

RatingsDirect®

Summary:

Boxford, Massachusetts; General Obligation

Primary Credit Analyst:

Lauren B Carter, Boston + 1 (212) 438 0376; lauren.carter@spglobal.com

Secondary Contact:

Anthony Polanco, Boston + 1 (617) 530 8234; anthony.polanco@spglobal.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Boxford, Massachusetts; General Obligation

Credit Profile

US\$3.565 mil GO mun purp loan of 2019 bnds due 08/01/2044

<i>Long Term Rating</i>	AAA/Stable	New
-------------------------	------------	-----

Boxford GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
-------------------------	------------	----------

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Boxford, Mass.' general obligation (GO) municipal purpose loan of 2019 bonds. S&P Global Ratings also affirmed its 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

Security and the use of bond proceeds

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, 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 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, including recreational field construction, school roof and window replacements, and restoration design of a historic house.

The town's full faith and credit pledge 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). The town has the power to levy ad valorem taxes on all the property within their respective territorial limits, subject to the limits of Proposition 2 1/2. However, due to Boxford's revenue-raising ability, we have not made a 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.

Credit summary

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 metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 18% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 23.0% of total governmental fund expenditures and 7.0x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.3% of expenditures and net direct debt that is 21.8% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 84.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Boxford's economy very strong. The town, with an estimated population of 8,304, is located in Essex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 197% of the national level and per capita market value of \$219,596. Overall, the town's market value grew by 3.4% in 2018 to \$1.8 billion in 2019. The county unemployment rate was 3.4% in 2018.

Boxford is a bedroom community north of Boston and primarily residential in nature with 98% of its assessed value (AV) related to such properties. The principal highway serving the town is Interstate Route 95, which connects to interstates 495 and 93. Boxford residents are able to access employment opportunities in the corridor associated with these highways, as well as within the city of Boston via public transportation available in neighboring towns. The largest employers in the town are summer seasonal businesses followed by small stores and service providers.

Economic expansion continues, particularly in the way of residential renovation and development; officials indicate that these developments will lead to almost \$1 million in new tax revenue growth. The 10 leading taxpayers account for 3.2% of the tax base, indicating a diverse tax base. In our opinion, we believe Boxford will continue to see modest growth in the tax base over time, and this, combined with a low tax rate and very strong tax collection rates at 99%, will contribute to ongoing revenue stability for the town, particularly as it absorbs higher debt, pension and other postemployment benefit (OPEB) costs.

Strong management

We view the town's management as strong, with good financial policies and 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.

Town management is generally conservative in their revenue and expenditure assumptions, which are rooted in historical trends, current budgetary needs, and based on long-term financial projections. Boxford annually updates a three-year, long-term financial projection for revenues and expenditures, as well as a five-year capital improvement

program. The town has formally adopted state investment guidelines with formal reporting on a monthly, quarterly, and annual basis for holdings and performance. Boxford officials also maintain debt management and reserve and liquidity policies; long-term debt should not exceed the useful life of the project, and debt service carrying charges should range from 3%-15% of the operating budget, no greater than 1.25% of the previous years' AV, and \$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 flows throughout the year, and its stabilization fund at a minimum of 3% of previous years' operating budget. The town is compliant with its free cash policy at present, but not its stabilization fund policy (currently 2.5%).**

Strong budgetary performance

Boxford's budgetary performance is strong in our opinion. The town had slight operating surpluses of 0.6% of expenditures in the general fund and of 1.2% across all governmental funds in fiscal 2018. General fund operating results of the town have been stable over the last three years, with a result of negative 0.6% in 2017 and a result of 1.0% in 2016.

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

Town management is generally conservative in its revenue and expenditure assumptions, which has led to favorable budgetary variances at year-end. Also, management was able to achieve a voter-approved operating override of \$197,318 for fiscal 2018, which was used to support their capital projects. Management indicated that Boxford could seek another operating override in the near future dependent on the cost of their future capital projects. For fiscal 2019, management indicated that budget-to-actuals are on target and unaudited results show revenues coming in about 13% over budget. While this is primarily due to conservative budgeting, officials also indicated that during the year they received one-time, unbudgeted revenues of \$127,000 from Federal Emergency Management Agency and \$430,000 for the sale of a tax foreclosure property. The town adopted a \$35.2 million general fund budget for fiscal 2020, which is a 2.9% increase over 2019. Officials indicate that there are no structural changes to his budget relative to previous years.

Boxford's leading revenue sources are property taxes, intergovernmental aid, and excise taxes, which account for 82%, 10.2%, and 4.7% of revenues, 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.

We expect the town's budgetary performance will remain strong given management's demonstrated history of conservative budgeting, which has contributed break-even general fund operations, an ability to achieve operating overrides of Proposition 2 1/2 to support rising expenditures, and a stable and consistent primary revenue source in property taxes. We also do not expect a deterioration in the town's total governmental fund performance as the general fund comprises 91% total funds.

Very strong budgetary flexibility

Boxford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 18% of operating expenditures, or \$6.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 17% of expenditures in 2017 and 18% in 2016. In addition, the town has an ability and

willingness 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 and management has no plans to spend down at this time. In fiscal years 2016, 2017, and 2018, management achieved operating overrides of \$605,129, \$153,000, and \$197,318, respectively, under Proposition 2 1/2 to support rising expenditures. Management also maintains a reserve policy to keep stabilization reserves at a minimum of 3% of the previous year's operating budget, as well as a policy to hold unused tax levy capacity at 1.5% of the previous year's tax levy. Unused levy capacity for fiscal 2019 was approximately \$1.5 million, which is 5.3% of the previous year's tax levy. Stabilization reserves are at about 2.5% of the previous year's operating budget, which is not in line with Boxford's policy. However, we expect the town will maintain very strong available reserves over the next two years given management's general fund surplus projections for fiscal 2019, and the balanced budget adopted for fiscal 2020.

Very strong liquidity

In our opinion, Boxford's liquidity is very strong, with total government available cash at 23.0% of total governmental fund expenditures and 7.0x governmental debt service in 2018. 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 strong access to external liquidity is supported by its frequent debt issuances including GO bonds and bond anticipation notes. The town has consistently maintained very strong liquidity and we do not expect a 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 3.3% of total governmental fund expenditures, and net direct debt is 21.8% of total governmental fund revenue. Overall net debt is low at 0.6% of market value, and approximately 84.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

After this issue, the town has about \$8.3 million of total direct debt. Boxford has preliminary plans to issue debt over the next two-to-three years for various capital projects including renovations to the town hall library and repaving the elementary school parking lot. The amounts for these projects have not yet been finalized.

Pension and other postemployment benefits

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Boxford, despite lower funding levels and our expectations that costs will increase.
- Because the town's pension actuarially determined contribution is built from what we view as weak assumptions and methodologies, we believe it increases the risk of unexpected contribution escalations. However, we anticipate higher contributions will likely remain affordable given the strength of the town's revenue base.
- Furthermore, OPEB liabilities are generally funded on a pay-as-you-go basis that, given claims volatility, as well as medical cost and demographic trends, is likely to lead to escalating costs. The town, however, has established a trust and has begun pre-funding the liability.

Boxford participates in the following plan as of June 30, 2017:

- Essex County Retirement System: 55.4% funded with a proportionate share of the net pension liability of \$13.9 million.
- A single-employer, defined-benefit health care plan covering eligible retirees: 17.06% funded, with a net OPEB liability of about \$10.6 million.

This liability is based on an assumed rate of return of 7.5% which we consider elevated. Because of the funded ratio and aggressive discount rate, we believe contributions will continue to rise over the next few fiscal years. Boxford's combined required pension and actual OPEB contributions totaled 5.4% of total governmental fund expenditures in 2018. Of that amount, 3.1% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The town has established a trust and has begun pre-funding the OPEB liability. Boxford's OPEB trust currently has a balance of \$3.01 million. While the practice of pre-funding the OPEB liability is positive, the town's large and growing pension and OPEB liabilities could pressure the budget in the long term.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Boxford's 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 very 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 at this time, a prolonged deterioration in budgetary performance or significantly weakened available reserve position could result in a negative rating action.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- 2019 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.