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Ratings

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Summary:

Bedford Town, Massachusetts; General Obligation

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Credit Profile		
US$15.115 mil GO mun purp ln of 2019 bnds due 11/15/2044		
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

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Bedford Town, Mass.' series 2019 general obligation (GO) municipal purpose bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's previously issued GO debt.

The rating reflects our view of the town's very strong economy supported by a wealthy tax base and access to the Boston metropolitan statistical area (MSA). In addition, Bedford's continued maintenance of very strong budgetary flexibility, with available reserves averaging about 21% over the past three years, as a result of positive financial performance and very strong management, further support the rating. Although we believe the town's long-term retirement liabilities and costs could eventually pressure the budget, we believe Bedford will be able to appropriately manage these costs and its future debt should remain relatively affordable, given its sizable and wealthy tax base.

Security and use of bond proceeds

The town's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds. We rate the limited-tax GO debt on par with our view of Bedford's general creditworthiness because the ad valorem tax is not derived from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of the town's overall ability and willingness to pay debt service.

Officials plan to use series 2019 bond proceeds to permanently finance the town's existing bond anticipation notes and finance various capital improvement projects.

We rate Bedford higher than the nation because we believe it 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. (For further information, please see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

In fiscal 2018, local property taxes generated 77% of revenue, which demonstrated a lack of dependence on central government revenue.

Our view of the town's general creditworthiness reflects our view of its:

- Very strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 32.4% of total governmental fund expenditures and 4.8x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.7% of expenditures and net direct debt that is 66.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75.4% 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 14,494, is located 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 224% of the national level and per capita market value of $272,993. Overall, the town's market value grew by 7.4% over the past year to $4.0 billion in 2019. The county unemployment rate was 2.7% in 2018.

Bedford is primarily an affluent residential suburb of Boston. Residential properties account for nearly 78% of total assessed valuation (AV) and commercial and industrial properties account for 18.5%. The property tax base is very diverse with the 10 leading taxpayers accounting for 9.9% of total AV.

In addition, the town continues to see development in residential areas with new home construction, as well as developments in its commercial sector. According to officials, Middlesex Turnpike, one of Bedford's major commercial-and-manufacturing hubs, is expanding. Officials not only expect this expansion to lead to better road access, but they also expect it to allow businesses to expand and attract new business. Some of these commercial developments include a new Even Hotel, made up of 130 rooms and currently under development; and a new industrial mixed-use campus planned by Jumbo Capital around an office building currently occupied by Oracle Corp. This development would create an additional 300,000 square feet of office and amenity space in two new buildings. On the residential side, ongoing projects include Evergreen Meadow, a 17-unit planned residential development; several new subdivision developments; a mixed-use development on Plank Street consisting of 52 dwelling units and 6,000 square feet of office and retail space; and redevelopment of a portion of Pine Hill Crossing into a cottage neighborhood. As a result, given the various developments as well as the stable and growing tax base with access to the Boston MSA, we expect Bedford's economy to remain very strong.

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 include management's:

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

Conservative investments are consistent with commonwealth guidelines, coupled with the monthly review of investment earnings and, at least, an annual review of holdings. Bedford'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 surplus operating results in the general fund of 1.6% of expenditures, and balanced results across all governmental funds of 0.3% in fiscal 2018.

Our operating result calculations account for recurring transfers into and out of the general fund, as well as one-time capital expenditures paid for with bond proceeds.

Management attributes positive performance in fiscal 2018 to conservative budgeting and higher-than-expected revenue. In particular, Bedford realized about $1.5 million of better-than-budgeted revenue, including permits and licenses, hotel and excise taxes, and other revenue items. In addition, it saw expenditure savings due to turn backs in health insurance, utility costs, salaries, and water department costs.

Management estimates the town ended fiscal 2019 with a slight general fund surplus. According to officials, investment income, building permit fees, motor vehicle excise taxes, and other local receipts came in above budget. The town also achieved some savings in insurance and benefits, and utility costs among other areas. Therefore, we expect budgetary performance will likely remain strong.

The fiscal 2020 operating budget totals $94.5 million, a 5% increase from fiscal 2019, including a fund balance appropriation of $5.9 million for one-time expenditures, which the town had made historically. Bedford has budgeted its new growth figures at about $1 million for fiscal 2020, which has come in higher than budgeted at $1.28 million. Officials report budget-to-actual results are currently on target, and they expect balanced operations by fiscal year-end 2020. Therefore, we expect financial operations will likely remain stable.

Property taxes generate 70% of general fund revenue followed by intergovernmental revenue at 17%.

Very strong budgetary flexibility

Bedford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 21% of operating expenditures, or $20.0 million.

Budgetary flexibility has remained very strong over the last three fiscal years. Bedford's formal policy, which supports flexibility, calls for maintaining stabilization reserves at 2%-6% of the budget, free cash at a minimum of 1%, and other postemployment benefit (OPEB) fund appropriation of its previous year's appropriation increased by 3.5%, plus an additional $100,000, which the town currently adheres to.

Town estimates have increased reserves slightly in fiscal 2019. For fiscal 2020, Bedford appropriated about $5.9 million into the budget, as it has done historically; it, however, does not expect any actual drawdowns by fiscal year-end 2020. Therefore, we expect budgetary flexibility will likely remain very strong. For fiscal 2019, Bedford also has about $8.3 million in unused levy capacity, which has steadily increased during the past three fiscal years. Officials report they do not have plans to tap into this unused levy capacity, although the town could elect to do so in the future, for capital projects.

Very strong liquidity

In our opinion, Bedford's liquidity is very strong, with total government available cash at 32.4% of total governmental fund expenditures and 4.8x governmental debt service in 2018. 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. Management conservatively invests, consistent with commonwealth guidelines, in highly rated fixed-income securities, certificates of deposit, and Massachusetts Municipal Depository Trust. Bedford has consistently had very strong liquidity, and we do not expect these ratios to change. Bedford 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 6.7% of total governmental fund expenditures, and net direct debt is 61.6% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, and approximately 75.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

With this issuance, Bedford will have about $70.9 million in total direct debt. It plans to issue about $24 million of additional debt within the next two years, consistent with its CIP, for various projects. Officials indicate the town could also issue $20 million beyond this time horizon for a new fire station, although this has not been finalized. Due to rapid debt amortization and an affluent tax base, we do not expect planned debt issuance to have a material effect on the debt profile.

Bedford's combined required pension and actual OPEB contributions totaled 5.8% of total governmental fund expenditures in 2018. Of that amount, 3.5% represented required contributions to pension obligations, and 2.3% represented OPEB payments. The town made its full annual required pension contribution in 2018.

Highlights

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Bedford despite lower funding levels and our expectation that costs will increase.
- Because the town's pension actuarially defined contribution is built on what we view as somewhat optimistic assumptions and methodologies, we believe the risk of unexpected contribution escalations increases. However, we anticipate higher contributions will likely remain affordable, at least in the short term, given the strength of the town's revenue base, very strong reserve levels, and management's conservative budgeting practices.
- OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. However, the town also contributes to an OPEB trust fund with a current balance of $10.3 million as of fiscal 2020, according to the town, which represents a 22% funded ratio.

Bedford participates in the following plans as of June 30, 2018:

- Middlesex County Retirement System (MCRS): 49.27% funded with a net pension liability of town's proportionate share of the net pension liability was $49.7 million, assuming a 7.5% discount rate.
- A defined-benefit post-retirement health care plan: 22% funded with an OPEB liability of about $46.7 million.

MCRS is currently on track for full funding by 2035, five years ahead of the commonwealth-mandated deadline of 2040. We attribute the low funding ratio to numerous years of underfunding, aggressive assumptions, and weak market performance. While Bedford is currently managing these costs, we believe it has limited ability to control pension-liability growth. For OPEB, management maintains a trust fund with a current balance of $10.3 million as of fiscal 2020, which represents a 22% funded ratio. Management's formal policy is to increase trust fund contributions by 3.5% and an additional $100,000 more than the prior year. Bedford contributed $839,000 to the OPEB fund in fiscal 2020. However, its OPEB plan does maintain a 7.5% discount rate, which we view as higher than average and which could lead to higher contributions and an increase in liabilities if market conditions worsen.

While pension costs should increase due to low funding levels and somewhat optimistic assumptions for OPEB, current contributions are currently manageable, in our view. However, we believe these costs could create budgetary pressure in the long term, potentially weakening budgetary performance and the debt and contingent liability profile.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Bedford's very strong economy with access to the Boston MSA as well its strong budgetary performance and very strong budgetary flexibility. Further supporting the rating are the town's very strong management and debt and contingent liability profile. Although its retirement liabilities could pressure finances in the long term, we expect the town will continue to actively manage its budget amid rising costs and maintain stable operations. Therefore, we do not expect to change the rating within the next two years.

Downside scenario

While unlikely, should the town's financial performance deteriorate, leading to significant fund balance drawdowns, we could lower the rating.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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