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Summary:

Bedford Town, Massachusetts; General Obligation

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Credit Profile

US\$6.633 mil GO muni purp loan of 2017 bnds ser 2017 due 02/15/2037

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 2017 general obligation (GO) 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 2017 bond proceeds to finance various capital improvement projects.

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 2016, local property taxes generated 77% 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 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 in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 24% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 53% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 85.1% of debt scheduled to be retired in 10 years, but significant medium-term debt plans; and
- Strong institutional framework score.

Very strong economy

We consider Bedford's economy very strong. The town, with an estimated population of 14,171, is in Middlesex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 192% of the national level and per capita market value of \$241,655. Overall, market value grew by 7.2% over the past year to \$3.4 billion in 2017. The county unemployment rate was 4% in 2015.

Bedford primarily serves as a residential suburb of Boston. Residential properties account for about 79% of total assessed valuation (AV) and commercial and industrial properties account for 17.2%. AV has seen modest increases during the past three fiscal years; fiscal 2016 total AV was \$3.4 billion. In addition, the town continues to see development in residential areas with new home construction and developments in its commercial sector. According to officials, the town's Middlesex Turnpike, which is one of its major commercial and manufacturing hubs, is currently in the process of being expanded. With this expansion, officials not only expect better road access for businesses in the area, but also could better help these businesses expand and attract new ones. The property tax base is very diverse with the 10 leading taxpayers accounting for 9.4% 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 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 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 operating surpluses of 8% of expenditures in the general fund and of 7.6% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could moderate somewhat from 2016 results in the near term.

We adjusted fiscal 2016 audited general fund operating results for recurring transfers and one-time capital expenditure paid for with bond proceeds. Management attributes the positive performance in fiscal 2016 to higher than anticipated revenues. In particular, the town realized about \$2.1 million in better than budgeted revenues including permits and licenses, hotel taxes, excise taxes, and other revenue items. In addition, the town saw more than \$3 million in

expenditure savings due to turn backs in areas such as health insurance costs, public works, and salaries. Prior to this, Bedford ended fiscal 2015 with a \$338,000 surplus (not including bond premiums) due to conservative budgeting.

The fiscal 2017 budget totals \$83.8 million, which includes a fund balance appropriation of \$3 million mainly for one-time capital expenditures. According to management, however, it is currently seeing positive variances in budget-to-actual results and currently expects to end fiscal 2017 with a general fund surplus. Officials project the town's surplus for fiscal 2017 may not be as high as the previous fiscal year and given the town's historical performance of surplus of less than 5% of general fund expenditures on average; we expect its budgetary performance to remain strong. Property taxes account for 77% of general fund revenues followed by intergovernmental at 8.3%.

Very strong budgetary flexibility

Bedford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 19% of operating expenditures, or \$15.4 million.

Bedford's budgetary flexibility improved to very strong levels in fiscal 2016 as a result of positive financial operations. Its flexibility is 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 the town adheres to currently. While the town appropriated about \$3 million in the fiscal 2017 budget, it does not expect to realize any actual drawdowns in fund balance by fiscal year-end. While not expected, should the town drawdown on reserves in fiscal 2017, its budgetary flexibility could potentially decrease to what we consider, strong levels. We, however, expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Bedford's liquidity is very strong, with total government available cash at 24% of total governmental fund expenditures and 3.4x governmental debt service in 2016. 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 7.2% of total governmental fund expenditures, and net direct debt is 53% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 85.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. Negatively affecting our view of the town's debt profile is its significant medium-term debt plans.

With this issuance, the town will have about \$56 million in total direct debt. Bedford has \$26 million of additional debt plans within the next three years, consistent with its CIP, for various projects. While the town's planned debt issuance may potentially change its debt ratios, we however, expect its debt profile to remain very strong.

Bedford's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.7% of total governmental fund expenditures in 2016. Of that amount, 3.6% represented required contributions to pension obligations, and 2.1% represented OPEB payments. The town made its full annual required pension contribution in 2016.

Bedford participates in the Middlesex County Retirement System; it contributed the full actuarially determined contribution of \$3.5 million in fiscal 2016. As of Dec. 31, 2015, the system was about 46.1% funded with the town's proportionate share of the net pension liability at \$47 million.

Bedford also provides OPEBs in the form of health insurance. It contributed about \$2 million to OPEB in fiscal 2016 through pay-as-you-go financing. As of the July 1, 2016 valuation, the OPEB plan had an unfunded liability of \$63.4 million. This represents an increase of about \$23 million compared to the previous valuation in 2014. The increase is mainly due to changes in assumptions which now include an updated mortality rate table and valuation of age-adjusted medical costs and implicit subsidies which the town did not have to account for previously under the state's Group Insurance Commission plan, which the town participates in for health insurance benefits. The town, however, maintains a funded ratio for its OPEBs of 8.4%. Bedford established an OPEB trust in 2012, and has a balance of \$5.4 million as of June 30, 2016. The town appropriated \$701,992 towards the fund in fiscal 2017 and plans to continue to increase its contributions annually going forward. While pension costs should increase due to the plan's low funding level and OPEB liability, current contributions are manageable; it could potentially create budgetary pressure in the long term.

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 is the town's very strong management conditions and debt and contingent liability profile.

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

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

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