

RatingsDirect®

Summary:

Boxford, Massachusetts; General Obligation

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US\$7.5 mil GO mun purp loan of 2021 bnds due 09/01/2041

Long Term Rating AAA/Stable New

Boxford GO

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Boxford, Mass.' general obligation (GO) municipal purpose loan of 2021 bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full faith and credit secures the bonds, subject to the limits of Proposition 2 1/2, and is therefore a limited-tax GO. We rate the limited tax based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," criteria, published Nov. 20, 2019, on RatingsDirect. The town has the power to levy ad valorem taxes on all the property within its territorial limits, subject to the limits of Proposition 2 1/2. However, given Boxford's revenue-raising ability, we have made no rating distinction between the limited and unlimited nature of the pledge. A portion of the town's existing GO debt is excluded from the limits of Proposition 2 1/2.

We rate Boxford higher than the sovereign because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario on account of 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 82% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013.)

Proceeds of the bonds will be used for various capital projects and to refund previously issued bond anticipation notes.

Credit overview

We view Boxford as a desirable, affluent community with a strong economy, supported by a wealthy property tax base and high household incomes, with access to the Boston metropolitan statistical area (MSA). In our opinion, these factors, along with stable financial operations and strong management, including comprehensive policies and practices, support the 'AAA' rating. Although we think long-term retirement liabilities and costs could pressure the budget, we expect Boxford will likely manage these costs prudently.

The rating further reflects our opinion of Boxford's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 17% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 21.5% of total governmental fund expenditures and 7.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 2.7% of expenditures and net direct debt that is 33.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 65.7% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We believe the town's ESG factors are largely in line with the sector standard, with modest environmental strengths stemming from capital planning efforts that factor in culvert improvements designed to mitigate damage from potential floods.

Stable Outlook

Downside scenario

While unlikely at this time, a prolonged deterioration in budgetary performance or significantly weakened available reserve position could result in a negative rating action.

Very strong economy

We consider Boxford's economy very strong. The town, with an estimated population of 8,489, is located in Essex County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 186% of the national level and per capita market value of \$228,282. Overall, the town's market value grew by 2.4% over the past year to \$1.9 billion in 2021. The county unemployment rate was 9.8% in 2020.

Boxford is a bedroom community north of Boston and primarily residential in nature. The principal highway serving the town is Interstate Route 95, which connects to interstates 495 and 93. Boxford residents have access to employment opportunities in the corridor associated with these highways, as well as within the City of Boston by public transportation available in neighboring towns. Given the town's residential nature and white-collar base, the area saw few permanent business closures as a result of the pandemic and resulting recession. Overall, we anticipate that the town's economic base will remain stable and consistent for the foreseeable future. For information on S&P Global Economics' latest U.S. forecast, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published

June 24, 2021.

Strong management

We view the town's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

Management is generally conservative in its revenue and expenditure assumptions, which are rooted in historical trends and current budgetary needs and are based on long-term financial projections. The town annually updates a three-year, long-term financial projection for revenue and expenditures, as well as a five-year capital improvement program. Boxford has formally adopted state investment guidelines with formal reporting on a monthly, quarterly, and annual basis for holdings and performance. Officials also maintain debt management and reserve and liquidity policies; long-term debt should not exceed the useful life of the project, debt service carrying charges should range from 3% to 15% of the operating budget, and outstanding debt should be no greater than 1.25% of the previous years' assessed value or \$1,750 per capita. As for the town's reserve policy, Boxford must maintain free cash at 5% of previous years' operating budget to ensure health cash flow throughout the year, and its stabilization fund at a minimum of 3% of previous years' operating budget, with which it is in compliance.

Strong budgetary performance

Boxford's budgetary performance is strong, in our opinion. The town had a balanced operating result in the general fund of 0.2% of expenditures and a surplus result across all governmental funds of 1.5% in fiscal 2020. General fund operating results have been stable, at 1.7% in 2019 and 0.4% in 2018.

Our calculation of the town's performance includes adjustments for recurring transfers and capital spending paid for with bond proceeds.

Boxford's leading general fund revenue sources are property taxes, intergovernmental aid, and excise taxes, which account for 82.4%, 10.3%, and 4.4% of revenue, respectively. Tax collections are very strong, in our opinion, with the town collecting greater than 99% of the current levy over the past five fiscal years.

Officials report that the town finished fiscal 2021 with lower-than-budgeted expenditures. For fiscal 2022, the town may draw down on available reserves to fund one-time capital projects. Overall, we expect the town's budgetary performance will remain strong given management's history of conservative budgeting and of stable operations.

Very strong budgetary flexibility

Boxford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 17% of operating expenditures, or \$6.4 million. In addition, the town is able and willing to raise taxes when needed, which we view as a positive credit factor.

The town has maintained available reserves above 15% of general fund expenditures over the past three fiscal years. Given this, as well as our expectations for budgetary performance, we anticipate that the town will maintain strong budgetary flexibility for the foreseeable future.

Very strong liquidity

In our opinion, Boxford's liquidity is very strong, with total government available cash at 21.5% of total governmental fund expenditures and 7.8x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

The town's investments consist of bank certificates, certificates of deposit, corporate bonds, marketable securities, and U.S. Treasury securities. We believe the town's frequent debt issuances, including of GO bonds and bond anticipation notes, support its strong access to external liquidity. The town has maintained very strong liquidity and we expect no change to these ratios.

Very strong debt and contingent liability profile

In our view, Boxford's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.7% of total governmental fund expenditures, and net direct debt is 33.5% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, and approximately 65.7% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

After this issuance, the town will have about \$13.5 million of total direct debt. The town has preliminary plans to issue debt over the next two to three years to repave the elementary school parking lots and make Americans with Disabilities Act upgrades, but we do not anticipate that such issuances will materially change our view of the town's debt burden.

In our opinion, a credit weakness is Boxford's large pension and OPEB obligation. Boxford's required pension and actual OPEB contributions totaled 6% of total governmental fund expenditures in 2020, with 3.4% representing required contributions to pension obligations and 2.6% representing OPEB payments. The town made its full required pension contribution. The funded ratio of the largest pension plan is 55.5%.

Pension and OPEB liabilities

- While the town is managing these costs, we believe it has a limited ability to control pension liability growth.
- We believe some of the assumptions used to build the system's pension actuarially determined contribution are built from what we view as weak assumptions and methodologies, and we believe that this increases the risk of unexpected contribution escalations.
- Although OPEB liabilities are primarily funded on a pay-as-you-go basis, costs remain low despite the large liability and we expect the town will continue adding to its OPEB trust fund.

Boxford participated in the following plans as of June 30, 2020:

- Essex Regional Retirement System: 59.7% funded, with a net pension liability of \$15.7 million
- A single-employer, defined benefit health care plan covering eligible retirees and their dependents: 21.2% funded, with a net OPEB liability of about \$11.3 million

The pension liability is based on an assumed rate of return of 7.3%, which we consider elevated. Because of the low funded ratio and aggressive discount rate, we believe contributions will likely continue to rise over the next few fiscal years. Boxford has traditionally funded OPEB through pay-as-you-go financing. The town has created an OPEB Trust

Fund whose balance was \$3 million as of June 30, 2020. This is not enough to address the OPEB plan fully based on the growth rate of liabilities, but the town continues to work on improving funding. In our opinion, large growing pension and OPEB liabilities could add budgetary pressure to already stressed budgets in the near term. For more on our view of the state's pension plans and recent reforms, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

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