

RatingsDirect®

Summary:

Dedham, Massachusetts; General Obligation

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Credit Profile

US\$25.68 mil GO mun purp loan of 2021 bnds dtd 06/10/2021 due 06/01/2051

| | | |
|-------------------------|------------|-----|
| <i>Long Term Rating</i> | AAA/Stable | New |
|-------------------------|------------|-----|

Dedham GO

| | | |
|-------------------------|------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
|-------------------------|------------|----------|

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Dedham, Mass.' series 2021 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 2021 bond proceeds, totaling roughly \$25.6 million, to finance various capital projects townwide, the largest being the construction of a public safety facility (\$22.0 million).

Credit overview

Supporting the long-term rating are Dedham's very strong socioeconomic profile, 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 that has provided the flexibility to invest in townwide capital projects and meaningfully address long-term liabilities. While overall reserves have come down 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.

While we recognize the full effects of the pandemic on Dedham's finances and economy remain hard to predict, to date, the town has not observed any considerable disruption to its main revenues. Moreover, we believe that upward of \$2.4 million in pending funds from the American Rescue Plan (ARP) and conservative revenue estimates incorporated into the fiscal 2021 budget will provide credit stability over the outlook period.

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 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.

Additional rating factors include our opinion of Dedham's:

- 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;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2020, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.5% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 8.2% of expenditures and net direct debt that is 86.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

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. Dedham has strong financial management policies and practices and has done well managing retirement and other postemployment benefit (OPEB) obligations.

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 economy

We consider Dedham's economy very strong. The town, with a population of 25,813, is in Norfolk County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. It has a projected per capita effective buying income of 163% of the national level and per capita market value of \$212,230. Overall, market value grew by 7.7% over the past year to \$5.5 billion in 2021.

We believe the town's sizable tax base will likely grow further as ongoing developments continue and the real estate environment remains strong. Since 2017, the town's assessed value (AV) has grown a solid 24%, which has allowed for

its millage rates to decline. In addition, we note the strength of Dedham's tax base and general economic make-up does not capture the presence of some wealthy tax-exempt private schools and a sizable not-for-profit assisted-living center. Overall, the tax base is very diverse, in our opinion. Roughly, 80% of the tax base is residential with the 10 leading taxpayers accounting for about 10.5% of AV.

The regional economy is well-diversified and has been growing the past few years, but the pandemic stymied its momentum. The county unemployment rate was 2.3% in 2019, although it increased significantly because of the stay-at-home orders, peaking at 15.5% in April 2020. Unemployment declined to 5.8% in March 2021, although these levels remain above average compared with previous years. IHS Markit forecasts Norfolk County's real gross county product (GCP) will fall by 5.95% in calendar 2020, worse than the state's 3.8% decline. The forecast suggests that economic activity will not return to pre-pandemic levels until early 2022, increasing 5.1% in 2021 and 4.3% in 2022. This is largely consistent with S&P Global Economics' U.S. forecasts. (For more information on S&P Global Ratings' economic outlook, please see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021.)

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, multiyear 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 assessment is adequate, in our opinion. The town reported a decline of fund balance of 2.3% of expenditures in the general fund and a deficit of 1.8% across all governmental funds in fiscal 2020. Like in previous years, the decline in fund balance was for capital purposes. The town's reserves are high, so 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. Our assessment factors in our expectation that budgetary results should improve 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.

The 2021 budget totals \$113 million, up 4.7% over the previous year. Overall, property taxes constitute 73% of revenues and state aid about 9%. Tax collections have historically been very strong and stable, with the town typically receiving 99% on a current basis. As noted, throughout the pandemic, Dedham implemented several cost-saving

initiatives and was conservative in its forecasts, revising revenue estimates downward for fiscal 2021 and reducing spending in like amounts.

As part of its strategy, the town did vote to reduce amounts budgeted for OPEBs, which it had previously been fully funding. Therefore, and thanks to other budgetary modifications, management is not expecting to use any reserves in the 2021 budget for operational purposes. Currently, budgetary results are better than anticipated, and with level funding of state aid in fiscal years 2021 and 2022, we believe severe financial deterioration is minimal over our outlook period. Moreover, the town is eligible to receive upward of \$2 million in ARP funds, and the school district is also benefiting from Elementary and Secondary School Emergency Relief (ESSER) stimulus funds, which we believe will support steady operating performance across all its major departments. Notably, pensions, OPEBs, and other fixed costs, are manageable, and do not currently pose a budgetary pressure, in our opinion.

Very strong budgetary flexibility

Dedham's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 20% of operating expenditures, or \$24.8 million.

Management is anticipating maintaining reserves at very strong levels. Reserves balances are primarily stabilization funds that require a two-thirds vote of town meeting to use. The town maintains \$7.0 million in general stabilization funds, and \$8.4 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 and use this account to offset large capital projects and debt payments with the expectation to replenish the fund over time with excess local receipts.

While not currently factored into our assessment, the town also maintains a growing unused levy capacity that exceeds \$9.1 million for fiscal 2020, allowing management to raise the levy above levy limitations without electorate approval. This provides additional revenue enhancement support in future town budgets should economically sensitive revenues remain weak.

Very strong liquidity

In our opinion, Dedham's liquidity is very strong, with total government available cash at 29.5% of total governmental fund expenditures and 3.6x governmental debt service in 2020. 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.

Adequate debt and contingent liability profile

In our view, Dedham's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.2% of total governmental fund expenditures, and net direct debt is 86.8% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, which is, in our view, a positive credit factor.

Following this issuance, the town will have \$117 million of debt outstanding. Currently, it does not have any sizable

debt offerings planned that could result in a weaker debt profile.

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 OPEBs 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 7.3% of total governmental fund expenditures in 2020. Of that amount, 2.9% represented required contributions to pension obligations, and 4.5% represented OPEB payments. The town made 100% of its annual required pension and OPEB contribution in 2020.

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, 2019, 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%. In addition, changes to the valuation report reflects revised mortality assumption, 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.

In addition, Dedham maintains an OPEB liability of \$55.4 million, assuming a 7.5% discount rate. At 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.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

| Ratings Detail (As Of May 17, 2021) | | |
|---|------------------|----------|
| 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.

Summary: Dedham, Massachusetts; General Obligation

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

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