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Ratings

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Summary:

Duxbury Town, Massachusetts; General Obligation

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Credit Profile		
US$4.665 mil GO mun purp loan bnds ser 2019 dtd 04/11/2019 due 04/01/2034		
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 assigned its 'AAA' rating and stable outlook to Duxbury, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, 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 2018, local property taxes generated 71% of revenue, which demonstrated a lack of dependence on central government revenue.

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 2019 bond proceeds to finance the town's bond anticipation notes outstanding permanently.

We think the town maintains a very strong economy, supported by a wealthy property tax base and high income, coupled with access to the Boston metropolitan statistical area (MSA). In our opinion, stable financial operations and very strong management, including comprehensive policies and practices, support the rating further. Although we think long-term retirement liabilities and costs pressure the budget, we expect Duxbury will likely manage these costs 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.

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

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental-fund level in fiscal 2018;
- Strong budgetary flexibility, with available fund balance in fiscal 2018 of 11.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.1% of total governmental-fund expenditures and 2.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 8.9% of expenditures and net direct debt that is 79.6% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.2% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Duxbury's economy very strong. The town, with an estimated population of 15,483, is in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider 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 $275,404. Overall, market value has grown by 6.7% during the past year to $4.3 billion in fiscal 2019. County unemployment was 3.9% in 2017.

The predominately residential Duxbury has a small commercial component. Assessed value continues to grow with new developments under construction or in the permitting phase, including new residential subdivisions currently underway. New growth has been robust recently, increasing annually and well above the five-year average; growth in 2018, however, was likely above normal. The town's new growth figures could decrease slightly during the next few years.

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.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We revised our assessment of financial policies and practices to strong from good based on the receipt of additional information and further review of the town's formal reserve policy, which limits stabilization reserves between 5% and 10% of operational expenditures, net of tax-levy-exempt debt service. The town has historically adhered to this policy.

Assessment strengths include management's 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 10-year, long-term financial plan it updates annually, with revenue and expenditure projections, and 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. The town complies with these targets.

Duxbury also adopted formal hazard-mitigation and climate-resiliency plans in 2018 to study and plan for potential rising sea levels and environmental changes. The plans include implementation guidelines, costs, and potential funding sources.

Strong budgetary performance

Duxbury's budgetary performance is strong, in our opinion. The town had balanced operating results of negative 0.3% of expenditures in the general fund and negative 0.3% of expenditures across all governmental funds in fiscal 2018. General fund operating results have been stable during the past three fiscal years with results of 0.8% of expenditures in fiscal 2017 and a negative 0.8% in fiscal 2016.

Fiscal 2018 results include adjustments for recurring transfers and one-time capital expenditures, paid for with bond proceeds. We also adjusted out roughly $704,000 in the general fund for one-time expenditures related to two potential tax refunds payable that were reported as liabilities during the year. Management does not expect these costs to be recurring.

Management attributes balanced operating results in fiscal 2018 to conservative expenditure and revenue estimates outperforming budgeted levels. Although the town had slightly higher-than-budgeted public-works costs for fiscal 2018, management indicates it ultimately offset this variance through other budget savings and higher-than-expected revenue.

The fiscal 2019 budget totals $78.9 million, a 3.3% increase over fiscal 2018. Officials indicate budget-to-actual results are currently tracking the budget favorably, and we expect balanced operations at fiscal year-end 2019.

Duxbury has a strong and stable residential tax base. Property taxes generated 71% of total revenue in fiscal 2018. In our opinion, tax collections have historically remained strong; current collections have averaged 99% during the past five years.

We expect strong budgetary performance during the next few fiscal years due to the stable budgetary environment. We, however, expect future pension costs could become a budgetary pressure due to the county-administered plan's low funded ratio. We note Duxbury is actively managing these liabilities and making adjustments when needed.

Duxbury funds the actuarially determined contributions for pension costs and prefunds a modest amount annually into the other-postemployment-benefits (OPEB) trust fund. We think these liabilities could strain future operations, particularly if economic conditions were to weaken or the town does not meet actuary assumptions, or they were found inadequate at the county level; if this occurs, we could revise our budgetary-performance assessment to a more-conservative view.

Strong budgetary flexibility

Duxbury's budgetary flexibility is strong, in our view, with available fund balance in fiscal 2018 of 11.2% of operating expenditures, or $9.5 million.

We expect budgetary flexibility will likely remain strong. 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. Although reserves decreased slightly due to one-time-related expenditures in fiscal 2018, we expect Duxbury will likely maintain strong budgetary performance, allowing it to maintain reserves near current levels. The town does not currently expect to draw down reserves in fiscal 2019.

Very strong liquidity

In our opinion, Duxbury's liquidity is very strong, with total government available cash at 21.1% of total governmental-fund expenditures and 2.4x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

Liquidity should remain very strong because there is no expectation of any significant deterioration of cash. Duxbury maintains strong access to external liquidity by frequently issuing debt for capital projects. In addition, we note Duxbury is not aggressive with its investments. It does not currently have any variable-rate or direct-purchase debt, reducing its exposure to contingent-liquidity risks. Duxbury invests cash in savings instruments, such as government-sponsored enterprise debt, U.S. Treasury notes, and money-market mutual funds.

Strong debt-and-contingent-liability profile

In our view, Duxbury's debt-and-contingent-liability profile is strong. Total governmental-fund debt service is 8.9% of total governmental-fund expenditures, and net direct debt is 79.6% of total governmental-fund revenue. Overall net debt is low at 1.8% of market value and roughly 65.2% of direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about $78 million in total direct debt outstanding. Officials currently plan to issue about $22.7 million of additional debt during the next two years to three years for various capital projects, including its public-works facility's renovations. Overall, we do not expect Duxbury's current debt plans will have a material effect on debt metrics.

Duxbury's combined required pension and actual OPEB contribution totaled 5.5% of total governmental-fund expenditures in fiscal 2018: 3.5% represented required contributions to pension obligations and 2% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2018.

Duxbury participates in Plymouth County Retirement System and contributes 100% of the required amount. At June 30, 2018, its proportionate share of the net pension liability was $26.8 million. The plan's funded ratio is 65.6%. Due to the system's below-average funded ratio, we think this will likely remain a growing cost for the town during the next few fiscal years. The town, 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 fund had $1.3 million in reserves in fiscal 2018.

Duxbury also provides OPEB to retirees. As of the most recent actuarial valuation, the town reported a $31.5 million net OPEB liability. 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; the trust fund totals $2.3 million in fiscal 2019 with a 6.71% funded ratio. The town expects to contribute a minimum of $300,000 into the trust fund, pursuant to its OPEB policy. 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.

Outlook

The stable outlook reflects S&P Global Ratings' opinion 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. Therefore, we do not expect to change the rating during the two-year outlook period.

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.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments