans to draw them down materially;
- Very strong liquidity, with total government available cash of 32.1% of total governmental fund expenditures and 3x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 10.6% of expenditures and net direct debt that is 107.9% of total governmental fund revenue and low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Duxbury's economy very strong. The town, with an estimated population of 15,384, is located in Plymouth County in the Boston-Cambridge-Newton, Mass., MSA, which we consider to be broad and diverse. Duxbury has a projected per capita effective buying income of 209% of the national level and per capita market value of \$227,926. Overall, the town's market value grew by 7.0% over the past year to \$3.5 billion in 2015. The county unemployment rate was 6.0% in 2014.

Duxbury is predominately residential with a small commercial component. Despite the local economy's limited nature, residents have access to employment opportunities in the Boston MSA via Route 3, Massachusetts Bay Transportation

Authority commuter rail, and water ferry service in a neighboring town. Based on our forecasts, we expect that employment growth will likely continue modestly through 2016 and that unemployment will likely remain steady. The town's tax base has grown during the economic recovery and, in line with our regional forecast, management expects modest growth to continue in the next two years.

Strong management

We view the town's management conditions as 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, which is rooted in long-term financial planning. We believe there is strong oversight in terms of monitoring progress against the budget during the year with management preparing monthly reports for town meeting, which includes the school department's performance. Duxbury maintains a 10-year long-term financial plan with revenue and expenditure projections, and a five-year capital improvement program that it updates annually. Management recently implemented a formal debt management policy that it will review occasionally, and dictates that debt service paid on bonds and notes in a given year should not exceed 15% of the general fund budget. The town also maintains its own investment policy that is conservative in nature and requires quarterly, semiannual, and annual reporting of performance and account information. In addition, Duxbury has a formal reserve policy of sustaining its stabilization reserve at 5% of general fund operating expenditures. However, the town is not currently complying with its policy, because the stabilization fund equaled 4.5% of general fund expenditures as of June 30, 2014.

Strong budgetary performance

Duxbury's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of negative 0.2% of expenditures, and slight surplus results across all governmental funds of 1.2% in fiscal 2014.

Despite stressed revenues in the past several fiscal years, Duxbury's operations have remained stable. We believe good financial planning, conservative budgeting, and an improving economy have led to a stable budgetary environment. Our total governmental funds result includes adjustments of \$35.4 million and \$562,000 for one-time capital outlay financed by bond proceeds in the town's co-located school and non-major governmental funds, respectively.

Duxbury's fiscal 2015 budget totals \$68.9 million and management expects to close the year with at least balanced operations. We understand the town experienced a \$390,000 snow and ice deficit, which free cash generated will cover during the fiscal year; since fiscal 2010 the town has generated between \$2 million and \$4 million in free cash. Furthermore, based on our macroeconomic forecasts (see "U.S. State And Local Government Credit Conditions Forecast: The Economy Looks To Pick Up Steam In 2015 After A Slow Start," published April 2, 2015, on RatingsDirect), credit conditions in New England are stable, which should translate to ancillary revenue and taxable levy growth coming in as expected.

Town management indicates the fiscal 2016 budget will be about 3% bigger than the previous year's budget, and does not include a free cash appropriation for operations. Duxbury's leading revenue sources include property taxes, state aid, and motor vehicle excise tax, which account for 70.0%, 18.0%, and 3.5% of general fund revenues, respectively. In the past five years, the town's tax levy is more than 98% current. We believe Duxbury will maintain a stable budgetary

performance in the next two years given the stability and predictability of the town's primary revenue source; the stable credit conditions within the state; and the very strong management environment, with a focus on long-term financial and capital planning. At the same time, in our view, management will need to remain proactive to ensure spending remains in line with revenue.

Strong budgetary flexibility

Duxbury's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 12.4% of operating expenditures, or \$9.3 million. The unassigned general fund balance includes the town's stabilization reserves. In the past three fiscal years, Duxbury's budgetary flexibility has ranged from \$8.7 million to \$9.5 million. We understand management does not have plans to materially spend down reserves. Given management's projections for fiscal 2015, and our assessment of the town's projected stable budgetary performance, we believe Duxbury's budget flexibility will remain strong in the next two fiscal years.

Very strong liquidity

We believe very strong liquidity supports the town's finances, with total government available cash to government fund expenditures and cash to debt service at 32% and 3x, respectively. Based on past issuance of debt, we believe that Duxbury has strong access to capital markets to provide for liquidity needs if necessary. Our total governmental cash includes an adjustment of \$4.2 million for investments we consider liquid within the general fund, and restricted cash comprised of bond proceeds and other trust funds outside of the general fund. We do not expect the town's liquidity metrics to change in the next two fiscal years.

Adequate debt and contingent liabilities

In our view, Duxbury's debt and contingent liability profile is adequate. Total governmental fund debt service is 10.6% of total governmental fund expenditures, and net direct debt is 107.9% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is, in our view, a positive credit factor. After this issue, the town has about \$95.8 million of total direct debt, about \$3.9 million of which is self-supporting enterprise debt. We understand Duxbury expects to issue about \$4 million in additional debt in the next two years for the remainder of the school project. Management indicates it will issue the debt as principal is amortized to maintain a level debt burden. We do not expect this issuance to affect the town's debt metrics.

Duxbury's combined pension and other postemployment benefits (OPEB) contributions totaled 5.8% of total governmental funds expenditures in 2015. Of that, 3% were contributions to pension obligations and 2.8% represented OPEB payments.

The town participates in the Plymouth County retirement system and contributes 100% of the required amount. In fiscal 2014, Duxbury paid \$2.5 million, or about 3% of expenditures. As of Jan. 1, 2013, the system as a whole was 50.5% funded; Duxbury's portion of the total unfunded actuarial accrued liability was \$29.7 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 most recent actuarial valuation, the town reported a \$44 million OPEB liability. We note that Duxbury reduced its unfunded OPEB liability from \$87 million due to amendments to retiree benefits. The town has traditionally funded this through pay-as-you-go financing; it paid \$2.4 million into the fund in fiscal 2014. It has also established an OPEB trust fund, which is currently 2% funded. We understand

management plans to contribute \$300,000 per year.

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 very strong management and very strong economy due to high wealth and incomes and location within the Boston MSA. We do not expect to raise or lower the rating within the next two years because we believe the town will likely maintain what we consider strong reserves and a balanced budgetary performance.

We believe management will continue to manage the rising fixed costs associated with its pension and OPEB obligations. While unlikely, deterioration in budgetary performance or weakened available reserves could result in a negative rating action.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Institutional Framework Overview: Massachusetts Local Governments

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 the left column.

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.