

May 14, 2019

Town of Dedham  
26 Bryant Street  
Dedham, MA 02026  
Attention: Ms. Jane Lepardo, Treasurer

Re: ***US\$1,000,000 Town of Dedham, Massachusetts, General Obligation Bond  
Anticipation Notes, Series 2019, dated: April 25, 2019, due: April 25, 2020***

Dear Ms. Lepardo:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "SP-1+" . S&P Global Ratings views the outlook for this rating as not meaningful. A copy of the rationale supporting the rating is enclosed.

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cc: ***Ms. Lynne A. Foster-Welsh, Vice President***  
***UniBank Fiscal Advisory Services, Inc.***

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May 14, 2019

Town of Dedham  
26 Bryant Street  
Dedham, MA 02026  
Attention: Ms. Jane Lepardo, Treasurer

**Re: *US\$5,770,000 Town of Dedham, Massachusetts, General Obligation Municipal Purpose Loan of 2019 Bonds, dated: June 04, 2019, due: June 01, 2049***

Dear Ms. Lepardo:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AAA" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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**Summary:**

**Dedham, Massachusetts; General  
Obligation; Note**

**Primary Credit Analyst:**

Steven E Waldeck, Boston (1) 617-530-8128; [steven.waldeck@spglobal.com](mailto:steven.waldeck@spglobal.com)

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## Summary:

# Dedham, Massachusetts; General Obligation; Note

### Credit Profile

US\$5.77 mil GO mun purp loan of 2019 bnds dtd 06/04/2019 due 06/01/2049		
<i>Long Term Rating</i>	AAA/Stable	New
US\$1.0 mil GO BANs ser 2019 dtd 04/04/2019 due 06/04/2020		
<i>Short Term Rating</i>	SP-1+	New
Dedham GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating and stable outlook to Dedham, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the town's existing GO debt.

At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the town's series 2019 GO bond anticipation notes (BANs).

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Dedham maintains a very strong capacity to pay principal and interest when BANs come due. The town has, what we view as, a low market-risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent issuer that regularly provides ongoing disclosure to market participants.

Dedham's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds and BANs.

Despite these limitations, we rate the limited-tax GO debt at the same level of our view of the town, reflected in the unlimited-tax GO bond rating, due to a lack of limitations on resource fungibility available for debt service.

Dedham's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, the town has a predominately locally derived revenue source with roughly 75% of general fund revenue derived from property taxes with independent taxing authority and treasury management from the federal government.

Officials intend to use series 2019 bond and BAN proceeds, totaling roughly \$5.7 million and \$1 million, respectively, to finance various capital projects townwide, including the construction of an early childhood education center.

The rating reflects our opinion of Dedham's strong and expanding property tax base that continues to grow within the Boston metropolitan statistical area (MSA), supporting healthy reserves. The rating also factors in the possibility of the town issuing \$30 million of additional debt for a public-safety building.

The rating also reflects our opinion of Dedham's:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results we expect could improve in the near term relative to fiscal 2018, which closed with operating deficits in the general fund and at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.6% of total governmental-fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 7.7% of expenditures and net direct debt that is 82.5% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

### **Very strong economy**

We consider Dedham's economy very strong. The town, with an estimated population of 25,397, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town has a projected per capita effective buying income at 157% of the national level and per capita market value of \$200,320. Overall, market value has grown by 5.5% during the past year to \$5.1 billion in fiscal 2019. County unemployment was 3.3% in 2017.

The town's sizable tax base is poised for additional growth, in our view, due to ongoing building-permit activity. Assessed valuation (AV) has grown substantially during the past few fiscal years. In addition, we note Dedham could understate the tax base due to the presence of some wealthy tax-exempt private schools and a sizable not-for-profit assisted-living center, which has an estimated market value of \$450 million. Roughly 80% of the tax base is residential. The 10 leading taxpayers account for about 10.5% of AV, which is diverse.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Assessment strengths include management's:

- Regular budget monitoring with formal monthly reports on budget-to-actual results to the town manager and council;
- Formal, five-year financial plan based on revenue and expenditure assumptions from past performance;
- Annually updated, five-year capital improvement plan with identified projects and funding sources and budgetary costs linked to the town's five-year financial plan;
- Formal investment-management policy stipulated in the town's charter;
- Debt-management policy of maintaining debt service at a 10%-operating-budget ceiling; and
- Formal operating reserve policy of maintaining stabilization reserves equal to 5%-10% of the operating budget.

### **Adequate budgetary performance**

Dedham's budgetary performance is adequate, in our opinion. The town had operating deficits of 2.2% of expenditures in the general fund and 3.4% of expenditures across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from fiscal 2018 results during the next few fiscal years.

What we consider strong budgetary performance reflects conservative budgeting during the past several fiscal years. We adjust our fiscal 2018 results for recurring transfers among the general, capital-projects, and sewer-enterprise funds; capital projects funded with bond proceeds; and one-time elective payments of \$2 million to the retirement system to eliminate the unfunded liability. During the past two fiscal years, Dedham has contributed \$9.5 million above the required contribution toward the pension system. While this has reduced overall fund balance, we view it as a positive long-term credit factor. Management plans to rebuild long-term fund balance as the economy continues to support positive local-receipt and property-tax budgetary variances.

For fiscal 2019, Dedham expects balanced results, in-line with previous fiscal years before contributing excess to the pension system. Property taxes generate nearly three-fourths of general fund revenue, and collections remain very strong. Other local receipts, such as motor-vehicle-excise taxes, and building permits are also strong. Officials are projecting a balanced fiscal 2020 budget with no use of reserves. We expect budgetary performance will likely remain, at least, adequate, if not return to, what we consider, strong due to its stable budgetary environment. Pensions, other postemployment benefits (OPEB), and other fixed costs are well contained; in our opinion, these are manageable, especially following \$9.5 million of payments during the previous two fiscal years to the pension retirement system from town management to eliminate Dedham Contributory Retirement System's unfunded liability.

### **Very strong budgetary flexibility**

Dedham's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 26% of operating expenditures, or \$29.7 million.

We note reserves have grown considerably during the past three fiscal years, up from 20% of expenditures in fiscal 2011, or \$18.4 million. Due to Dedham's strong reserve policy, we expect reserves will likely remain very strong. Pursuant to the reserve policy, management dedicates all additional new local-option taxes, such as local meals and room-occupancy-excise taxes, to the Robin Reyes fund, a major capital-facilities stabilization fund, established to make facility improvements, replace older facilities, and construct new ones. The town also maintains a growing unused levy capacity that exceeds \$9.1 million for fiscal 2019, allowing management to raise the levy above levy limitations without electorate approval.

Prior to the one-time use of reserves in fiscal years 2017 and 2018 to reduce unfunded pension liabilities, now funded at 99%, Dedham had experienced long-term increasing available reserves (assigned and unassigned general fund reserves). We understand management conservatively expects available reserves will likely remain, at least, stable.

### **Very strong liquidity**

In our opinion, Dedham's liquidity is very strong, with total government available cash at 23.6% of total governmental-fund expenditures and 3.1x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

We believe liquidity will likely remain very strong because there is no expectation of significantly deteriorated cash balances. The town also maintains strong access to external liquidity by frequently issuing debt for capital projects. In addition, we note Dedham is not aggressive with its investments. The town does not currently have any variable-rate or direct-purchase debt, reducing its contingent-liquidity-risk exposure.

### **Strong debt-and-contingent-liability profile**

In our view, Dedham's debt-and-contingent-liability profile is strong. Total governmental-fund debt service is 7.7% of total governmental-fund expenditures, and net direct debt is 82.5% of total governmental-fund revenue. Overall net debt is low at 2% of market value, which is, in our view, a positive credit factor.

Following this issuance, the town will have \$101 million of debt outstanding. We understand Dedham could issue \$30 million of additional debt for a public-safety building during the next few fiscal years. Nevertheless, due to low overall net debt and above-average amortization, we do not expect additional capital needs to change the debt-and-contingent-liability profile materially.

Dedham's combined required pension and actual OPEB contribution totaled 8% of total governmental-fund expenditures in fiscal 2018: 4% represented both required contributions to pension obligations and OPEB payments. The town made 140% of its annual required pension contribution in fiscal 2018.

Dedham contributes to a cost-sharing, multiemployer, defined-benefit pension plan administered by Dedham Contributory Retirement Board. The plan had a net fiduciary position of 99% at June 30, 2018, and a net pension liability of \$943,289.

In fiscal 2018, Dedham contributed a one-time payment of \$2 million above its required contribution of \$5 million for a total of \$7 million. Management expects the one-time contribution to eliminate much of its pension liability due to the plan's full funding.

In addition, Dedham maintains an OPEB liability of \$52 million, assuming a 7.5% discount rate. At June 30, 2018, the OPEB plan was 24.5% funded. Notably, the town has been funding 100% of its required contribution. We expect the plans' annual cost to remain level.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion Dedham's very strong management, very strong economy due to high wealth and income, and location in the Boston MSA will likely translate to strong budgetary performance and reserves. In our opinion, lowering the rating is limited because the budgetary environment is stable. In addition, debt and additional capital needs are limited and pension and OPEB costs are well contained. Therefore, we do not expect to change the rating within the next two years.

### Downside scenario

Although unlikely, we could lower the rating if reserves were to deteriorate substantially, coupled with a lack of compliance with financial policies and practices.

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. Transportation Infrastructure 2019 Sector Outlook: Mostly Stable, Despite Expected Slower Growth And Unlikely Investment Package, Jan. 17, 2019
- 2018 Update Of Institutional Framework For U.S. Local Governments

#### Ratings Detail (As Of May 14, 2019)

##### Dedham GO

*Unenhanced Rating*

AAA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

## Summary: Dedham, Massachusetts; General Obligation; Note

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