S&P Global
Ratings

RatingsDirect®

Summary:

Duxbury Town, Massachusetts; General Obligation; Note

Primary Credit Analyst:
Tyler Fitman, Boston (1) 617-530-8021; tyler.fitman@spglobal.com

Secondary Contact:
Jennifer K Garza (Mann), Dallas + 1 (214) 871 1422; jennifer.garza@spglobal.com

Table Of Contents

Summary:

Duxbury Town, Massachusetts; General Obligation; Note

Credit Profile		
US$2.8 mil GO BANs ser 2023 dtd 05/01/2023 due 05/01/2024		
Short Term Rating	SP-1+	New
Duxbury Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Duxbury, Mass.' roughly $2.8 million series 2023 general obligation (GO) bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's GO debt.
- The outlook on the long-term rating is stable.

Security

Duxbury's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the BANs. 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 property 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.

The short-term rating reflects our opinion of Duxbury's general creditworthiness and market-risk profile, which we consider low. The low market-risk profile reflects our view of Duxbury's strong legal authority to issue long-term debt to take out the BANs and its ongoing disclosure to market participants.

We understand officials intend to use series 2023 BAN proceeds for the acquisition of a cranberry bog and the design and bidding of a department of public works facility.

Credit overview

The rating incorporates our forward-looking view that Duxbury will likely maintain a stable credit profile, supported by consistent property tax growth and our view that medium-term additional debt plans are not likely to lead to a deterioration of the debt profile. The rating also reflects the town's increased budget size for fiscal years 2024 and 2025 due to inflationary cost escalations, likely resulting in the full use of the town's excess levy capacity by fiscal 2025 and the potential for a budget override. While reserves should decrease following the depletion of the town's excess levy capacity, we do not expect the potential for an override to result in sustained reserve reductions.

The rating reflects our view of the town's general creditworthiness, reflecting Duxbury's:

- Very strong wealth and income and a predominately residential economy, with access to the Boston metropolitan statistical area (MSA);
- Consistent surplus operations with medium-term cost increases;
- Well-embedded, strong financial-management policies, practices under our Financial Management Assessment (FMA) methodology and strong Institutional Framework score; and
- Low overall net debt with a potential for escalating other postemployment benefit (OPEB) costs.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to Duxbury's economy, management, financial measures, and debt-and-liability profile. Duxbury is a coastal community with waterfront property along the Atlantic Ocean and exposure to environmental risks, such as sea-level rise, storm surge, and flooding. Duxbury adopted formal hazard-mitigation and climate-resiliency plans in 2018 to study and plan for potential rising sea levels, projected to rise by two-and-half feet by 2050 and seven feet and seven inches by 2100. Plans include implementation guidelines, costs, and potential funding sources for adaptation improvements. The town will likely embark on a $20 million seawall rebuild project within the next 24 months. We view Duxbury's social and governance risks as neutral in our rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view that Duxbury will likely continue its record of stable operations due to property tax revenue stability despite pressure from increasing costs.

Downside scenario

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

Credit Opinion

Robust assessed value (AV) growth with access to the Boston MSA

AV continues to grow with property value increases contributing to much of the growth. We note the tax base is primarily residential and well connected to downtown Boston via Route 3, Massachusetts Bay Transportation Authority commuter rail, and water ferry service from a neighboring town.

Stable operations with future inflationary cost escalations

Increased property tax revenue, the town's primary revenue source, and higher local receipt revenue related to beach, motor vehicle, and trash collection fees supported fiscal 2022 surpluses. Unspent salary accounts, resulting from employee turnover, also support operations. The fiscal 2023, $86.6 million budget is a 3.5% increase compared with fiscal 2022. With fiscal 2023 more than halfway complete, officials indicate state aid receipts track higher than budgeted but that beach permit revenue could track lower due to environmental-related beach closures. Duxbury conducted an external salary analysis, in which it expects to implement higher wages in the fiscal 2023 and 2024 budgets to improve staff retention. Management indicates inflationary-cost escalation in wages will likely result in a

large overall budget increase in fiscal 2024.

While Duxbury's recent record of robust property valuations allowed it to build an excess levy capacity of approximately $1.8 million, officials will likely use 75% of excess levy capacity to fund the increase in the fiscal 2024 budget because the tax levy increase is limited to 2.5% due to Proposition 2 1/2. Officials will use the remaining portion of excess capacity for the fiscal 2025 budget. Duxbury is considering proposing an operational override to maintain current operations in fiscal 2025.

Continued adherence to adopted management policies, procedures

Financial management strengths include Duxbury's strong revenue and expenditure assumptions when budgeting, rooted in long-term financial planning. Management prepares monthly budget status reports that include school-budget performance. Duxbury maintains a long-term financial plan with a five-year period with revenue and expenditure projections and a five-year capital-improvement program, both of which 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-management policy that requires quarterly, semiannual, and annual reporting on performance and account information to the town board. In addition, management's formal reserve policy calls for maintaining 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. A 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 Institutional Framework score for Massachusetts municipalities is strong.

Low overall net debt with additional debt plans

After the series 2023 BAN issuance, Duxbury will have approximately $62 million of debt outstanding. Officials plan to issue the remaining $23.6 million of the estimated $24.6 million for the department of public works facility. Additional debt plans include a perfluoroalkyl and polyfluoroalkyl substance filtration project; $1.5 million of school building rehabilitation projects and bathroom renovations; and a $500,000 brush-breaker replacement during the next two years to three years. Finally, Duxbury indicates a $20 million repair of is seawall is likely to occur within the next 24 months.

Pension and OPEB

We do not view pension and OPEB liabilities as an immediate credit pressure for Duxbury despite lower funding and our expectation that costs will likely increase.

Because Duxbury's actuarially determined pension contribution is built from, what we view as, weak assumptions and methodologies, we think it increases unexpected contribution-escalation risk. However, we expect higher contributions will likely remain affordable due to Duxbury's revenue base strength.

Although Duxbury funds OPEB liabilities on a pay-as-you-go basis, which, due to claims volatility and medical-cost and demographic trends, is likely to lead to escalating costs. Duxbury has legal flexibility to alter OPEB, which we view

as a potential means to mitigate escalating costs.

As of the town's fiscal 2022 audit, Duxbury participates in:

- Plymouth County Retirement Assn. plan, which is 75.5% funded, with a proportionate share of the net pension liability at $26.1 million; and
- Duxbury's OPEB liability, which is 6.7% funded, with a liability of $59.3 million.

Duxbury's pension plan is a cost-sharing, multiple-employer, defined-benefit plan. In our view, a 7.88% discount, in excess of our 6% guideline, for Duxbury's pension plan could lead to contribution volatility. The town has historically funded 100% of its actuarially determined contribution, and contributions were in excess of static- and minimal-funding-progress metrics. Duxbury, however, sets aside reserves in a separate fund to smooth the effect of potentially volatile required pension payments on the town; this fund also demonstrates management's proactive stance in preparing for potential upcoming challenges. The pension trust stabilization fund balance was $1.5 million as of the fiscal 2022 audit, somewhat mitigating cost-escalation risk during the next few years.

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 2022. Duxbury expects to contribute a minimum $300,000 into the trust fund annually, pursuant to its OPEB policy, until fully funding the pension liability by 2030. Once the pension liability is funded in full, Duxbury will dedicate full contributions--estimated at $1.8 million--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 and sizable liabilities.

Ratings above the sovereign

We rate Duxbury higher than the sovereign because we think the town can maintain better credit characteristics than the nation in a stress scenario due to 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 2022, local property taxes generated 73% of governmental fund revenue, demonstrating a lack of dependence on central government revenue.

Duxbury, Massachusetts select key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	160.1			
Market value per capita ($)	390,087			
Population			16,220	16,018
County unemployment rate(%)			6.1	
Market value ($000)	6,327,219	5,235,211	4,579,778	
10 largest taxpayers as a % of taxable value	3.6			

Duxbury, Massachusetts select key credit metrics (cont.)

	Most recent	--Historical information--		
		2022	2021	2020
Strong budgetary performance				
Operating fund result as a % of expenditures		2.8	3.5	1.2
Total governmental fund result as a % of expenditures		4.5	1.4	0.3
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		21.8	18.3	16.2
Total available reserves ($000)		19,251	16,828	14,718
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		37.0	28.8	22.3
Total government cash as a % of governmental fund debt service		522.0	379.1	278.1
Very strong management				
Financial Management Assessment	Strong			
Strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		7.1	7.6	8.0
Net direct debt as a % of governmental fund revenue	55.0			
Overall net debt as a % of market value	0.9			
Direct debt 10-year amortization (%)	64.1			
Required pension contribution as a % of governmental fund expenditures		4.6		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		2.5		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- 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
- 2022 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022