

# RatingsDirect®

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## Summary:

# Dedham, Massachusetts; General Obligation

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## Summary:

# Dedham, Massachusetts; General Obligation

### Credit Profile

US\$26.505 mil GO muni purp ln ser 2022 due 03/15/2052

<i>Long Term Rating</i>	AAA/Stable	New
Dedham GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Dedham GO (AMBAC)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Dedham GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Dedham, Mass.' series 2022 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.

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 2022 bond proceeds, totaling roughly \$22.1 million, to finance various capital projects, the largest being the construction of a public safety facility. A portion of the bonds will also refund the town's outstanding GO bonds series 2010 for interest savings.

### Credit overview

Supporting the long-term rating are Dedham's very strong economy and very strong budgetary reserves and flexibility. The town benefits from its location 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 due to capital investments, they remain above average relative to those of 'AAA' rated communities in the commonwealth. The town also maintains well-embedded financial management policies, particularly in the areas of budgeting and planning.

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, on RatingsDirect), the town has a predominantly 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.

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;
- Strong management conditions and 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
- Manageable debt and contingent liability profile, with a low net direct debt that is 93% of total governmental fund revenue. The town's debt burden is low and affordable when compared to its tax base. Pension and other postemployment benefits (OPEB) are a long-term credit consideration; however, we do not view them as a source of credit pressure since costs are manageable and affordable to the town's revenue base.

### **Environmental, social, and governance**

We evaluated the town's environmental, social, and governance (ESG) factors relative to its economy, financial measures, management, and debt and long-term liability profile, and determined they are all in line with those of the sector.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if financial reserves and liquidity were to deteriorate significantly, either due to a financial imbalance or continued capital spending with no replenishment plan. We could also take a negative rating action if costs related to long-term liabilities increase at a faster pace and squeeze out other expenditures, pressuring operations and reserves over a sustained period.

## **Credit Opinion**

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

The town, with an estimated population of 25,813, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The tax base has a good mix of residential and commercial properties, with approximately 82% of the tax base residential and 14% commercial and industrial properties. Dedham's projected per capita effective buying income is strong relative to national levels, and per capita market values are very high and growing. Its local economic base benefits from its proximity to downtown Boston and its business districts.

Since 2018, taxable market values in Dedham increased by 26%, and the town anticipates further development projects will continue, fueling additional tax base growth. The town created the Providence Highway Development district in 2019 to reinvest new tax revenues within the district toward infrastructure improvements, with the goal of fostering in new development. This is on the heels of several other investments and initiatives the town has undertaken

over the years that have supported growth in the tax base.

Dedham's real estate environment remains very strong. The town boasts very high per capita market values. The town is home to several shopping centers, which account for roughly 5% of the tax levy, but overall the tax base is diverse. Moreover, its tax base and general economic makeup do not capture the presence of some wealthy tax-exempt private schools and a sizable not-for-profit assisted-living center.

The county unemployment rate was 8.3% in 2020, increasing because of the stay-at-home orders. Unemployment remains above its average, but we note it has come down over the past few months as the economic recovery has taken hold. Strengthening of the macroeconomic environment is likely to further support continued growth in the tax base. (For more information on our view of the national economy, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.)

### **Strong budgetary assumptions, monitoring, and capital planning highlight managements 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 fairly 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 flows 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. Management has said it will continue to evaluate its policies and practices and consider improvements over the next few years as conditions change.

The town has taken steps to mitigate exposure to cyber-related risks and has been active in addressing concerns related to climate change that could directly affect taxable properties.

### **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 2021, maintaining its available reserves at \$24.3 million, or 19% of expenditures. Over the past several years, management has elected to appropriate some of its balances toward machinery and equipment purchases and supplement building and improvement accounts. We believe the town's operations are structurally balanced and our assessment factors 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 are beginning to strengthen from its lows.

Reserves balances are primarily stabilization funds that require a two-thirds vote at a town meeting to use. The town maintains \$7.3 million in general stabilization funds and \$6.5 million of capital projects stabilization funds (Robin Reyes Stabilization Fund). 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.

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. Given good budgetary management, the town has been able to maintain strong budgetary performance, notwithstanding the use of reserves for capital. On the expenses side, costs related to COVID-19 remain manageable and supported by stimulus funding. Supporting the town operations is its growing unused levy capacity, which exceeded \$9.2 million for fiscal 2021. 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 economically sensitive revenues remain weak.

At the onset of the pandemic, the town implemented several cost-saving initiatives to preserve operating stability. It lowered its revenue estimates in several key areas and kept a tight control of its operating budget.

The 2022 budget totals \$117.1 million, a small increase over the previous year. The town increased the property tax levy by 4%, to approximately \$97 million. It is also anticipating level state aid. The budget does not assume any unscheduled draws on reserves and overall remains consistent with 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. The town is receiving upward of \$7.2 million in funds from the American Rescue Plan Act (ARPA), and schools are also benefiting from Elementary and Secondary School Emergency Relief (ESSER) funding, which should provide support to operations over our outlook period. Dedham anticipates earmarking the remainder of the stimulus funds for eligible infrastructure and economic development initiatives, with only a small portion earmarked for revenue loss. So far, roughly \$1.2 million has been allocated for use in fiscal year 2022.

### **Low debt burden and manageable pension and OPEB liabilities**

Following this bond issue, Dedham has about \$134.2 million of total direct debt outstanding, approximately \$4 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. Governmental fund debt service is 7.5% of total governmental fund expenditures and net direct debt is 93% of total governmental fund revenue.

Pension and other postemployment benefits:

- We do not view pension and OPEB liabilities as a source of credit pressure for Dedham, since costs are manageable and affordable, given the strength of the town's revenue base.
- Because of changes to Dedham's underlying assumptions to a more conservative posture, unfunded ratios have

come down. Nevertheless, we believe the underlying changes limit the chance of unexpected contribution escalations.

- The town funds OPEB generally on a pay-as-you-go basis, but has established a trust, has been appropriating the full actuarially determined contribution, and currently maintains a healthy OPEB balance.

Dedham's combined required pension and actual OPEB contributions totaled 6.4% of total governmental fund expenditures in 2021. Of that amount, 2.9% represented required contributions to pension obligations and 3.5% represented OPEB payments.

Dedham contributes to a cost-sharing, multiple-employer, defined-benefit pension plan administered by the Dedham Contributory Retirement Board. The plan had a net fiduciary position of 85%, as of the measurement date of Dec. 31, 2020, and a net pension liability of \$25.7 million. Notably, the town has reduced the investment rate of return from 7.5% to 7.25%. Additionally, changes to the valuation report reflect revised mortality assumptions and investment losses. While Massachusetts requires all pension systems to achieve full funding no later than 2040, Dedham remains well ahead of schedule, with fully funding of the plan anticipated by 2030.

Dedham maintains an OPEB liability of \$55.4 million, assuming a 7.5% discount rate. On June 30, 2020, the OPEB plan was 28% funded. Notably, the town has been funding 100% of its required contribution. It has elected to reduce its appropriation in fiscal 2021 because of the effects of the pandemic on the budget, but will likely revert to its full funding posture over time as revenues recover.

### Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

	Most recent	Historical information		
		2021	2020	2019
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	144			
Market value per capita (\$)	234,773			
Population		25,917	25,827	
County unemployment rate(%)		8.3		
Market value (\$000)	6,084,600	5,660,583	5,478,286	
Ten largest taxpayers % of taxable value	11.1			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		(0.4)	(2.3)	(1.8)
Total governmental fund result % of expenditures		(0.3)	(1.8)	(0.8)
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		19.2	20.1	23.0
Total available reserves (\$000)		24,274	24,808	27,620
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		28	29	28

**Dedham--Key Credit Metrics (cont.)**

	<b>Most recent</b>	<b>Historical information</b>		
		<b>2021</b>	<b>2020</b>	<b>2019</b>
Total government cash % of governmental fund debt service		372	358	325
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		7.5	8.2	8.5
Net direct debt % of governmental fund revenue	93			
Overall net debt % of market value	2.1			
Direct debt 10-year amortization (%)	53			
Required pension contribution % of governmental fund expenditures		2.9		
OPEB actual contribution % of governmental fund expenditures		3.5		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits.  
Data points and ratios may reflect analytical adjustments.

**Related Research**

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

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