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Summary:

Duxbury, Massachusetts; General Obligation

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Credit Profile		
US$4.5 mil sch bnds 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 managements 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.

Adequatedebt 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.