

# RatingsDirect®

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## Summary:

# Bedford Town, Massachusetts; General Obligation

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### Credit Profile

US\$8.43 mil GO rfdg bnds due 09/15/2016

*Long Term Rating* AAA/Stable New

Bedford Twn GO

*Long Term Rating* AAA/Stable Affirmed

#### **Bedford Twn GO**

*Unenhanced Rating* AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Bedford Town, Mass.' series 2016 general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2 1/2, secures the bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. Officials plan to use series 2016 bond proceeds to refund the town's series 2007 and 2009 GO bonds for present value savings.

We rate the town higher than the nation because we believe Bedford 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 debt service on the bonds is at limited risk of negative sovereign intervention. In fiscal 2015, local property taxes generated 76% of town revenue, which demonstrated a lack of dependence on central government revenue.

The rating reflects our opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund but break-even operating results at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 12.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.9% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 7.8% of expenditures and net direct debt that is 56.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 84.8% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Bedford's economy very strong. The town, with an estimated population of 13,995, is in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 185% of the national level and per capita market value of \$228,281. Overall, the town's market value grew by 1.2% over the past year to \$3.2 billion in 2016. The county unemployment rate was 4.6% in 2014.

Bedford primarily serves as a residential suburb of Boston. Residential properties account for about 78.7% of total assessed valuation (AV) and commercial and industrial properties account for 17.7%. AV has seen modest increases during the past three fiscal years; fiscal 2015 total AV was \$3.2 billion. Management indicates several commercial areas are growing as retail outlets expand. In addition, the town continues to see development in residential areas with new home construction. The property tax base is very diverse with the 10 leading taxpayers accounting for 9.3% of total AV.

### **Very strong management**

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

Highlights include management's:

- Conservative budgeting assumptions that rely on five years of historical trend analysis;
- Monthly reports on budget-to-actual results to the town council;
- Annually updated five-year revenue and expenditure projections, coupled with varying assumptions in the budgeting and planning process to identify risk; and
- Annually updated, comprehensive five-year capital improvement plan (CIP) with identifiable projects and funding sources.

The town's conservative investments are consistent with commonwealth guidelines, coupled with the monthly review of investment earnings and, at least, an annual review of holdings. The town's formal debt policy sets debt service at a 10% maximum of its budget with amortization tied to no more than the project's useful life. Management's reserve policy is to set the stabilization fund at 2%-6% of the operating budget and the free cash fund at 1% of the operating budget, coupled with the appropriation of 0.5% of reserves annually for ample free cash to meet financial obligations and mitigate unforeseen fiscal events.

### **Strong budgetary performance**

Bedford's budgetary performance is strong in our opinion. The town had balanced operating results in the general fund of 0.4% of expenditures, but a break-even result across all governmental funds in fiscal 2015.

We adjusted fiscal 2015 audited general fund and total governmental funds operating results for recurring transfers and one-time capital expenditures paid with bond proceeds. For fiscal 2015, the town ended with a general fund surplus of \$338,000 without premiums from bond and note issuances. Management attributes the positive performance to overall conservative budgeting, which led to savings in expenditures and better-than-expected revenue, particularly hotel and meal taxes and building permit revenue. Prior to this, Bedford ended fiscal 2014 with a \$2.1 million surplus after adjusting for one-time expenditures related to the reclassification of nonavailable reserves into the town's irrevocable

other postemployment benefits (OPEB) trust.

Bedford adopted a balanced budget for fiscal 2016 totaling \$80.9 million, including a fund balance appropriation of \$3.1 million mainly for one-time capital expenditures. According to management, however, it is currently seeing positive variances in budget-to-actual results; it also expects to end fiscal 2016 with another operating surplus. Property taxes generate 76% of general fund revenue and intergovernmental revenue accounts for 9%.

### **Strong budgetary flexibility**

Bedford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 12.4% of operating expenditures, or \$9.6 million.

Bedford maintains strong budgetary flexibility, supported by a formal policy of maintaining stabilization reserves at 2%-6% of the budget; a minimum of 1% for free cash; and 0.5% for OPEB fund appropriation, which it adheres to currently. While the town appropriated about \$3.1 million in the fiscal 2016 budget, management does not expect to realize this since it is currently projecting an increase in fund balance by fiscal year-end 2016. Therefore, we expect budgetary flexibility to remain strong.

### **Very strong liquidity**

In our opinion, Bedford's liquidity is very strong, with total government available cash at 19.9% of total governmental fund expenditures and 2.6x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

We believe Bedford's frequent debt issuance, including GO bonds, supports its strong access to external liquidity. The town conservatively invests its funds, consistent with commonwealth guidelines, in highly rated fixed-income securities, certificates of deposit, and Massachusetts Municipal Depository Trust. The town has consistently had very strong liquidity, and we do not expect these ratios to change. The town does not have any liquidity risks from private-placement or direct-purchase obligations.

### **Very strong debt and contingent liability profile**

In our view, Bedford's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.8% of total governmental fund expenditures, and net direct debt is 56.2% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 84.8% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

With this issuance, the town will have about \$55 million in total direct debt. Bedford has \$11 million of additional debt plans within the next two years, consistent with its CIP, for various projects, offset by current rapid principal amortization.

Bedford's combined required pension and actual OPEB contribution totaled 5.9% of total governmental fund expenditures in fiscal 2015. Of that amount, 3.8% represented required contributions to pension obligations, and 2.2% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2015.

Bedford participates in the Middlesex County Retirement System; it contributed the full actuarially determined contribution of \$3.4 million in fiscal 2015. At Dec. 31, 2014, the system was about 47.6% funded with the town's

proportionate share of the net pension liability at \$44 million.

Bedford also provides OPEB in the form of health insurance. It contributed about \$2 million to OPEB in fiscal 2015 through pay-as-you-go financing. As of the July 1, 2014, valuation, the OPEB plan had an unfunded liability of \$36.9 million. While pension costs should increase due to the plan's low funding level, current contributions are manageable; this, however, could create budgetary pressure.

Bedford has established an OPEB trust, and it is phasing in the full required contribution. The town appropriated \$551,000 in fiscal 2015 and \$565,000 in fiscal 2016. Bedford moved to the commonwealth's Group Insurance Commission plan, which reduced the OPEB unfunded actuarial accrued liability by about \$30 million between fiscal years 2010 and 2012. The OPEB trust had a \$4.8 million balance in fiscal 2015.

### **Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion that Bedford will likely continue to adjust its budget to maintain structural balance while management maintains strong reserves. We expect the town's economy to remain very strong. We expect budgetary performance to remain strong as management maintains costs within the tax levy limit. We believe Bedford's very strong management and debt and contingent liability profile provide rating stability, and we do not expect changes to Bedford's policies or significant increases in debt and contingent liabilities. In addition, we do not expect to change the rating during the two-year outlook period. If management were to draw on reserves unexpectedly, coupled with performance deterioration without a plan to correct it, however, we could lower the rating.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### **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
- Institutional Framework Overview: Massachusetts Local Governments

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.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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