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Ratings

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Summary:
Duxbury, Massachusetts; General Obligation

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Credit Profile		
US$3.015 mil GO mun purp loan ser 2022A dtd 04/11/2022 due 04/01/2042		
Long Term Rating	AAA/Stable	New
US$1.5 mil GO mun purp loan ser 2022B dtd 04/11/2022 due 04/01/2037		
Long Term Rating	AAA/Stable	New
Duxbury Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the Town of Duxbury, Mass.' $3.015 million series 2022A general obligation (GO) municipal-purpose loan bonds and $1.5 million GO land acquisition bonds series 2022B. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

The town'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 Duxbury's general creditworthiness because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on resource fungibility, which supports our view of the town's overall ability and willingness to pay debt service. We understand officials intend to use series 2022A bond proceeds to take out a portion of existing bond anticipation notes that mature on April 12, 2022, finance HVAC improvements for Chandler School, and supplement grant funding for seawall repairs. Duxbury plans to use the 2022B bond proceeds for the acquisition of community preservation properties that will be used for green space and agricultural purposes.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we rate Duxbury higher than the sovereign because we believe the town can maintain better credit characteristics than the nation 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 2021, local property taxes generated 69% of revenue, which demonstrates a lack of dependence on central government revenue.

Credit overview

The rating reflects our opinion that management will likely maintain strong budgetary performance, supported by continued property tax revenue strength, despite additional debt plans. We think growing revenue will likely continue to provide fiscal stability during the next few fiscal years. We expect Duxbury will likely manage long-term retirement liabilities appropriately to remain affordable due to its sizable and wealthy tax base and management's strong planning for current and future challenges; among other things, this includes the formal adoption of climate-resiliency and hazard-mitigation plans that should help Duxbury evaluate and prepare for climate-change challenges. We do not expect to change the rating during the two-year outlook period.

Our view of the town's general creditworthiness reflects Duxbury's:

- Very strong wealth and incomes levels, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology, coupled with a strong institutional framework score;
- Positive net operating results in recent years bolster the town's reserve levels; and
- Low overall net debt metrics, coupled with manageable fixed costs.

Environmental, social, and governance

We analyzed Duxbury's environmental, social, and governance (ESG) risks relative to the town's economy, management, financial measures, and debt and liability profile. Duxbury is a coastal community, with waterfront property along the Atlantic Ocean, and therefore has exposure to environmental risks such as sea-level rise, storm surge, and flooding. The town has actively begun to address concerns related to chronic physical risks related to rising sea levels from climate change that could directly affect taxable infrastructure and roadways . Duxbury adopted formal hazard-mitigation and climate-resiliency plans in 2018 to study and plan for potential rising sea levels projected to rise 2.5 feet by 2050 and 7.7 feet by 2100. The plans include implementation guidelines, costs, and potential funding sources for adaptation improvements. We consider Duxbury's social and governance risks in line with those of the sector.

Stable Outlook

Downside scenario

Although we do not expect it to occur during the outlook period, we could lower the rating if fiscal performance were to weaken, resulting in sustained reserve reductions or materially increased debt beyond expectations.

Credit Opinion

Strong tax base growth fueled by appreciation and access to the Boston MSA

The predominately residential Duxbury has a small commercial component. Assessed value continues to rise with new developments under construction or in the permitting phase, including new residential subdivisions and multi-family developments currently underway. Assessed value increased at a stronger rate of 14% in 2022 in large part due to appreciation of values, compared with the average growth rate of 5% per year for the five years previous. We expect the town's market value per capita will remain extremely strong.

We note that despite the local economy's limited nature and relatively modest commercial base, Duxbury is intertwined with the broader Boston MSA. Town residents have access to employment opportunities in Boston and the surrounding employment centers. Duxbury is well connected to downtown Boston via Route 3, Massachusetts Bay Transportation Authority commuter rail, and water ferry service from a neighboring town. Therefore, we expect the town's economy will likely remain very strong with wealth levels well above the national average.

Well-embedded practices and policies in place

Duxbury's financial management assessment strengths include strong revenue and expenditure assumptions when budgeting, rooted in long-term financial planning. We think there is strong oversight in terms of monitoring performance against the budget during the year with management preparing monthly reports that include its school's performance for the town meeting. Duxbury maintains a long-term financial plan with a five-year time horizon that it updates annually, with revenue and expenditure projections, and a five-year capital improvement program it updates annually. Management maintains a formal debt management policy, which it reviews occasionally; the policy dictates total bond and note debt service should not exceed 15% of the general fund budget. Duxbury also maintains its own conservative investment policy that requires quarterly, semiannual, and annual reporting on performance and account information to the board. In addition, management's formal reserve policy calls for sustaining stabilization reserves at a minimum 5% of general fund operating expenditures, net of tax-levy-exempt debt service. The policy also calls for maintaining free cash at 3%-5% of general fund revenue, net of tax-levy-exempt debt service. Duxbury is currently compliant with these targets. The town's formal reserve policy limits stabilization reserves to 5%-10% of operational expenditures, net of tax-levy-exempt debt service. The town has historically adhered to this policy.

The town has several protective measures in place to prepare for, respond to, and recover from cybersecurity threats. Duxbury participates in the Massachusetts Cybersecurity Awareness program, a state grant program, that supports local government efforts to improve overall cybersecurity posture through comprehensive online end-user training, evaluation, and threat simulation.

Consecutive net operating surpluses contribute to improvement in reserves to very strong levels

Management attributes recent operating surpluses to conservative budget assumptions having adopted the budget at the height of the COVID-19 pandemic in the summer of 2020. The budget assumed revenues would trend $2.0 million under actual revenues and there were $3.0 million in unexpended appropriations and ultimately contributing to a $3.2 million operating surplus. Duxbury has a strong and stable residential tax base. Property tax has remained a stable revenue stream for the town having generated 71% of total revenue in fiscal 2021.

The fiscal 2022 budget totals $84 million and is relatively level with the fiscal 2021 budget. Revenue assumptions have been adjusted due to stronger-than-anticipated performance realized in the previous fiscal year. The budget is currently trending favorably and we expect another operating surplus at fiscal year-end. The fiscal 2023 proposed budget is 3.5% higher than the current budget and will include $2 million in excess levy capacity, which will allow for additional budget flexibility should a contingency arise. The town is anticipating $1.8 million in federal stimulus funds from Plymouth County and is preliminarily considering using these funds on air purification devices, stormwater improvements, and technology enhancements.

Due to positive operating fund performance, overall reserves have improved to a very strong level in fiscal 2021 from a strong level in fiscal 2018. The town maintains a policy of keeping stabilization fund balance at a minimum 5% of annual combined expenditures, minus any tax-levy-exempt debt service. Overall reserves, however, have exceeded the target. The town does not currently expect to draw down reserves.

Duxbury maintains strong access to external liquidity due to the town's history of issuing debt for capital projects. In addition, we note Duxbury is not aggressive with its investments. The town has one direct borrowing, a series 2009 drinking water loan, with $1.4 million principal outstanding. On review of the terms of the agreement, we view the events of default and remedies as standard and therefore do not consider this as a contingent liability risk. Duxbury invests cash in savings instruments, such as government-sponsored enterprise debt, U.S. Treasury notes, and money-market mutual funds.

Low overall net debt burden and above-average amortization of principal

With this issuance, the town will have about $62.6 million in total net direct debt outstanding after accounting for about $2.2 million that is self-supported with the water fund enterprise. Duxbury's amortization rate is above average, with nearly 65% of principal scheduled to retire within 10 years. The town will have about $178,318 in authorized but unissued debt remaining with $103,318 for seawall repairs and $75,000 remaining for land acquisition. Town officials identified the potential to issue about $22.8 million for a new Department of Public Works facility, a PFAS (perfluoroalkyl and polyfluoroalkyl substances) filtration project, and brush breaker replacement during the next two-to-three years. We have incorporated the town's additional debt plans into our analysis and do not anticipate the debt profile will deteriorate in a material way.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate source of credit pressure for Duxbury despite lower funding levels and our expectation that costs will increase.
- Because the town's pension actuarially determined contribution (ADC) is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of Duxbury's revenue base.
- 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, Duxbury has legal flexibility to alter OPEB benefits, which we view as a potential means to mitigate escalating costs.

As of the town's 2021 audit, Duxbury participated in the following plans:

- Plymouth County Retirement Association (PCRA) plan; funded at 67.9% , a proportionate share of the net pension liability at $31.6 million; and
- A OPEB liability; funded at 9.4%, with a liability of $41.2 million.

The town's pension plan is a cost-sharing, multiple-employer, defined-benefit plan. In our view, a discount rate of 7.88%, in excess of our 6.00% guideline, for Duxbury's pension plan could lead to contribution volatility. The town has historically funded 100% of the ADC and contributions were in excess of both static funding and minimal funding progress. Duxbury, however, sets aside reserves in a separate fund to smooth the effect of potentially volatile required pension payments; this fund also demonstrates management's proactive stance in preparing for potential upcoming challenges. The town's pension trust stabilization fund balance was $1.6 million as of the 2021 audit, which somewhat mitigates cost escalation risk in the near term.

Management traditionally funds OPEB through pay-as-you-go financing; however, it has been prefunding the liability. In addition, management established an OPEB trust fund, which totaled $4.3 million in fiscal 2021. The town expects to contribute a minimum of $300,000 into the trust fund annually, pursuant to its OPEB policy, until the pension liability is fully funded by 2030. Once the pension liability is fully funded, the full contributions--estimated at $1.8 million--will be dedicated to paying down the OPEB liability. Although we think the establishment, and continued funding, of reserves for pension and OPEB should help manage potential short-term contribution increases, we expect these costs could pressure the long-term budget due to low funding ratios and sizable liabilities.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Duxbury, Mass.--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	160			
Market value per capita ($)	328,185			
Population (no.)		15,952	16,018	15,897
County unemployment rate(%)			9.5	
Market value ($000)	5,235,211	4,579,778	4,377,657	
Ten largest taxpayers % of taxable value	3.4			
Strong budgetary performance				
Operating fund result % of expenditures		3.5	1.2	1.5
Total governmental fund result % of expenditures		1.4	0.3	(0.6)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		18.3	16.2	14.6
Total available reserves ($000)		16,828	14,718	12,754
Very strong liquidity				
Total government cash % of governmental fund expenditures		29	22	21
Total government cash % of governmental fund debt service		379	278	257
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.6	8.0	8.1
Net direct debt % of governmental fund revenue	57			
Overall net debt % of market value	1.2			
Direct debt 10-year amortization (%)	65			
Required pension contribution % of governmental fund expenditures		4.0		
OPEB actual contribution % of governmental fund expenditures		2.5		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2021 Update Of Institutional Framework For U.S. Local Governments