

RatingsDirect®

Summary:

Danvers, Massachusetts; General Obligation

Primary Credit Analyst:

Christina Marin, Boston 617-530-8312; christina.marin@spglobal.com

Secondary Contact:

Anne E Cosgrove, New York (1) 212-438-8202; anne.cosgrove@spglobal.com

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Summary:

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Credit Profile

US\$14.593 mil GO mun purp loan bnds ser 2017 due 08/15/2037

<i>Long Term Rating</i>	AA+/Stable	New
Danvers Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Danvers Twn GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Danvers, Mass.' series 2017 general obligation bonds. In addition, S&P Global Ratings affirmed its 'AA+' long-term rating on the town's GO bonds outstanding. The outlook is stable.

A pledge of Danvers' full faith and credit, subject to the limitations of Proposition 2 1/2, secures the bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit.

According to officials, bond proceeds will fund upgrades to the library HVAC system, athletic field and drainage improvements, purchase of a fire truck, and a new public safety communications center.

The 'AA+' rating reflects our assessment of the following factors:

- 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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.7% of total governmental fund expenditures and 5.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 61.5% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Danvers' economy very strong. The town, with an estimated population of 27,948, 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 135% of the national level and per capita market value of \$161,964. Overall, the town's market value grew by 3.1% over the past year to \$4.5 billion in 2017. The county unemployment rate was 3.8% in 2016.

A primarily residential community with a healthy commercial and industrial base, Danvers maintains a diverse economy with sectors in retail, manufacturing, health care, high-technology, and higher education. Approximately 76% of the tax base is residential and 23% is commercial and industrial.

Danvers is 20 miles north of Boston on Interstate 95 and Route 1, providing easy access to employment centers in and around the town. We expect market value to continue growing, due to numerous ongoing commercial and residential developments. The former municipal hospital, which was once the largest delinquent taxpayer in the town, recently reopened as a substance abuse facility with 180 beds and 220 new jobs. Local officials are seeing a strong demand in the housing market with an increase in home prices and housing starts. Furthermore, Danvers is planning to adjust its zoning bylaws in December 2017 to encourage additional mixed-use development, which could result in as many as 200 new housing units and additional office space around the square.

Top employers include Medtronic Interventional Vascular, a biomedical research and development company (740 employees); IRA Motor Group (530 employees); and Hospice Care Dimensions (522 employees). The top 10 taxpayers constitute 7.5% of assessed value, which we consider very diverse.

Strong management

We view the town's management as strong, with good financial policies and practices under our Financial Management Assessment methodology. We understand that financial practices and policies exist in most areas, but are relatively new. We would need to see the policies and practices become more ingrained in town operations before considering a strong financial management assessment.

In developing the budget, Danvers uses conservative assumptions grounded in a historical trend analysis and an understanding of current economic conditions. It maintains strong practices in the areas of budgetary control, with quarterly budget-to-actual reports and investment reports presented to the board of selectmen. Town officials recently introduced a three-year, long-term financial plan that identifies budgetary pressures in out-years and prioritizes structural balance. Complementing this plan is a five-year capital improvement plan (CIP) that officials update annually and that identifies funding sources for specified capital projects. In March 2016, Danvers introduced a debt management policy that caps debt service at 10% of expenditures and requires the Board of Selectmen to annually review the proposed capital improvements' financial impact. Along with the debt policy, the town approved a fund balance policy that targets an unassigned general fund balance in the range of 8%-12% of its annual operating expenditures. If unassigned fund balance drops below 5%, the policy directs officials to restore the balance above that level as soon as possible. Danvers maintains a written investment policy that mirrors state guidelines.

Strong budgetary performance

Danvers' budgetary performance is strong in our opinion. The town had operating surpluses of 2.3% of expenditures in the general fund and of 1.6% across all governmental funds in fiscal 2016. General fund operating results have been stable over the past three years, with a result of 1.3% in 2015 and 1.1% in 2014.

In our assessment of budgetary performance, we made adjustments for recurring interfund transfers and one-time expenditures in the Danvers athletics field fund.

Management attributes the surplus in fiscal 2016 to a mild winter, resulting in turnbacks from snow and ice accounts. Management also reported that economically-sensitive revenue (such as hotel tax, excise tax and permits) came in higher than conservative assumptions.

Danvers officials expect audited statements to show a \$2 million surplus in 2017, driven by below-budget expenditures in general government and public safety. Like 2016, permit fees, hotel and excise tax collections were above budget. The 2018 budget is balanced without the use of reserves and calls for a 3.11% increase over the prior year.

We anticipate the town's budgetary performance will be stable despite high long-term costs associated with its pension and OPEB liabilities. Management is generally conservative in its budget assumptions, which has historically led to positive budgetary variances, as well as the ability regenerate appropriated free cash. Consequently, over the next two fiscal years, we expect management will continue to align recurring revenues with recurring expenditures as it has historically done.

On the whole, property taxes constitute 76% of revenues and state aid about 11%. We believe tax collections are strong and stable, with the town typically receiving 99% on a current basis.

Very strong budgetary flexibility

Danvers' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 22% of operating expenditures, or \$20.0 million.

Calculation for available reserves includes assigned, unassigned, and committed stabilization reserves. The town has maintained reserves above 15% of expenditures for the past three fiscal years and management expressed a commitment to maintaining fund balance level in 2017 and 2018. Although Danvers is reclassifying a portion of its reserves held for OPEB as restricted, officials do not expect available reserve levels to change due to the sale of property, which will result in a \$1.8 million increase to fund balance.

We expect our assessment of budgetary flexibility to remain at least strong, based on the town's fund balance policy that calls for unassigned fund balance to remain at 8%-12% of expenditures.

Very strong liquidity

In our opinion, Danvers' liquidity is very strong, with total government available cash at 33.7% of total governmental fund expenditures and 5.8x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

Danvers retains strong access to external liquidity as a regular market participant. Over the past several years, the town has frequently issued debt to support its capital project endeavors. Danvers has no variable-rate or direct-purchase debt. We expect the town's liquidity profile to remain very strong.

Weak debt and contingent liability profile

In our view, Danvers' debt and contingent liability profile is weak. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 61.5% of total governmental fund revenue. Overall net

debt is low at 1.5% of market value, which is in our view a positive credit factor.

The town has \$95 million in total direct debt outstanding, of which \$1.1 million is bond anticipation notes. It plans to issue \$14 million over the next two-to-three years for water and sewer system upgrades and a fire roof, among other capital projects. Danvers is also preparing to build a new elementary school, which could cost as much as \$50 million with 50% reimbursed by the Massachusetts School Building Authority. Although planning is still preliminary, the town expects its proportionate share to be \$25 million. We do not expect this additional debt to materially impact the debt profile.

In our opinion, a credit weakness is Danvers' large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. The town's combined required pension and actual OPEB contributions totaled 10.6% of total governmental fund expenditures in 2016. Of that amount, 5.7% represented required contributions to pension obligations, and 4.9% represented OPEB payments. Danvers made its full actuarial determined pension contribution in 2016. The largest pension plan (in terms of annual cost to Danvers) has a funded ratio of 54.5%.

The town participates in the Danvers Contributory Retirement System, which is a part of the Massachusetts Contributory Retirement System, and covers substantially all employees of the town except for teachers and school administrators, which are covered under the Massachusetts Teachers Retirement System. Danvers contributed its full actuarial determined contribution in 2016, which amounted to \$6.08 million. As of Jan. 1, 2016, the contributory retirement system's pension liability was \$71.8 million.

In addition to the pension benefits, Danvers also provides OPEBs. As of Jan. 1, 2016, the town had an unfunded OPEB liability of \$176.5 million. Town officials expect that recently settled contracts, which allow for a renegotiated health plan, will lead to a reduced liability.

Danvers has adopted an aggressive funding schedule for its pension liability, aiming to fully fund its liability by 2036 (four years ahead of the legislative deadline). It has also adopted a more conservative plan by revising its projected rate of return downward to 7.75% from 8%, although we still consider this elevated compared with that of peers. In regard to the OPEB obligation, the town is committed to increasing its contribution amount, as well as establishing an OPEB trust fund in place of the OPEB stabilization fund. At the end of fiscal 2017, the trust fund had a balance of \$4.57 million.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of Danvers' strong budgetary performance and very strong budgetary flexibility, enhanced by a secure and diverse economy. We believe the town's predictable operating profile and conservative management practices should allow available reserves to remain strong. Therefore, we do not expect to raise or lower the rating over our two-year outlook horizon.

Upside scenario

A positive rating change would depend on a reduction to Danvers' large long-term liabilities. We would also want to see the town's wealth and income indicators rise to levels on par with other 'AAA' communities.

Downside scenario

Although unlikely, a significant decline in budgetary performance that weakens budgetary flexibility could weaken the rating.

Related Research

- 2016 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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