

RatingsDirect®

Summary:

Bedford, Massachusetts; General Obligation

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Credit Profile

US\$5.197 mil Go rfdg bnds ser 2013 due 07/13/2023

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to the town of Bedford, Mass.' general obligation (GO) municipal purpose loan of 2013. We also affirmed our 'AAA' ratings on Bedford's existing parity debt. The outlook is stable.

The ratings reflects our opinion of:

- A residential community with access to, and participation in, the deep and diverse Greater Boston employment base;
- Very strong household income measures and a favorable unemployment average;
- An extremely strong and diverse tax base;
- A strong financial position, despite recent decreases, and good management policies; and
- A low overall net debt burden as a percent of market value, an aggressive principal amortization schedule, and minimal long-term capital needs.

The town's full faith pledge secures the GO bonds. The town will use the majority of bond proceeds (\$4.6 million) to refund a portion of its series 2005 GO bonds. It will use the remainder to fund water and sewer improvements.

Bedford, with an estimated population of 13,986, is an affluent mature suburb 15 miles northwest of Boston along Interstate 95 and State Route 3. The town's property tax base is extremely strong and diverse, in our view, with a good mix of residential (78% of assessed value [AV]), industrial (10%), and commercial (9%) property. Operations at Hanscom Air Field, a former U.S. Air Force base currently operating as a civil airfield and a joint military and civilian R&D center with over 5,000 employees, anchor the local economy. The second leading employer in the town is MITRE Corp., an engineering, architecture and surveying company with over 1,800 employees.

Household income measures are very strong, in our opinion. The 2011 median household effective buying income was 197% of the U.S. level. Similarly, per capita effective buying income was 191% of the U.S. level. Unemployment in Bedford is also low. Through November 2012, it was 4.7%, lower than the commonwealth and well below the nation. We note that on a regional level, while unemployment remains a bright spot in the economy, based on our economic forecasts, we anticipate employment growth to remain tepid through 2014. Moreover, we believe federal spending subject to sequestration will invariably be a drag on the economy, though to what extent remains uncertain.

Given its proximity to Boston and other large employment centers in the region, Bedford's total AV has stabilized after a 4% decrease from its peak valuation in 2008. In 2013, it was \$2.7 billion, and the corresponding market value per capita market value was an extremely strong \$201,000. Our latest forecasts show the region's median home price will continue to gain traction through 2014, particularly in Massachusetts, which was the state in the New England region hit hardest.

Despite the slow moving economy, Bedford's financial position remains strong, in our view. We believe experienced management, bolstered by good financial policies, has contributed to strong, consistent financial operations over the past few years. The city closed audited fiscal 2012 with a \$849,000 general fund surplus, equal to 1.2% of general fund expenditures. This marks its second consecutive general fund surplus above 1% of budget. Overall, the town's total fund balance was \$16 million, or roughly 22% of expenditures. The unassigned and assigned general fund balances closed the year at \$4.8 million (6.8% of general fund expenditures and transfers) and \$1.2 million (1.6%), respectively.

The town's fiscal 2013 budget totals \$72.2 million and represents an increase in expenditures of 1.4% compared with the fiscal 2012 budget. With Bedford's property tax levy making up more than 69% of total revenues, the town benefits from the diversity and strength of its tax base. We anticipate current-year collections to remain strong and consistent at 99% of the tax levy. Intergovernmental aid, including school state aid, accounts for 15% of revenue. The expectation is for state aid to largely come in as budgeted. On the whole, we believe the town's financial position will remain largely unchanged from fiscal 2012.

Over time, while we expect there to be continued pressures on revenue growth given the tepid economy, we believe management will remain prudent in spending and continue to demonstrate the capacity to maintain structural balance. We note Bedford currently maintains about \$995,000 in unused levy capacity, providing additional revenue flexibility under Proposition 2½ levy constraints.

Standard & Poor's considers Bedford's financial management practices "good" under its Financial Management Assessment, indicating financial practices exist in most areas, but that governance officials may not formalize or regularly monitor all of them. The town's reserve policy establishes a target of maintaining its stabilization fund (accounted for as an unassigned general fund balance) between 2% and 6% of the annual operating budget. Additional management strengths include its focus on capital planning. The city maintains a capital improvement plan that identifies funding sources and is reprioritized yearly.

Bedford's debt policy limits debt to funding significant capital projects with a useful life of five years or more, and limits the term of the debt to not exceed the useful life of the projects. The debt policy also looks to maintain annual general fund debt service at 10% or less of the town's operating budget.

Currently, Bedford's overall debt burden is moderate, in our view, but low as a percent of market value. The town has issued the majority of its long-term debt for school building purposes, with reimbursements from the Massachusetts School Building Authority. Given this, future capital needs are limited. The town's overall net debt burden is \$4,145 per capita, roughly 2.2% of market value. The debt service carrying charge is 10%, but amortization of principal debt is very aggressive, with the town retiring 78% of the principal in 10 years. Including this issue, all of the town's debt will be retired by 2031. According to management, future debt will be minimal--the town has only roughly \$1.5 million of

authorized unissued debt.

A long-term credit consideration is the town's pension and other postemployment benefits (OPEBs). For pensions, the town participates in the contributory retirement system of Middlesex County. In 2012, it contributed \$2.8 million to the plan, or 3.6% of expenditures. To help manage sudden contribution rate increases, the town maintains a pension retirement account it uses intermittently. The current balance of the account is \$1.3 million.

Regarding its OPEB liability, Bedford continues to take steps to address the long-term liability. In 2012, the town moved its employees and retirees over to the State Group Insurance Commission. This step, along with other reforms, has provided the community significant cost savings. As of the most recent actuarial (December 2012), the town's unfunded accrued actuarial liability was \$48.8 million, down from \$71.2 million.

The town was also one of the first communities to establish a trust fund to begin funding the liability. Currently, the OPEB trust maintains about \$2.4 million in assets. The annual required contribution (ARC) is estimated at \$3.8 million, and the pay-as-you go amount is about \$1.2 million, or 31% of the ARC. The town appropriated \$525,000 toward funding the liability with the goal of increasing the appropriation by 2.5% each year.

Outlook

We do not expect to revise the rating within the two-year parameter of the stable outlook because we believe the town will likely maintain strong reserves. In our view, Bedford's extremely strong and diverse property tax base lends stability to property tax revenue, the town's main revenue source. Moreover, given the town's modest identified needs and aggressive debt amortization schedule, we expect the town's debt service payments as a percent of general fund expenditures to remain moderate and the overall net debt burden to remain low relative to the market value.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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Ratings Detail (As Of January 29, 2013)

Bedford Twn GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bedford Twn GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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