

RatingsDirect®

Summary:

Dedham, Massachusetts; General Obligation

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Credit Profile

US\$25.615 mil GO mun purp loan bnds ser 2018 dtd 04/02/2018 due 04/01/2048

Long Term Rating AAA/Stable New

Dedham GO

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to the Town of Dedham, Mass.' series 2018 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

Dedham's full-faith-and-credit pledge, subject to the limitations of Proposition 2 1/2, secures the bonds. We rate the limited-tax GO debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018, on RatingsDirect). We are rating the obligation at the same level with our view of Dedham's general creditworthiness.

Officials intend to use the series 2018 proceeds for various capital improvements consistent with its capital improvement plan (CIP), including construction of public safety facilities, an Early Childhood Education Center, and improvements to sidewalks and roads.

Dedham's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the U.S. 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 town has a predominately locally derived revenue source, with roughly 75% of general fund revenue derived from property taxes with independent taxing authority and independent treasury management from the federal government.

The rating reflects our opinion of the following factors of the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 36.4% of total governmental fund expenditures and 5.0x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 7.3% of expenditures and net

direct debt that is 87.3% of total governmental fund revenue, as well as low overall net debt at less than 3.0% 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 25,263, is located in Norfolk 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 149% of the national level and per capita market value of \$190,844. Overall, the town's market value grew by 5.2% in 2017 to \$4.8 billion in 2018. The county unemployment rate was 3.2% in 2016.

The town's sizable property tax base is poised for additional growth, in our view, due to the ongoing building permit activity. Assessed valuation (AV) has seen substantial growth over the past few years. In addition, we note the town's tax base may be understated 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 town's tax base is residential. The 10 leading taxpayers account for about 10.5% of AV, which we view as 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.

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

Strong budgetary performance

Dedham's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 0.8% of expenditures, but a slight deficit result across all governmental funds of 0.6% in fiscal 2017.

The town's strong budgetary performance reflects conservative budgeting practices over the past several years. Our 2017 results adjust for recurring transfers among the general, capital projects, and sewer enterprise funds, as well as capital projects funded with bond proceeds and a \$7.5 million one-time elective payment to the retirement system in order to substantially reduce, if not eliminate, the unfunded liability. General fund revenues for the year came in as planned at nearly \$97 million, whereas expenditures came in below estimates by about \$3.3 million.

For fiscal 2018, the town expects further balanced results, in line with previous years, reflecting strong overall performance. Property taxes represent nearly three-fourths of general fund revenues and collections remain very strong. Other local receipts such as motor vehicle excise taxes, and building permits are also coming in strongly.

We expect strong budgetary performance over the next few years because the budgetary environment is stable. Pension, other postemployment benefits (OPEB), and other fixed costs are well contained and we believe are

manageable, especially following the one-time \$7.5 million payment to its pension retirement system, which was done by town management in order to essentially eliminate the Dedham Contributory Retirement System's outstanding unfunded liability.

Very strong budgetary flexibility

Dedham's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 31% of operating expenditures, or \$34.0 million.

We note that reserves have seen considerable growth over the past three years up from 20% of expenditures in 2011, or \$18.4 million. Given Dedham's strong reserve policy, we expect reserves will remain very strong. Pursuant to the policy, all of the additional "new" local option taxes (local meals and room occupancy excise tax) are being dedicated to a major capital facilities stabilization fund (the Robin Reyes Fund). This fund was established to make facility improvements to and replace older facilities and to construct new ones. The town also maintains a growing unused levy capacity exceeding \$7.7 million for fiscal 2018, which allows it to raise the levy above the levy limitations to that amount without voter approval.

Prior to the one-time use of reserves in fiscal 2017 to reduce the town's unfunded pension liability, Dedham had experienced a long-term trend of increasing available reserves (assigned an unassigned general fund reserves). We understand that management conservatively expects available reserves to at least remain stable at the end of fiscal 2018.

Very strong liquidity

In our opinion, Dedham's liquidity is very strong, with total government available cash at 36.4% of total governmental fund expenditures and 5.0x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

We believe Dedham's liquidity profile to remain very strong because there is no expectation of any significant deterioration of cash balances. The town also maintains strong access to external liquidity by frequently issuing debt for any capital project needs. In addition, we note Dedham is not aggressive with its use of investments. The town does not currently have any variable-rate or direct-purchase debt, reducing its exposure to any contingent liquidity risks.

Strong debt and contingent liability profile

In our view, Dedham's debt and contingent liability profile is strong. Total governmental fund debt service is 7.3% of total governmental fund expenditures, and net direct debt is 87.3% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is in our view a positive credit factor.

Following this issuance, the town will have \$44.8 million in authorized but unissued debt. We understand Dedham could issue this debt over the next few fiscal years. Nevertheless, given the town's low overall net debt and above-average amortization, we do not expect the town's future capital needs to materially change its debt and contingent liability profile.

Dedham's combined required pension and actual OPEB contributions totaled 8.7% of total governmental fund expenditures in 2017. Of that amount, 3.8% represented required contributions to pension obligations, and 4.9%

represented OPEB payments. The town made 266% of its annual required pension contribution in 2017.

The town contributes to a cost-sharing, multiemployer, defined-benefit pension plan administered by the Dedham Contributory Retirement Board. The plan had a net fiduciary position of 86% as of Jan. 1, 2016, and a net pension liability of \$12.5 million.

In fiscal 2017, Dedham contributed a one-time payment of \$7.5 million above its required contribution of \$4.5 million for a total of \$12.0 million. Management expects the one-time contribution to eliminate much of the town's pension liability. The pension expense for fiscal 2018 is expected to be roughly \$5 million.

In addition, Dedham maintains an OPEB liability of \$65.1 million, assuming a 7.5% discount rate. As of June 30, 2016, the OPEB plan was 17.7% funded. Notably, the town has been funding 100% of its required contribution.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion that Dedham's very strong management, very strong economy due to high wealth and income levels, and location within the Boston MSA will likely translate to strong budgetary performance and reserves. We consider downward rating pressure to be limited as the budgetary environment is stable. In addition debt and future 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 in our view, a consideration of a lower rating would likely require substantial deterioration in reserves as well as a lack of compliance with the town's financial policies and practices.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 13, 2018)		
Dedham GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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