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Summary:

Duxbury, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$3.528 mil GO sch bnds due 06/11/2027

Long Term Rating

AAA/Stable

New

Duxbury Twn GO

Long Term Rating

AAA/Stable

Affirmed

Duxbury Twn GO mun purp rfdg bnds dtd 08/04/2015 due 08/04/2020

Long Term Rating

AAA/Stable

Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' long-term rating to the town of Duxbury, Mass.' \$3.528 million series 2017 general obligation (GO) school bonds. At the same time, we affirmed our 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's faith-and-credit pledge secures the 2017 bonds. Notably, the town is subject to the limitations of Proposition 2-1/2. Despite general limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge on certain debt issues given the town's reserves and budgetary flexibility under the levy cap. The 2017 bonds are excluded from the limitations of Proposition 2-1/2. Bond proceeds will be used toward previously authorized school construction projects.

The town is rated above the sovereign because we believe Duxbury can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2015, 74% of the town's revenue was derived from local property taxes, demonstrating a lack of dependence on central government revenues.

The 'AAA' long-term rating reflects the following factors for Duxbury, including our opinion of its:

- 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 (FMA) Assessment methodology;
- Strong budgetary performance, with slight operating deficits in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 11.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.5% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 9.5% of expenditures and net direct debt that is 96.0% of total governmental fund revenue, as well as 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 15,503, is in Plymouth County 35 miles south of Boston in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 184% of the national level and per capita market value of \$241,741. Overall, market value grew by 3.2% over the past year to \$3.7 billion in 2017. The county unemployment rate was 3.9% in 2016.

The town is predominately residential affluent community with a small commercial component. Residential properties account for 96% of the property tax base in fiscal 2017. Assessed value for the town continues to grow with new developments under construction or in the permitting phase. The town's new growth has been robust in recent years, increasing each year and well above its five-year average. We note that despite the local economy's limited nature and relatively modest commercial base, 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.

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.

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, which include the school department's performance, for the town meeting. 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 maintains 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 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.

Strong budgetary performance

Duxbury's budgetary performance is strong, in our opinion. The town had slight operating deficits of negative 0.8% of expenditures in the general fund and negative 0.5% across all governmental funds in fiscal 2016.

In our analysis of budgetary performance, we net out approximately \$4.4 million in general fund expenditures that was considered refunded principal, and also roughly \$4.1 million in capital paid from bond proceeds in the school construction fund. Our analysis also factors recurring transfers out of the general fund into the Percy Walker pool fund.

The stable operating result in 2016 was a result of conservatively estimating expenditures and revenues that outperformed budget. Revenues exceeded the budget by more than \$1.8 million. Looking ahead, town officials are expecting similar budgetary results in 2017 as expenditures have been within budget and revenues have remained on target. For fiscal 2018, town officials anticipate similar operating performance as in years past.

With Duxbury's property tax levy accounting for more than 75% of total revenue, the town benefits from property tax base diversity and strength. In our opinion, tax collections have historically remained strong; current collections have averaged 99% over the past five years. Including delinquent-tax collections for the previous year, the town has exceeded 100% of its tax levy.

We expect strong budgetary performance over the next few years because the budgetary environment is stable. Looking ahead, however, we believe future pensions costs will remain a budgetary pressure given the low funded ratio of the county-administered plan. We note management is actively managing these liabilities and making adjustments when needed. Duxbury is funding the actuarially determined contributions (ADCs), and prefunding a modest amount into other postemployment benefit liabilities (OPEBs). We believe these liabilities may strain future operations, particularly if economic or business conditions worsen and actuary assumptions are not met, revised, or found to be inadequate at the county level.

Strong budgetary flexibility

Duxbury's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 11.9% of operating expenditures, or \$9.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 11.6% of expenditures in 2015 and 12.4% in 2014.

We expect budgetary flexibility to remain strong. The town maintains a policy for keeping its stabilization fund balance at a minimum of 5% of the annual combined expenditures. Overall reserves, however, have well exceeded the target. As mentioned, we anticipate Duxbury maintaining strong budgetary performance. The town also maintains a growing unused levy capacity exceeding \$300,000, which allows it to raise the levy above the levy limitations to that amount without voter approval.

Very strong liquidity

In our opinion, Duxbury's liquidity is very strong, with total government available cash at 29.5% of total governmental fund expenditures and 3.1x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

Duxbury's liquidity profile is expected to remain very strong as there is no expectation of any significant deterioration of cash balances. The town also maintains strong access to external liquidity by frequently issuing debt for any capital project needs. In addition, we note Duxbury is not aggressive with its use of investments. It does not currently have any variable-rate or direct-purchase debt, reducing its exposure to any contingent liquidity risks.

Adequate debt and contingent liability profile

In our view, Duxbury's debt and contingent liability profile is adequate. Total governmental fund debt service is 9.5% of total governmental fund expenditures, and net direct debt is 96.0% of total governmental fund revenue. Overall net debt is low at 2.3% of market value, which is, in our view, a positive credit factor.

After this issue, the town has about \$86.5 million of total direct debt, about \$2.9 million of which is self-supporting enterprise debt. We understand Duxbury does not maintain any substantial capital needs that will materially change its debt profile.

Duxbury's combined required pension and actual OPEB contributions totaled 5.6% of total governmental fund

expenditures in 2016. Of that amount, 3.5% represented required contributions to pension obligations, and 2.1% represented OPEB payments. The town made its full annual required pension contribution in 2016.

The town participates in the Plymouth County Retirement System and contributes 100% of the required amount. In fiscal 2015, its proportion of the net pension liability was \$31.4 million, and the plan fiduciary net position was 58%. 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 \$39.7 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; however it has been prefunding the liability and established an OPEB trust fund, which is now currently 4% funded.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion of Duxbury's strong management and very strong economy due to high wealth and incomes and location in the Boston MSA. We do not expect to 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 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

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