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Ratings

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Summary:

Dedham, Massachusetts; General Obligation

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Credit Profile		
US$6.3 mil GO mun purp loan of 2023 bnds dtd 03/15/2023 due 03/15/2043		
Long Term Rating	AAA/Stable	New
Dedham GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Dedham, Mass.' series 2023 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' long-term rating on the town's existing GO debt.
- The outlook is stable.

Security

Dedham's full-faith-and-credit pledge, subject to Proposition 2-1/2 limitations, secures the bonds. We rate the limited-tax GO debt at the same level of our view of the town, reflected in our unlimited-tax GO bond rating, due to a lack of limitations on resource fungibility available for debt service.

Officials intend to use series 2023 bond proceeds to finance various capital projects.

Credit overview

Supporting the long-term rating are Dedham's very strong economy and budgetary reserves and flexibility. The town benefits from its location in Norfolk County and participation in the broad and diverse Boston metropolitan statistical area (MSA), and over several years has seen robust tax base growth and economic development, providing it the flexibility to invest in capital projects and meaningfully address long-term liabilities. While overall reserves have come down in the past few years mainly due to capital investments, they remain comparable to those of 'AAA' rated communities in the commonwealth (see "U.S. Local Governments Credit Brief: Massachusetts Municipalities Means And Medians," published Oct. 28, 2022, on RatingsDirect. Providing credit stability over our outlook horizon is its stable operating environment, with predictable revenues and expenditures and proactive management with strong policies in planning and budgeting.

Additional rating factors include our opinion of Dedham's:

- Very strong growing per capita taxable market values, higher-than-average residential incomes, and participation in the broad and diverse Boston MSA economy;
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology, and a strong institutional framework score;
- Steady budgetary performance anticipated over the next few years, buffered by very strong reserves and liquidity; and

- A debt and contingent liability profile that is affordable when compared to its tax base.

Environmental, social, and governance

We have analyzed the town's environmental, social, and governance (ESG) risks relative to Dedham's economy, budgetary outcomes, management, and debt and long-term liability profile, and view them to be credit neutral within our analysis.

Outlook

The stable outlook reflects our view that the town will maintain its strong overall financial performance throughout the two-year outlook horizon, supported by a strong economic base and manageable debt and retirement costs.

Downside scenario

We could lower the rating if costs suddenly increase at a faster pace than anticipated, pressuring the budget and lowering reserves below 15% of expenditures, which are levels well below those of similarly rated peers.

Credit Opinion

Very strong local economic base benefiting from the broader regional economy within the broader Boston MSA

We believe the town's convenient location and participation in the Boston MSA remain beneficial, contributing to strong economic metrics. Although the tax base is primarily residential, Dedham hosts a substantial local commercial base and is a retail and restaurant destination. The town continues to experience solid residential and commercial development activity, contributing to consistent building permit revenue and tax base growth. Due to the desirability of the community's service base, the town's real estate environment has been robust, with strong appreciation in values. While economic performance has been solid the past few years, we anticipate growth will slow given the broader economic outlook (see "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," published Nov. 28, 2022, on RatingsDirect.) Nevertheless, the regional economy in Norfolk County is well-diversified and has proved resilient in past recessions.

Strong budgetary assumptions, monitoring, and capital planning highlight management's strengths

Management analyzes historical data to identify budget revenue and expenditure trends. In preparation for its annual budget, it conducts a review with department heads and convenes a budget-balancing subcommittee to discuss adjustments to revenue and expenditure line items. Furthermore, after considering Dedham's contractual obligations and debt service management expenditures, management outlines departmental, capital, and other community needs.

Management presents budget-to-actual performance reports monthly to the board of selectmen and maintains a robust Open Finance platform that gives the public easy access to its expenditure, revenue, budget, and payroll information for the current fiscal year, as well as a historical view of previous years. The town makes supplemental budget appropriations at special meetings when necessary.

The town maintains a formal investment policy that codifies commonwealth guidelines and additional investment restrictions it sets forth. Dedham has a basic written debt management policy of maintaining debt service levels at 10% of budget. Its written fund balance policy maintains stabilization reserves at 5%-10% of the rolling five-year average of general fund operating budget, which management views as sufficient to cover cash flow in the event of one-time or emergency expenditures. The town's stabilization fund currently meets the policy requirement.

Dedham maintains a detailed five-year capital plan that identifies internal and external financing sources, which management reviews annually. The town is also bolstering its financial planning procedures after a brief pause in its formulation and review. It is in its first year using a new five-year financial model after a brief pause during the pandemic. Management has said it will continue to evaluate its policies and practices and consider improvements over the next few years as conditions change.

The institutional framework score for Massachusetts municipalities is strong.

Stable revenue and expenditure profile, with proactive management, should support steady operations and maintenance of very strong reserves and liquidity

The town was able to maintain steady operating performance in fiscal 2022, maintaining its available reserves at $23.4 million, or 18.8% of expenditures--which includes the town's stabilization accounts. Over the past several years, management has elected to appropriate some of its stabilization balances toward machinery and equipment purchases and supplement building and improvement accounts. It created the Robin Reyes fund to set aside local option meals and rooms excise tax for later use for large capital building projects. The intent is for the town to continue using this account to offset large capital projects and debt payments, with the expectation of replenishing the fund over time with excess local receipts. We believe its operations are structurally balanced and our assessment factors in improvement to budgetary results in the near term, as management has taken prudent budgetary steps to control costs throughout the pandemic and its most vulnerable revenues have strengthened from its lows.

The town receives most of its general fund revenues from property taxes and intergovernmental aid, at 73% and 9%, respectively, and collections remained in line with previous years. It has been able to maintain stable budgetary results--and maintains roughly $8.1 million in unused levy capacity. The unused levy capacity allows management to raise the levy above existing limitations without electorate approval. This provides additional revenue enhancement support in future town budgets should expenditures begin to outpace revenues.

The 2023 budget totals $123.4 million, a small increase over the previous year. The town increased the property tax levy by 4.7%, to approximately $101.7 million. It is also anticipating level state aid. The budget does not assume any unscheduled draws on reserves and overall remains consistent with that of the previous year. Management indicates budget-to-actual results are currently on target, and it will continue to monitor some key revenue items throughout the year, including local receipts. Supporting budgetary operations has been the receipt of upward of $7.2 million from the American Rescue Plan Act. So far, the town has allocated roughly $2.3 million toward various purposes, and there are plans to allocate all funding by the close of fiscal 2025.

Manageable debt burden and pension and other postemployment benefit (OPEB) liabilities

Following this bond issue, Dedham has about $134.1 million of total direct debt outstanding, approximately $4.5 million of which is self-supporting enterprise debt. Currently, it does not have any sizable debt offerings planned that could result in a weaker debt profile. Moreover, given the low overall net debt and moderate net direct debt levels, coupled with rapid amortization of the town's direct debt, we do not expect our assessment of Dedham's debt profile to change significantly.

Pension and other postemployment benefits

- We do not view pension and OPEB liabilities as a source of credit pressure for Dedham since the plans are well funded, and costs are low and manageable.
- Dedham contributes to a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Dedham Contributory Retirement Board. The plan has a discount rate of 7%, and maintains a 90% funded ratio according to its latest actuarial valuation dated Jan. 1, 2022.
- Dedham maintains a net OPEB liability of $51.5 million, assuming a 6.4% discount rate. On June 30, 2020, the OPEB plan was 28% funded with a balance of $27.7 million.

Rating above the sovereign

Under our criteria, "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, we rate Dedham higher than the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention.

Dedham, MA -- Key Credit Metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	144			
Market value per capita ($)	258,682			
Population			25,920	25,917
County unemployment rate(%)			5.1	
Market value ($000)	6,705,039	6,084,600	5,660,583	5,478,285
Ten largest taxpayers % of taxable value	10.7			
Strong budgetary performance				
Operating fund result % of expenditures		(0.6)	(0.4)	(2.3)
Total governmental fund result % of expenditures		(0.3)	(0.3)	(1.8)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		18.8	19.2	20.1
Total available reserves ($000)		23,419	24,274	24,808
Very strong liquidity				
Total government cash % of governmental fund expenditures		22	28	29
Total government cash % of governmental fund debt service		262	372	358
Strong management				
Financial Management Assessment	Good			

Dedham, MA -- Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2022	2021	2020
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.4	7.5	8.2
Net direct debt % of governmental fund revenue	93			
Overall net debt % of market value	1.9			
Direct debt 10-year amortization (%)	54			
Required pension contribution % of governmental fund expenditures		3.1		
OPEB actual contribution % of governmental fund expenditures		2.5		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022