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Ratings

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Summary:
Bedford Town, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US$12.377 mil GO muin purp loan of 2018 bnds due 11/01/2038		
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 2018 general obligation (GO) municipal-purpose 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 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 2018 bond proceeds to 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, on RatingsDirect.)

In fiscal 2017, local property taxes generated 77% of 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 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 22% of operating expenditures;

- Very strong liquidity, with total government available cash at 32.8% of total governmental-fund expenditures and 4.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 56.7% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 78.6% of debt scheduled to be retired within 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 14,520, 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 227% of the national level, which we view as extremely high and a positive credit factor, and per capita market value of $253,846. Overall, market value has grown by 7.6% during the past year to $3.7 billion in fiscal 2018. The county unemployment rate was 3% in 2017.

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%. AV growth remains good, in our view, increasing by about 7.4% annually during the past three fiscal years. 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 currently 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. The tax base is very diverse with the 10 leading taxpayers accounting for 10.4% 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 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 operating surpluses of 6.2% of expenditures in the general fund and 9.6% of expenditures across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2017 results during the next few fiscal years.

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 2017 to conservative budgeting and higher-than-expected revenue. In particular, Bedford realized about $3 million of better-than-budgeted revenue, including permits and licenses, hotel and excise taxes, and other revenue items. In addition, it saw more than $3.4 million in expenditure savings due to turnbacks in health insurance, public works, salaries, and reserves. Specifically, management set aside $516,000 in reserves it did not spend during the year for expected state aid cuts to education.

Management estimates it ended fiscal 2018 with a slight general fund deficit of about $250,000, which we view as balanced. According to officials, while certain revenue--such as motor vehicle permits, hotel and motel taxes, and others--came in overbudget, energy and solid-waste costs were higher than expected. Therefore, if management fully realizes estimates, we expect budgetary performance will likely remain strong.

The fiscal 2019 budget totals $90 million, a 4% increase over fiscal 2018, including a fund-balance appropriation of $5.9 million for one-time expenditures, which the town had done historically. Officials report budget-to-actual results are currently on target, and they expect balanced operations by fiscal year-end 2019. Therefore, we expect financial operations will likely remain stable.

Property taxes generate 77% of general fund revenue followed by intergovernmental revenue at 8%.

Very strong budgetary flexibility

Bedford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 22% of operating expenditures, or $20.5 million.

Budgetary flexibility remained very strong in fiscal 2017 due to positive financial operations. 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 at 0.5%; the town currently adheres to this policy.

Town estimates have reserves decreasing slightly by approximately $250,000 in fiscal 2018. For fiscal 2019, Bedford appropriated about $5.9 million for capital purposes into the budget, as it has done historically; it, however, does not expect any actual drawdowns by fiscal year-end 2019. Therefore, we expect budgetary flexibility will likely remain very strong. Bedford also has about $8 million in unused levy capacity for fiscal 2019, according to management, which has steadily increased during the past three fiscal years. Officials, however, report they could tap into this unused levy capacity during the next few years for capital projects.

Very strong liquidity

In our opinion, Bedford's liquidity is very strong, with total government available cash at 32.8% of total governmental-fund expenditures and 4.6x governmental debt service in fiscal 2017. 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 its funds, 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 7.2% of total governmental-fund expenditures, and net direct debt is 56.7% of total governmental-fund revenue. Overall net debt is low at 1.7% of market value and approximately 78.6% of 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.

We estimate Bedford could issue roughly $20 million of additional debt within the next two years, consistent with its CIP, for various projects. 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 contribution totaled 6.2% of total governmental-fund expenditures in fiscal 2017. Of that amount, 3.7% represented required contributions to pension obligations and 2.5% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2017.

Bedford participates in Middlesex County Retirement System: It contributed the full actuarially determined contribution of $3.7 million in fiscal 2017. At Dec. 31, 2016, the system was about 45.5% funded; the town's proportionate share of the net pension liability was $50.3 million, assuming a 7.75% discount rate. The system is currently on track for full funding by 2035, five years ahead of the commonwealth-mandated deadline of 2040. We attribute this low funding ratio to numerous years of underfunding, aggressive assumptions, and weak market performance. Due to the funded ratio, we believe contributions will likely continue to rise during the next few fiscal years. While Bedford is currently managing these costs, we believe it has a limited ability to control pension-liability growth.

Bedford also provides OPEB in the form of health insurance. It contributed about $2.6 million to OPEB in fiscal 2017 through pay-as-you-go financing. At the July 1, 2016, valuation, the unfunded OPEB liability was $63.4 million, an increase of about $23 million compared with the 2014 valuation. Management attributes the increase mainly to changes in assumptions that now include an updated mortality-rate table, age-adjusted medical costs, and implicit subsidies that it did not account for previously under the Group Insurance Commission plan, which the town participates in for health insurance.

Management, however, maintains an OPEB trust fund with a current balance of $8.8 million as of fiscal 2019, which represents a 13.9% 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 $714,779 to the OPEB fund in fiscal 2019.

While pension costs should increase due to low funding levels and OPEB liability, current contributions are manageable, in our view. However, we believe these costs could create budgetary pressure, 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, strong budgetary performance, and very strong budgetary flexibility. We believe very strong management and debt-and-contingent-liability profile further support the rating. While retirement liabilities could pressure finances, we expect management will likely continue to manage the budget actively, amid rising costs, and maintain stable operations. Therefore, we do not expect to change the rating within the next two years.

While unlikely, if financial performance were to 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
- 2018 Update Of Institutional Framework For U.S. 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 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.