

RatingsDirect®

Summary:

Bedford, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$4.473 mil GO mun purp loan bnds ser 2015 due 10/15/2040

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 to Bedford, Mass.' series 2015 general obligation (GO) municipal purpose bonds and affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

A pledge of the town's full faith and credit secures its GO bonds and subject to the state's Proposition 2-1/2 levy limit unless exempted by a vote of town residents. The series 2015 bonds are not exempted from the levy limit. Officials intend to use the series 2015 proceeds for various improvements consistent with its capital improvement plan (CIP).

Bedford'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 "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," the town has a predominately locally derived revenue source, with 70% of governmental activity revenue derived from property taxes with independent taxing authority and treasury management independent from the federal government.

The rating reflects our assessment of the following factors:

- 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 operating surpluses in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 at 12.5% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.4% of total governmental fund expenditures and 2.3x governmental debt service, as well as access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 7.9% of expenditures and net direct debt at 53.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization with 84.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Bedford's economy very strong. The town, with an estimated population of 13,989, is 15 miles northwest of Boston in Middlesex County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 182% of the national level and per capita market value of \$225,684. Overall, the town's market value grew by 10.2% over the past year to \$3.2 billion in 2015. The county unemployment rate was 4.6% in 2014.

Bedford primarily serves as a residential suburb of Boston. Residential properties account for about 78.6% of total assessed valuation (AV), with commercial and industrial properties accounting for 17.8%. Bedford's AV has seen modest increases the past three fiscal years. For fiscal 2015, total AV was \$3.157 billion. The town's property tax base is very diverse, as the 10 leading taxpayers account for 8.8% of total AV.

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.

Highlights of policies include conservative budgeting assumptions that rely on five years of historical trends analysis and monthly reporting of budget-to-actuals to the board of selectmen. These practices are also supported by annually updated five-year projections of revenue and expenditures with varying assumptions used in the budget and planning process to identify future risks. The town also maintains an annually updated comprehensive five-year CIP with identifiable projects and funding sources. Investments are conservatively invested, consistent with state guidelines, with monthly review of investment earnings and at least annual review of holdings. The town's formal debt policy sets debt service levels at a 10% maximum of the budget with amortization tied to no more than the useful life of the project. Bedford maintains a reserve policy to set stabilization at 2%-6% of the operating budget, to set free cash at 1% of operating budget, and to appropriate to 0.5% to reserves on an annual basis to have 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 operating surpluses at 2.6% in the general fund and at 1.6% across all governmental funds in fiscal 2014. General fund operating results of the town have been stable over the last three years, with a result of 2.4% in 2013 and a result of 0.8% in 2012.

Audited 2014 results for the general fund show the town with a \$2.1 million surplus after adjusting for one-time expenditures related to reclassification of non-available reserves to the town's irrevocable other postemployment benefit (OPEB) trust. The 2014 results are similar to the prior year's \$1.9 million general fund surplus. For fiscal 2015, the audit has not yet been completed, but management expects another positive year and an increase in reserves.

For fiscal 2016, the town budget is balanced with additional tax capacity of \$1.583 million under the state-imposed Proposition 2-1/2 limit. Historically, the town has maintained at least \$1 million in taxing capacity under the limit. Overall, we expect continued better-than-budgeted results for the general and total governmental funds that will result in strong budgetary performance.

Strong budgetary flexibility

Bedford's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 at 12.5% of operating expenditures, or \$10.2 million.

Available reserves continue to see annual growth with future growth expected for fiscal 2015. Flexibility is supported by a formal policy to maintain stabilization reserves at 2%-6% of budget, 1% minimum for free cash, and 0.5% reserved for OPEB fund appropriation. While reserves continue to grow, we expect them to remain strong over the next two years.

Very strong liquidity

In our opinion, Bedford's liquidity is very strong, with total government available cash at 18.4% of total governmental fund expenditures and 2.3x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

We believe the town's strong access to external liquidity is supported by its frequent debt issuances, including GO bonds. The town's funds are conservatively invested, consistent with state guidelines, in highly rated fixed-income securities, certificates of deposit, and the Massachusetts Municipal Depository Trust. The town has consistently had very strong liquidity and we do not anticipate a change to these ratios. The town has no 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 7.9% of total governmental fund expenditures, and net direct debt is 53.2% of total governmental fund revenue. Overall net debt is low at 1.6% of market value and approximately 84.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The town has additional debt plans of \$12 million within the next two years, consistent with its CIP, for various projects offset by current rapid amortization of principal. We do not expect changes in the town's overall debt profile.

Bedford participates in the Middlesex County Retirement System and contributed its full annual required contribution (ARC) of \$3.2 million in 2014. As of its 2013 valuation, the system was about 43.7% funded. The town also provides OPEBs in the form of health insurance and contributed \$5 million in fiscal 2014 on a pay-as-you-go basis. As of its July 1, 2012 valuation, the OPEB plan had an unfunded liability of \$48.9 million. While pension costs are expected to increase given the low plan funding level, current contributions are manageable, but could create future budgetary pressures.

We note that in fiscal 2014, the town appropriated \$525,000 into an OPEB trust with annually increasing contributions. The town appropriated \$551,000 in fiscal 2015 and \$565,000 in fiscal 2016. Recently, it moved to the state GIC plan, which reduced its OPEB unfunded actuarial accrued liability by about \$30 million. The town has established an OPEB trust and is phasing in its full required contribution. We note that the 2014 payment toward its annual required OPEB payment was in excess of 100% due to the reclassification of reserves into the trust.

Bedford's combined pension and OPEB contributions totaled 8.8% of total governmental fund expenditures in 2014. Of that amount, 3.4% represented contributions to pension obligations and 5.4% represented OPEB payments. The town

made its full pension ARC in 2014.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's expectation that Bedford will continue to adjust its budget to maintain structural balance while maintaining its strong reserves. We expect the town's economy to remain very strong. We anticipate budgetary performance will remain strong as the town continues to raise its property tax levy in line with its budgeted expenditure growth. The strong management and debt and contingencies profile add to the stability of the town and we do not anticipate changes to policies or significant increases in the town's debt and contingencies liabilities. We do not expect the rating to change during the two-year outlook period.

Downside scenario

However unlikely, should the town unexpectedly draw on reserves and its performance deteriorate without a plan to correct matters, 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

- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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