

RatingsDirect®

Summary:

Danvers, Massachusetts; General Obligation

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Credit Profile

US\$1.465 mil GO mun purp loan of 2022 bnds due 09/01/2037

<i>Long Term Rating</i>	AAA/Stable	New
Danvers Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Danvers Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Danvers Twn GO purp muni purp loan		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Danvers Twn GO rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Danvers, Mass.' series 2022 general obligation (GO) bonds municipal purpose loan, totaling about \$1.5 million.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt.
- The outlook on all ratings is stable.

Security

Danvers' full-faith-and-credit GO pledge, subject to Proposition 2 1/2 levy limits, secures the bonds. We note the town has both limited- and unlimited-tax debt outstanding. Despite limitations imposed by the commonwealth's levy-limit law, we do not make a rating distinction between the limited- and unlimited-tax GO pledges because of the town's operating flexibility under the levy limit. We rate the limited-tax GO debt on par with our view of the town's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no resource fungibility limitations, supporting our view of the town's overall ability and willingness to pay debt service. Officials intend to use the proceeds to provide funding for a water and sewer project.

Credit overview

The rating reflects our view of Danvers's consistently balanced financial results, which have led the town to maintain a very strong reserve position over the past several years and through various business and economic cycles. Further supporting the town's credit profile is a very strong local economy with an affluent tax base and strong financial policies, providing a robust budgeting and planning framework. However, we believe the town's retirement liabilities and increasing pension and other postemployment benefits (OPEB) costs could pressure the budget over the long term, especially if its actuarial assumptions are not met.

The rating also reflects our opinion of the city's:

- Very strong local economy and affluent tax base with access to a broad and diverse metropolitan statistical area (MSA);
- Positive financial performance, which has led to the continued maintenance of its very strong reserve position;
- Strong financial management policies and procedures; and
- Moderate debt burden, but large unfunded pension and OPEB liabilities.

Environmental, social, and governance

We evaluated the town's environmental, social, and governance (ESG) factors relative to its economy, financial measures, and management, as well as its debt and long-term liability profile, and determined they are neutral in our credit analysis. Danvers has strong financial management policies and practices, but larger unfunded retirement obligations than its peers, which is a long-term credit risk that could influence governance factors over time. We also note the town recently received a municipal vulnerability preparedness certification in 2020 and Danvers has updated its capital improvement programs (CIPs) to address potential climate-change concerns, particularly related to its enterprise utilities and water supply into the future.

Outlook

The outlook reflects our view that the town will continue to maintain balanced operations and very strong available reserves, all supported by a mature, wealthy tax base and comprehensive financial management policies and procedures. However, we believe its retirement costs and liabilities will remain large and could add some pressure to the budget.

Downside scenario

We could lower the rating if the town's fund balance weakens without a plan to replenish it. A weaker reserve position could constrain Danvers' ability to maintain structural alignment over economic cycles and elevate the credit risks posed by rising fixed costs related to debt, pension, and OPEB.

Credit Opinion

Wealthy tax base and strong real estate market located within the Boston MSA

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. The town is located on Interstate 95 and Route 1, which provide easy access to employment centers in and around the town, including those locations throughout the Boston MSA. There are various development projects underway, including a major mixed-use project in its downtown area known as Maple Square. This 147-unit project is expected to begin construction within the next few months. In addition, due to zoning changes in 2020 in its downtown area, there are other projects being planned in the area that are seeking to take advantage of the change. Officials also indicate the town's industrial park, Cherry Hill, continues to grow and experience expansion. Companies such as MilliporeSigma and Abiomed are expanding their footprints in the park, which is also expected to create new jobs. As such, given the town's wealthy tax base, desirable location outside of Boston with a health real estate market, and level of private

development, we expect the town's economy to remain very strong.

Good operating results continue to support very strong reserves

For analytical consistency, we adjusted fiscal 2021 results for recurring transfers and one-time capital expenditures paid for with bond proceeds. According to management, the positive fiscal 2021 performance was due to the town's conservative approach to budgeting, which led to higher-than-expected revenues that included excise taxes, charges for services, and licenses and permits. It also benefited from lower-than-anticipated expenses that included employee benefits, public works, and public safety costs, among other areas. For fiscal 2022, the town estimates to end with another general fund surplus, also due to larger-than-expected revenues as well as lower health insurance costs. As a result, management expects results to at least remain in line with fiscal 2021 levels.

The fiscal 2023 budget totals \$116.3 million, which represents a 3.4% increase over the prior year, with a fund balance appropriation of \$700,000 toward capital. We understand most of the increases in the budget are going toward education, general government, and employee benefit and insurance costs. The town has also increased its investment in technology in fiscal 2023. The town has also been allocated a total of \$8.3 million in American Rescue Plan Act (ARPA) funds, of which it is awaiting about \$2.5 million. Officials expect to use these funds toward capital projects. Overall, management does not expect any drawdown in reserves; therefore, we expect the town's budgetary performance to remain strong.

Danvers has not entered into any bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Very strong management conditions, with long-term capital and financial planning

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. The town also has a rolling five-year, long-term financial plan that identifies budgetary pressures in out years and prioritizes structural balance. Complementing this plan is a five-year CIP that officials update annually and that identifies funding sources for specified capital projects. Along with the debt policy, the town approved a fund balance policy that targets an unassigned general fund balance of 8%-12% of its annual operating expenditures. Danvers maintains a written investment policy that mirrors state guidelines. Finally, in fiscal 2019, the board of selectmen adopted financial policy guidelines to cover remaining policy areas, such as funding the OPEB trust fund.

The institutional framework score for Massachusetts municipalities is strong.

Manageable debt burden but large unfunded retirement liabilities

With this issuance, the town will have about \$101 million in total direct debt. Officials indicate the town plans to issue about \$36 million in additional debt over the next two to three years, primarily for a public works facility as well as water and sewer projects. Although we believe the anticipated debt issuance will weaken the town's debt metrics, we expect the debt to remain manageable for the town.

Pension and OPEB:

- In our opinion, a credit weakness is Danvers' large pension and OPEB obligation, particularly given the pension

system's and OPEB trust's low funded ratios.

- While the use of an actuarially determined contribution (ADC) is a positive, we believe some of the assumptions used to build the pension ADC reflect what we view as slightly weak assumptions and methodologies, which we believe increases the risk of unexpected contribution escalations.
- Notably, the plan did not meet our minimum funding progress metric in the most recent year, indicating that the current plan assumptions are not making progress in funding the outstanding liability. Although the town continues to pay its full ADC, if pension costs increase faster than the overall budget, the operating budget could be pressured.
- Although OPEB liabilities are predominantly funded on a pay-as-you-go basis, costs remain manageable despite the large liability, and we expect the town will continue adding to its OPEB trust fund.

As of June 30, 2021, the town participated in the following pension plan:

- Danvers Contributory Retirement System, which covers substantially all employees of the town except for teachers and school administrators: 65% funded, with a \$74.4 million net pension liability.
- A defined-benefit health care plan that provides retiree health care until death: 4.41% funded, with a net OPEB liability of \$236.2 million.

Danvers adopted a funding schedule for its pension liability, aiming to fully fund it by 2035, but relying on escalating contributions to meet its funding targets. This is a common funding structure in the commonwealth, which could lead to costs outpacing Danvers' revenue growth. (For more information, see "Pension Spotlight: Massachusetts," published Oct. 14, 2020.) It also adopted a more conservative plan by revising its projected rate of return downward again to 7.125% from 7.50% as of January 2022, although we still believe this figure could lead to contribution volatility. Regarding the OPEB obligation, the town is committed to increasing its contribution amount, and it established an OPEB trust fund. Officials estimate the trust fund had a balance of \$10.1 million at the close of fiscal 2022. The town plans to add about \$1 million into the fund in fiscal 2023 and increase that amount by at least \$50,000 annually going forward, along with redirecting annual pension contributions to OPEB when the pension plan is fully funded.

Rating Above the Sovereign

Danvers's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the city has a predominantly locally derived revenue source, with 74% of general fund revenue derived from property taxes, with independent taxing authority and independent treasury management from the federal government. Furthermore, Danvers has considerable financial flexibility, as demonstrated by the maintenance of very strong budgetary flexibility, as well as very strong liquidity.

Danvers--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	130			
Market value per capita (\$)	210,976			
Population		28,523	28,790	28,482
County unemployment rate(%)	6.4			
Market value (\$000)	6,017,673	5,524,328	5,458,762	
Ten largest taxpayers % of taxable value	6.3			
Strong budgetary performance				
Operating fund result % of expenditures	1.0	(1.0)	0.4	
Total governmental fund result % of expenditures	(0.0)	(1.5)	(1.1)	
Very strong budgetary flexibility				
Available reserves % of operating expenditures	20.1	19.6	20.8	
Total available reserves (\$000)	22,665	21,544	22,624	
Very strong liquidity				
Total government cash % of governmental fund expenditures	38	37	36	
Total government cash % of governmental fund debt service	783	742	707	
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures	4.9	4.9	5.1	
Net direct debt % of governmental fund revenue	54			
Overall net debt % of market value	1.3			
Direct debt 10-year amortization (%)	63			
Required pension contribution % of governmental fund expenditures	5.8			
OPEB actual contribution % of governmental fund expenditures	4.6			
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
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
- 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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Summary: Danvers, Massachusetts; General Obligation

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.

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