

Summary:

Dedham, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US\$6.295 mil GO bnds ser 2012 dtd 05/15/2012 due 05/08/2032		
<i>Long Term Rating</i>	AA+/Positive	New
Dedham GO		
<i>Long Term Rating</i>	AA+/Positive	Outlook Revised
Dedham GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Positive	Outlook Revised
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has revised the outlook on its long-term rating and underlying rating (SPUR) on Dedham, Mass.' general obligation (GO) bonds to positive from stable. At the same time, Standard & Poor's affirmed its 'AA+' ratings on the bonds.

We base the outlook revision on the town's stronger financial profile and position and its adoption of strong measures to mitigate the impact of its long-term liabilities.

Standard & Poor's also assigned its 'AA+ long-term rating, to Dedham, Mass.' GO municipal purpose loan of 2012 bonds. The outlook is positive.

The long-term rating reflects our assessment of the town's:

- Good location south of Boston, on Route 128 with easy access to many of the commonwealth's major employment centers;
- Mature and diverse tax base, which has recently added multiple large developments not fully reflected in assessed value (AV);
- Extremely strong per capita market value, coupled with strong resident income levels;
- Strong and well-embedded financial management policies and procedures and strong available fund balance levels; and
- Low-to-moderate overall net debt burden, coupled with limited future capital needs.

The town's full faith and credit pledge secures the bonds. We understand that the town will use bond proceeds primarily for school construction.

Dedham (2010 population: 24,949) is a fully developed, primarily residential community with a strong commercial and retail component, adjacent to southern Boston. With nearby commuter-rail links and direct access to Route 128/Interstate 95, Dedham's residents have access to downtown Boston and most of the commonwealth's largest employment centers, making the town attractive to professionals. The town's unemployment rate averaged 6.2% as of February 2012, and has historically been below commonwealth and national rates. Moreover, household income measures are very strong, in our view. Median household effective buying income is 141% of the national level, and

per capita effective buying income is 131%.

In our opinion, the property tax base remains extremely strong despite recent decrease in AV. For fiscal 2012, the community's AV was \$3.9 billion, or roughly \$156,000 per capita. This is down roughly 7.5% from its peak in 2007. We note the decreases are largely the result of reduced home values. Roughly 79% of the town's tax base is residential, while commercial and industrial properties comprise 17%. The tax base is very diverse, with the 10 leading taxpayers accounting for about 11% of AV and 16% of the tax levy.

The town has benefited from two large developments: the Legacy Place lifestyle center mall and the Newbridge on the Charles assisted living center, which is owned by Hebrew Senior Life. These developments have factored in roughly \$4 million of the \$10.6 million (roughly 11% of 2011 revenues) in additional new growth to the tax levy since 2008—providing the town with near-term operating flexibility and long-term operating stability. The property tax levy, which we view as a stable revenue source, generates 77% of general fund revenues, while state sources generate about 15%. Current-year property tax collections remain extremely strong; the town has historically collected more than 99% of its current-year tax levy.

In our opinion, Dedham's financial position is strong. In fiscal 2011, the town implemented Governmental Accounting Standards Board (GASB) Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. Overall, the town's liquidity levels have improved over the years. In fiscal 2011, the town reported roughly \$13.3 million of cash and equivalents or about 65 days' operating cash on hand. The town reported a general fund surplus of \$2.2 million, equivalent to 2.5% of budget. The town was very conservative in its budgeting. General fund revenues saw a favorable variance of 3.2%, driven by higher local receipts, and property tax collections than originally budgeted. Likewise, general fund expenditures saw a 1.5% favorable variance.

On the whole, the town is reporting an overall total fund balance of \$11.6 million, or roughly 12% of expenditures, which we consider strong. The total fund balance is made up of \$2.2 million of assigned fund balance (2.6% of expenditures) and \$8.3 million of unassigned fund balance (9.6%). Included in the unassigned general fund balance are the town's stabilization reserves, which have improved over the past five years.

For fiscal 2012, the town is projecting balanced operating results consistent with the previous year. The 2012 budget totals \$82 million, which is an increase of about 2% from the previous year.

For fiscal 2013, the town is proposing an operating budget of \$84 million, roughly 3% higher the previous year. The increases to the operating budget are largely due to the opening of a new school and fixed cost increases. We note that most collective bargaining contracts expire at the end of the current fiscal year. Negotiations are currently underway.

In our opinion, Dedham's management practices are considered "strong" under Standard & Poor's Financial Management Assessment methodology, indicating Dedham's financial practices are strong, well-embedded, and likely sustainable. Recent enhancements to already strong financial policies include the formation of a Consolidated Facilities Operations and Maintenance Department for Town and School. The newly developed department is tasked to produce a more detailed capital improvement plan for both town and school building needs.

Following this bond issuance, Dedham's overall net debt will be low to moderate, in our view, at about \$2,407 per capita and 1.5% of market value. In fiscal 2011, the carrying charge was low at less than 8% of general fund expenditures. Amortization is rapid, with more than 80% of long-term debt retired over the next 10 years.

Moreover, the town has no variable-rate debt or interest-rate swap exposure.

Management estimates that the town's additional debt needs are limited. The town has identified a new police station as a priority. Favorably, the town maintains a major capital facilities stabilization fund, which is funded by local option taxes, which is 2% surcharge on hotel/motel and 0.75% surcharge on meals. Currently, the fund has a \$2.2 million balance, and the intent of the fund is to defray debt service costs on long-term debt that is not excluded from Proposition 2 1/2.

A long-term credit consideration is the town's long-term pension and other postemployment benefits (OPEB) liabilities. The town's unfunded pension liability as of Jan. 1, 2010, was \$22.2 million, a 79.4% funded level. The town continues to fully fund the annual required contribution (ARC), which was roughly \$3.3 million in 2012, or 3.8% of expenditures.

For its OPEB liability, the town was successful recently in negotiating health insurance reform that projections show considerably curbed its long-term liabilities and has aided in providing substantial near-term cost savings. The town's board of selectmen voted to adopt the municipal health insurance reform law passed by the state in November 2011. This enabled the town to negotiate and adopt plan design changes with the collective bargaining units outside the traditional collective bargaining process. The town recently received a report from its actuary that outlined health care inflation trends and rates under the health care reform package negotiated. Under the new planned changes, the unfunded liability was lowered to roughly \$59.9 million, down from \$74 million reported in the previous actuarial report.

Furthermore, these reforms are projected to provide \$1.7 million in annual savings in the fiscal 2013 baseline budget. Uniquely, the board of selectmen has endorsed diverting those savings into the town's OPEB trust fund, fully funding the ARC in 2013, which is estimated to be roughly \$4.1 million (4.6% of expenditures). Currently, the town maintains roughly \$3 million of assets in the OPEB trust fund.

Outlook

The positive outlook is based on the town's continued improvement of its financial position, while at the same time implementing considerable cost control and reform measures that will mitigate the impact of its long-term liabilities. We believe stable budgetary performance, particularly while new tax levy growth slows, and continued progress in fully funding long-term liabilities over the next two years, could warrant an upgrade. The town's financial management practices are strong, well-embedded, and sustainable, and the town's overall net debt is projected to remain low and manageable.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

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