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Summary:

Duxbury, Massachusetts; General Obligation; Note

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Credit Profile

US\$4.851 mil GO BANs dtd 06/25/2018 due 04/18/2019

Short Term Rating

SP-1+

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 assigned its 'SP-1+' short-term rating on the 'Town of Duxbury, Mass.' series 2018 general obligation (GO) bond anticipation notes (BANs). At the same time, we affirmed our 'AAA' long-term rating on the town's outstanding GO debt. The outlook, where applicable, is stable.

The short-term rating reflects our view of the town's very strong capacity to pay principal and interest when the BANs come due. The town maintains a low market-risk profile with strong legal authority to issue long-term debt to take out the BANs, and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The town's full faith and credit pledge, subject to the limits of Proposition 2 1/2, secures the BANs. The BANs are subject to Proposition 2 1/2 and are therefore a limited GO. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018). Due to the town's operating flexibility under the Proposition 2 1/2 limits, we have not made a rating distinction between the limited and unlimited nature of pledges. Proceeds will be used for various capital projects throughout the town. 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 2017, 71% of the town's revenue was derived from local property taxes, demonstrating a lack of dependence on central government revenues.

- 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 Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Strong budgetary flexibility, with an available fund balance in fiscal 2017 of 12.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.2% of total governmental fund expenditures and

2.4x governmental debt service, and access to external liquidity we consider strong;

- Adequate debt and contingent liability position, with debt service carrying charges at 9.2% of expenditures and net direct debt that is 87.8% 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 15,619, is located in Plymouth County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 189% of the national level and per capita market value of \$255,971. Overall, the town's market value grew by 6.7% over the past year to \$4.0 billion in 2018. The county unemployment rate was 3.9% in 2016.

The town is predominately residential community with a small commercial component. 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, although growth in 2018 was likely above normal and may abate slightly going forward. We note that despite the local economy's limited nature and relatively modest commercial base, the town is intertwined with the broader Boston MSA and residents have access to employment opportunities in Boston and the surrounding employment centers. The town is well connected to downtown Boston 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 Financial Management Assessment 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 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 performance 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. The town plans to update its financial planning policy in the next year.

Management maintains a formal debt management policy, which it reviews occasionally, and dictates that total debt service paid on bonds and notes 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 surplus operating results in the general fund of 0.8% of expenditures, and surplus results across all governmental funds of 1.6% in fiscal 2017.

In our analysis of budgetary performance, we account for recurring transfers out of the general fund into the Percy Walker pool fund, the special one-time accounting cost of absorbing that fund into the general fund, and several recurring transfers between nongovernmental funds, enterprise funds, and the general fund.

Management attributes the balanced operating result in 2017 to conservatively estimating expenditures and revenues that outperformed those budgeted. For fiscal 2018, town officials anticipate similar operating performance, with operating revenues and expenditures on budget. However, the town needed to make emergency expenditures related to damages caused by a March, 2018 nor'easter, which damaged the town's seawall and Percy Walker pool. The town may need to issue additional debt in the near future to address remaining damage to the seawall.

Duxbury has a strong and stable residential tax base, with property taxes accounting for 71% of total revenue in fiscal year 2017. In our opinion, tax collections have historically remained strong; current collections have averaged 99% over the past five years. The town's practice of conservatively budgeting to receive property tax revenues of just 85% of the prior year should provide flexibility for any variances. However, tax assessment appeals from two of the top 10 principal taxpayers may pressure revenues in the next few years. These appeals are ongoing; at this time we do not believe they will significantly affect the town's operating revenues.

We expect strong budgetary performance over the next few years because the budgetary environment is stable. Looking ahead, however, we believe future pensions costs could become 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 (ADC) for pension costs, and prefunding a modest amount annually into the town's other postemployment benefit liabilities (OPEB) trust fund. We believe these liabilities may strain future operations, particularly if economic conditions worsen, or if actuary assumptions are not met, revised to be more conservative, 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 2017 of 12.4% of operating expenditures, or \$10.0 million.

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. Duxbury maintained an available fund balance of over \$10 million, or 12.4% of general fund expenditures, at the end of fiscal year 2017. As mentioned, we anticipate Duxbury maintaining strong budgetary performance, allowing them to maintain reserves near current levels.

Very strong liquidity

In our opinion, Duxbury's liquidity is very strong, with total government available cash at 22.2% of total governmental fund expenditures and 2.4x governmental debt service in 2017. 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. The town invests cash in savings instruments such as Government Sponsored Enterprise debt, U.S. Treasury Notes, and Money Market Mutual Funds.

Adequate debt and contingent liability profile

In our view, Duxbury's debt and contingent liability profile is adequate. Total governmental fund debt service is 9.2% of total governmental fund expenditures, and net direct debt is 87.8% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is in our view a positive credit factor.

Our view of the town's debt profile accounts for self-supporting enterprise debt. We understand Duxbury does not have any substantial capital needs that will materially change its debt profile. The town does expect to issue additional debt to fund upcoming capital projects, including a improvements to a DPW facility, repairs to a historic bridge, and reconstruction of a portion of the seawall.

Duxbury's combined required pension and actual OPEB contributions totaled 5.74% of total governmental fund expenditures in 2016. Of that amount, 3.57% represented required contributions to pension obligations, and 2.17% represented OPEB payments. The town made its full annual required pension contribution in 2017.

The town participates in the Plymouth County Retirement System and contributes 100% of the required amount. As of June 30, 2017, its proportionate share of the net pension liability was \$32.7 million. The plan's funded ratio is 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. The town does, however, set 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 fund had \$1.25 million in reserves as of fiscal year 2017. Duxbury also provides OPEBs to retirees. As of the most recent actuarial valuation, the town reported a \$49.9 million net OPEB liability. 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. The town expects to continue contributing to this fund and is exploring increasing the annual contribution.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view that Duxbury's management will maintain strong budgetary performance, supported by continued property tax revenue strength, despite plans for additional debt. The town's growing revenues will continue to provide fiscal stability in the near term. As a result, we do not expect to change our rating in the next two years.

Factors that could result in negative rating pressure are a decline in fiscal performance that results in a sustained

reduction of reserves or a material rise in debt liability levels beyond expectations, although we do not anticipate this will occur in the next two years.

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