

Town of Dedham  
Board of Selectmen  
June 20, 2013



**“A Strong and Sustainable Future”**

Bond Rating Upgrade to AAA

Comprehensive Annual Financial Report and FY2012 Audit Results

# Presentation Overview

## 1. Bond Rating Upgrade

- Dedham's long-term rating was upgraded by Standard & Poor's to AAA on May 23, 2013
- A milestone achievement, the result of sound financial policies and practices, economic development, and accomplishments

## 2. First Comprehensive Annual Financial Report (CAFR), FY2012 Audit Results

## 3. Focus on sustainability of the Town's finances and services, capacity to endure

# Bond Rating Overview

- What is a bond rating?
  - Similar to an individual's credit score
  - A statement of the creditworthiness of a borrower
- Dedham's rating agency is Standard & Poor's (S&P)
- S&P ratings range from AAA (highest) to D (lowest), with +/- modifiers
  - AAA, AA+, AA, AA-, A+, A, A-, BBB+... D
- Higher rating, creditworthiness, lowers the cost of borrowing
- Just 30 of 351 towns and cities in Massachusetts are rated AAA

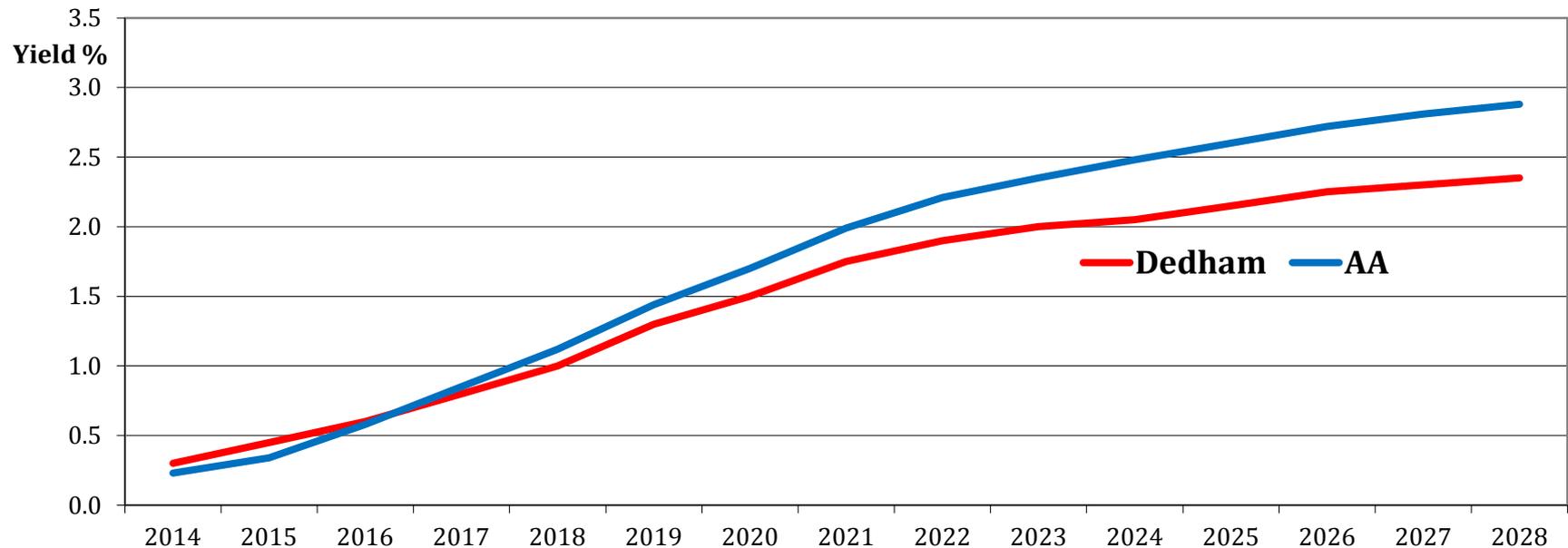
# Bond Rating Upgrade

- S&P definition of the AAA rating:
  - “The highest rating assigned. The borrower’s capacity to meet its financial commitments on the obligation is extremely strong.”
- S&P statement on Dedham’s upgrade:\*
- “We believe operating performance and reserves (will) remain stable through varying economic cycles. In addition, management has recently taken strong steps to lower its other postemployment benefit liability and... to negotiate health insurance reforms.”
- S&P also noted:
  - Strong and well-embedded financial management policies
  - Low to moderate overall debt coupled with manageable future capital needs

\* <http://www.dedham-ma.gov/dedham/file/Town%20Administrator/SP%20Notification%20AAA.pdf>

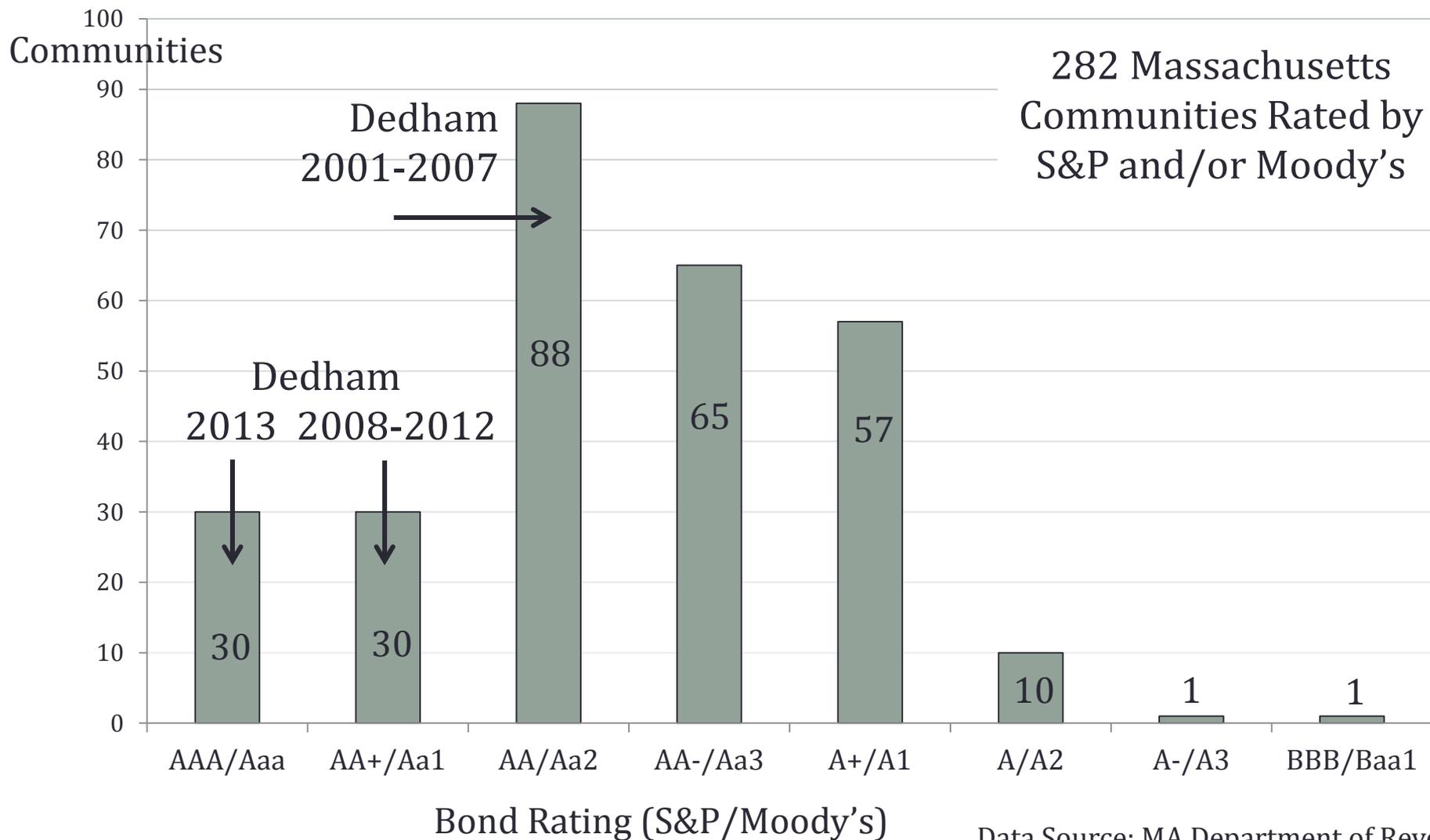
# Cost Impact of the Bond Rating Upgrade

- Dedham borrowed \$6,988,000 on June 5, 2013
- With AAA rating, Dedham will pay \$69,423 less over 15 years for this borrowing than had the Town borrowed on the AA scale

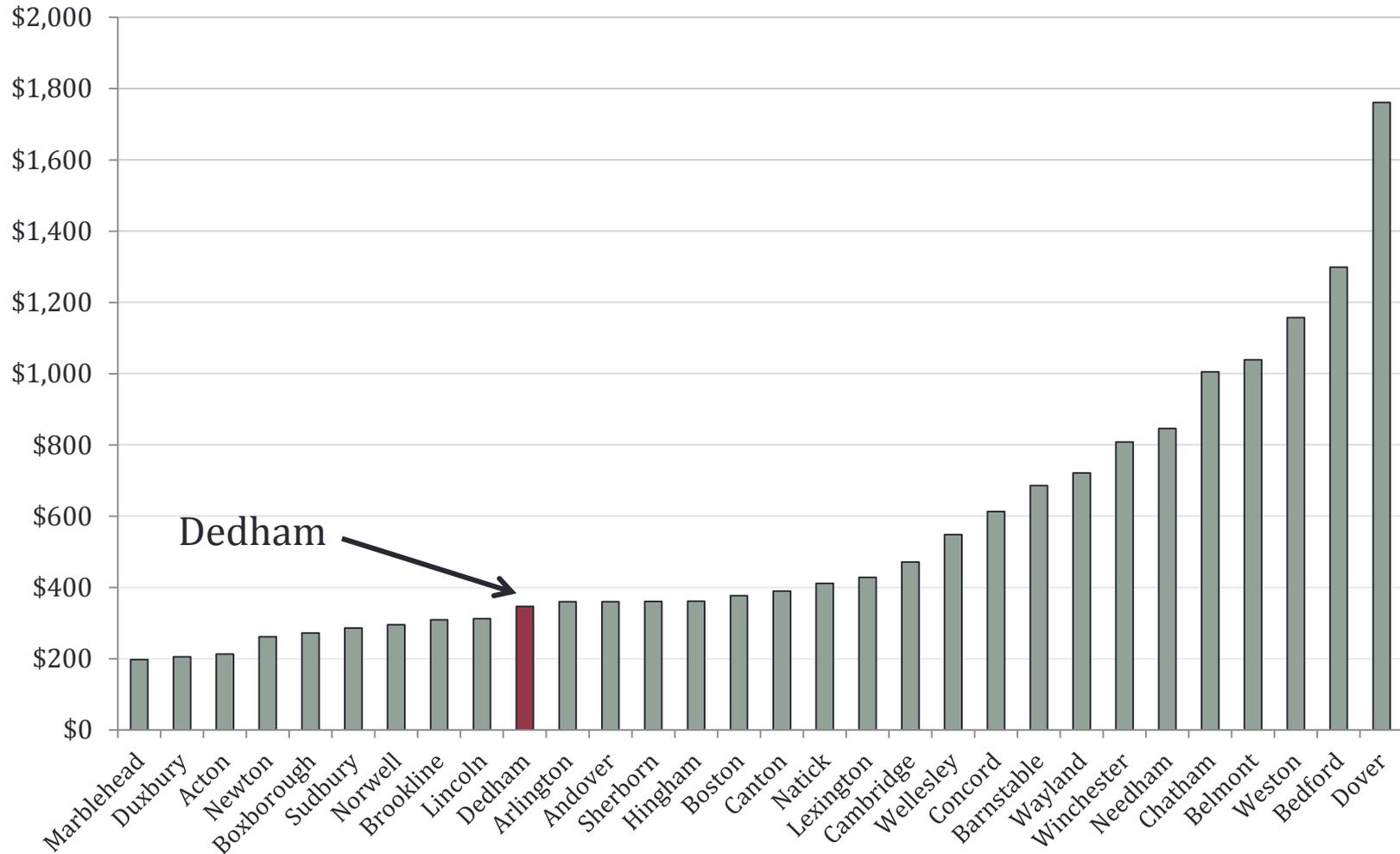


- As interest rates rise, the spread between AAA and the AA scale will likely increase further

# Distribution of MA Bond Ratings



# AAA Communities' Debt Service Per Capita, FY2012



# Factors in the Bond Rating Upgrade

- Accomplishments that factored in the upgrade:
  - Prioritized management of long-term liabilities
    - Pension System
    - Other Post-Employment Benefits (OPEB)
    - Facilities stabilization fund
  - Financial policies
  - Economic development
- Implications for the future:
  - Lower cost of borrowing every year
  - Sustainability, capacity to endure
  - Critical to maintain policies and practices to maintain AAA rating

# Comprehensive Annual Financial Report

- Completed Town's first Comprehensive Annual Financial Report (CAFR), a significant reporting achievement\*
  - Far greater detail and transparency than Basic Financial Statements
  - Increases investment appeal due to transparency
- Only 20 communities in the Commonwealth have invested the time and resources to prepare a CAFR
- Dedham submitted to receive GFOA's *Certificate of Achievement for Excellence in Financial Reporting*, if rigorous reporting requirements are met

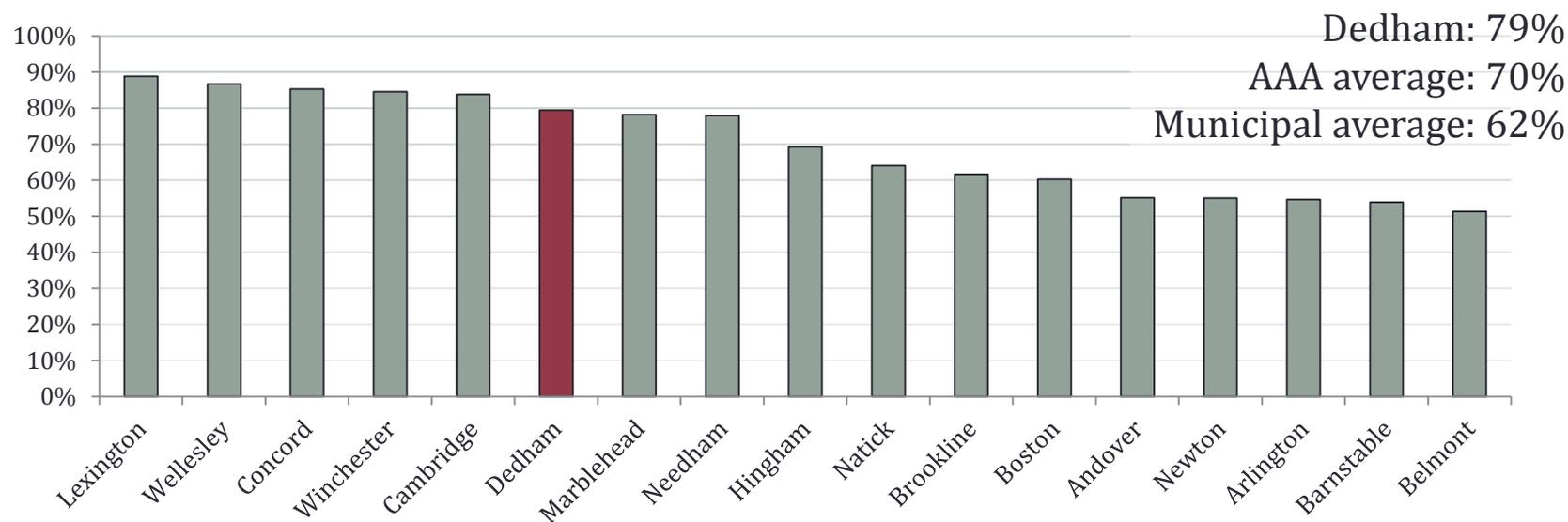
\* <http://www.dedham-ma.gov/index.cfm?pk=download&id=23741&pid=11930>

# FY12 Audit: Reserves & Stabilization

- General Stabilization Fund
  - \$4.4 million
  - Financial Policy to maintain 5-10% of operating budget
- OPEB and Pension Funds
  - Obligations to present and future retirees
- Major Capital Facilities Stabilization Fund
  - Targeted use for building projects, associated debt service
- Mitigation Stabilization
  - Fund created to accept mitigation funds from developers, dedicated committee to allocate spending

# FY12 Audit: Pension System Funding

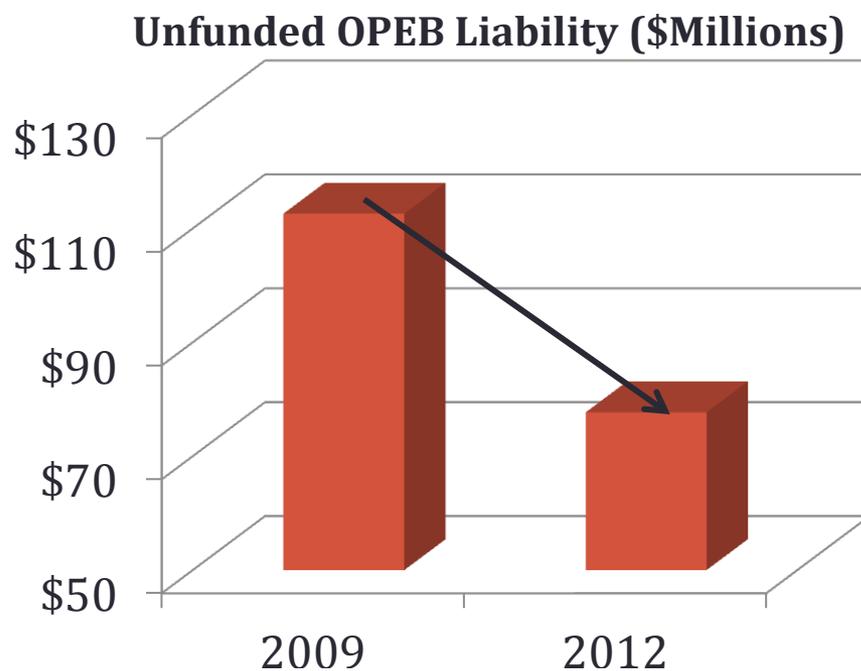
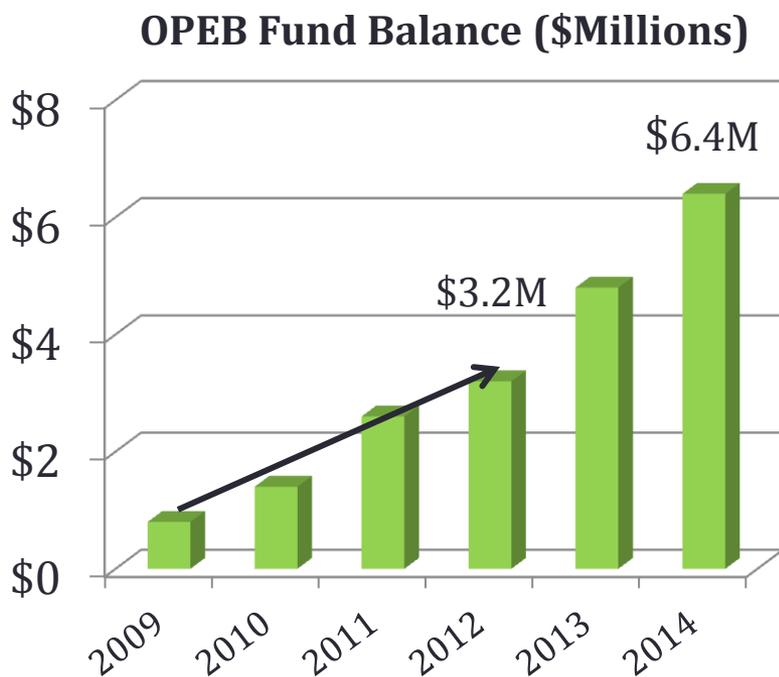
- Dedham's pension liabilities 79.4% funded
- Funding ranks in top 10 of municipal retirement systems in Massachusetts, sixth highest of AAA communities



- Funding schedule allowed by statute to extend to 2040; Dedham's schedule for full funding extends to just 2026, providing budgetary flexibility

# FY12 Audit: OPEB Funding

- Savings from Municipal Health Insurance Reform enabled full funding of the ARC in FY2013 for the first time. ARC is now an annually recurring budgetary item
- Reduced unfunded liability from \$112.6 million in 2009 to \$77.7 million in 2012
- Contributions in FY2013 (\$1.7m) and FY2014 budget (\$1.8m) will more than double the fund balance in two years
- Scheduled to fully fund liabilities in FY2041



# Sustainability

- Definitions of sustainability:
  - “The capacity to endure”
  - Economic sustainability: Maintaining a commitment to present obligations without compromising the future
- Dedham has been addressing its economic sustainability in the following ways:
  - Funding long-term liabilities: Pensions, Other Post-Employment Benefits
  - Economic development
  - Maintaining infrastructure
  - Facilities stabilization fund
  - Financial policies

# Sustainability: Economic Development

- Major projects
  - Legacy Place, \$105 million assessed value
  - Hebrew Senior Life, \$180 million assessed value, \$90 million taxable
- Trend toward mixed use development

Property	Units	Pre-Development Value	Post-Development Value
125 Washington St	42	\$402,300	\$4,600,000
420 Washington St	26	\$483,000	\$4,882,500
439 Washington St	10	\$167,100	\$1,613,900
		<b>\$1,052,400</b>	<b>\$11,096,400</b>

- Additional mixed use projects in development

# Sustainability: Infrastructure & Facilities

- New Avery School, new Middle School
- Ongoing projects for Roads and Sewers, Building Improvements, and Machinery & Equipment
  - Pavement Management and Inflow/Infiltration plans progressing consistently
- Energy Savings (ESCO) Project
  - Generated \$454,541 in FY2012 savings
  - Moving from construction phase to measurement and verification, should generate additional savings in FY2013
- Dedham Square, \$6.5 million investment
- Comprehensive plan for long-term maintenance schedule for all Town and School facilities under development

## Sustainability: The Robin Reyes Major Capital Facilities Stabilization Fund\*

- 2009 Special Town Meeting dedicated option taxes to new fund
  - Additional 2% Hotel/Motel excise and .75% Local Option Meals taxes
  - Recent average quarterly revenue, \$293,563
- Revenues to be used for debt service on building projects

	Local Meals	Hotel/Motel	Total
FY10 (Q2-Q4)	\$300,745	\$86,429	\$387,174
FY11	\$697,114	\$315,208	\$1,012,322
FY12	\$821,965	\$354,169	\$1,176,134
FY13 (Q1-Q3)	\$616,489	\$298,623	\$915,112
	<b>\$2,436,313</b>	<b>\$1,054,429</b>	<b>\$3,490,742</b>
Annual Trailing	\$825,156	\$368,179	\$1,193,335

\* Fund name changed at May 2013 Annual Town Meeting

# Sustainability: Financial Policies

- Financial Policies Committee
  - Established by Board of Selectmen to create the Town's first financial policies in 1998: Overall Financial Management; Debt; and Investment
  - Revisions in 2003 and 2012 endorsed by Board of Selectmen, Town Administrator, Finance Committee, School Committee, School Superintendent, and Finance officials.
  - Capital Budgeting Process documented in policy in 2012
- May 2013 Town Meeting defined operating and debt capital
- Board of Selectmen adopted policy on expenditure of Major Capital Facilities funds

# SUMMARY

- The Town maintains a strong financial position based on financial management practices, recognized by the upgrade of the Town's long-term bond rating to AAA
- Dedham has weathered the national and local recessions without a reduction in major services, and has taken many steps to address long-term economic sustainability
- With the Town's focus on long-term sustainability, it is critical to maintain policies and practices to retain AAA bond rating

# Appendix

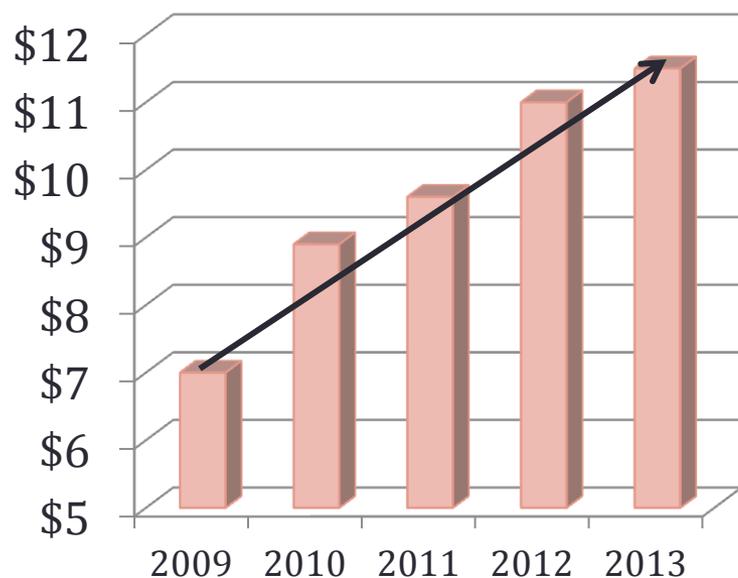
## REFERENCED LINKS

- Dedham's presentation to Standard & Poor's, May 16, 2013  
<http://www.dedham-ma.gov/index.cfm?cdid=23905&pid=11804>
- Standard & Poor's, "Dedham, MA Bond Ratings Raised To 'AAA' On Robust Operations And Very Strong Reserves; Outlook Stable"  
<http://www.dedham-ma.gov/dedham/file/Town%20Administrator/SP%20Notification%20AAA.pdf>
- Dedham's FY2012 Comprehensive Annual Financial Report  
<http://www.dedham-ma.gov/index.cfm?pk=download&id=23741&pid=11930>
- Public Employee Retirement Administrative Commission, 2011 Annual Report  
<http://www.mass.gov/perac/11annualreport/ar11.pdf>

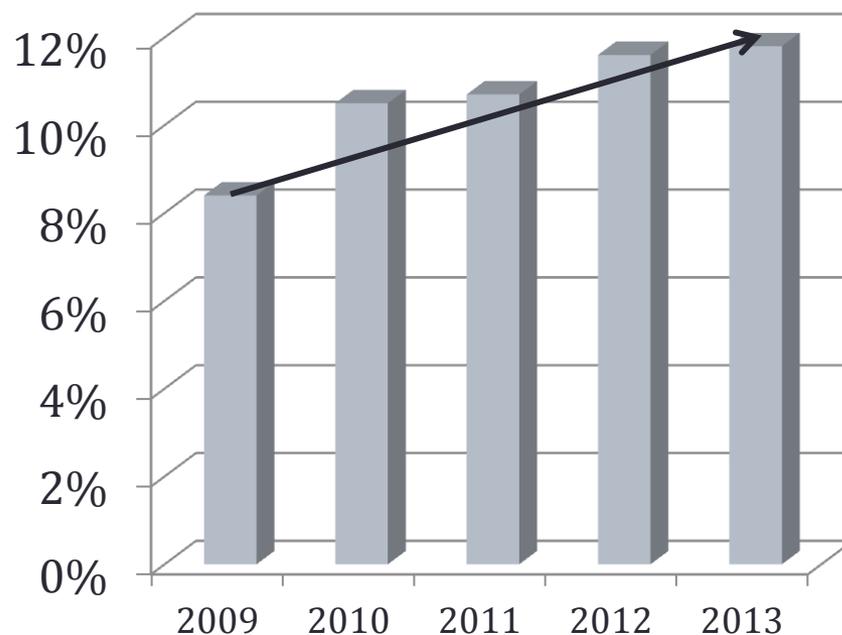
# FY12 Audit: Unassigned Fund Balance

- Improving results, increasing financial flexibility
- Reflection of the Town's management and adherence to financial policies over the past five years

**Dedham's Unassigned Fund Balance (\$Millions)**



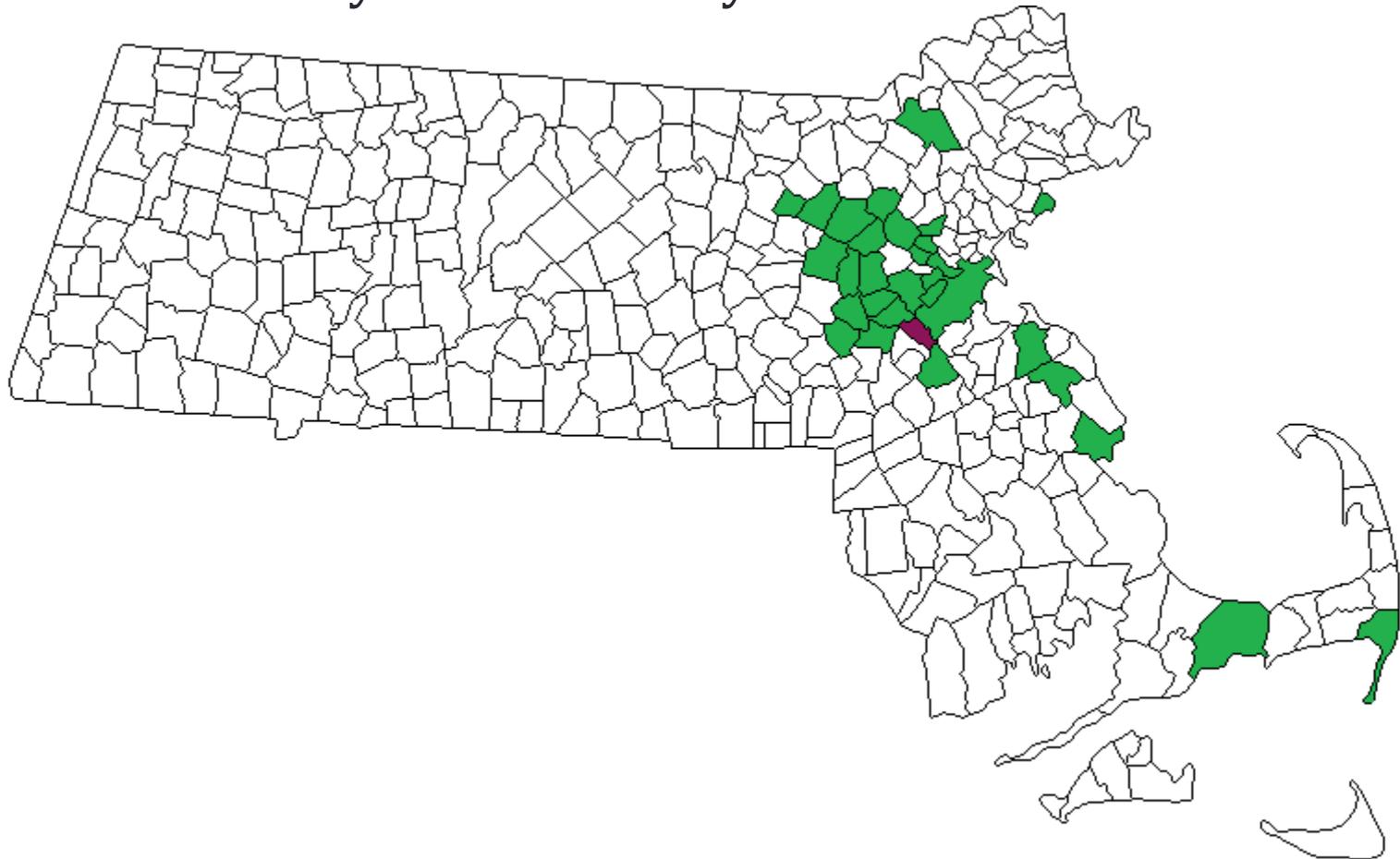
**Reserve Ratio (Liquidity)**



Unrestricted funds, available for any purpose

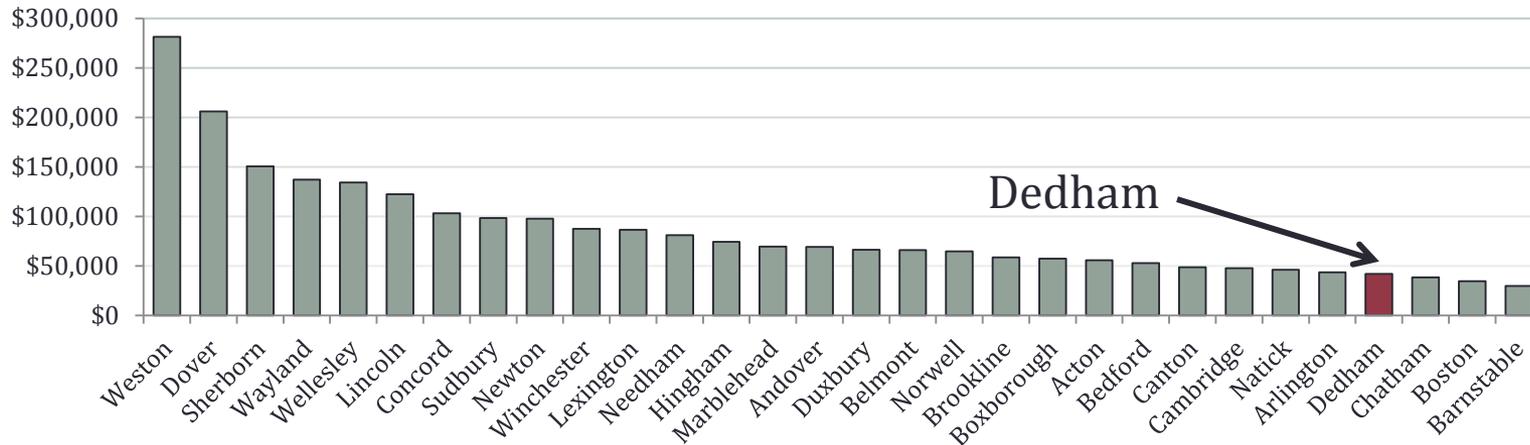
# AAA Communities in Massachusetts

- Only 29 of the other 350 towns and cities in Massachusetts are rated AAA by S&P or Moody's

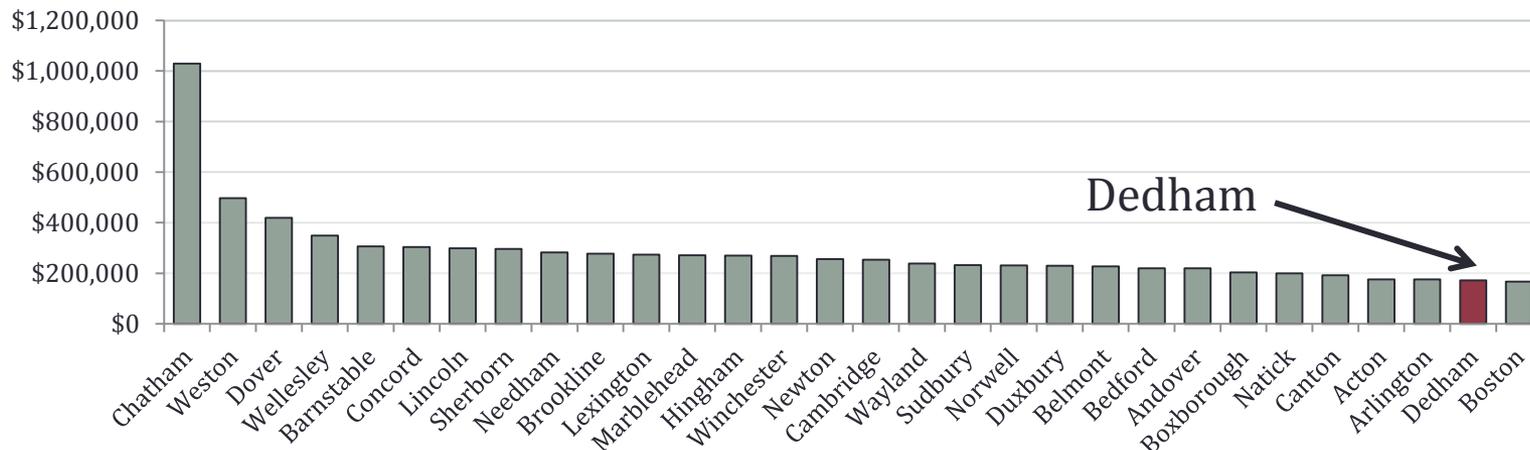


# AAA Demographic Comparison

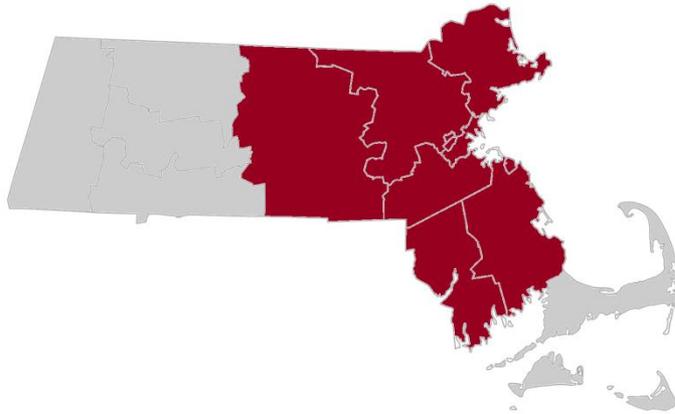
## Income Per Capita, 2010



## Equalized Valuation Per Capita, 2012

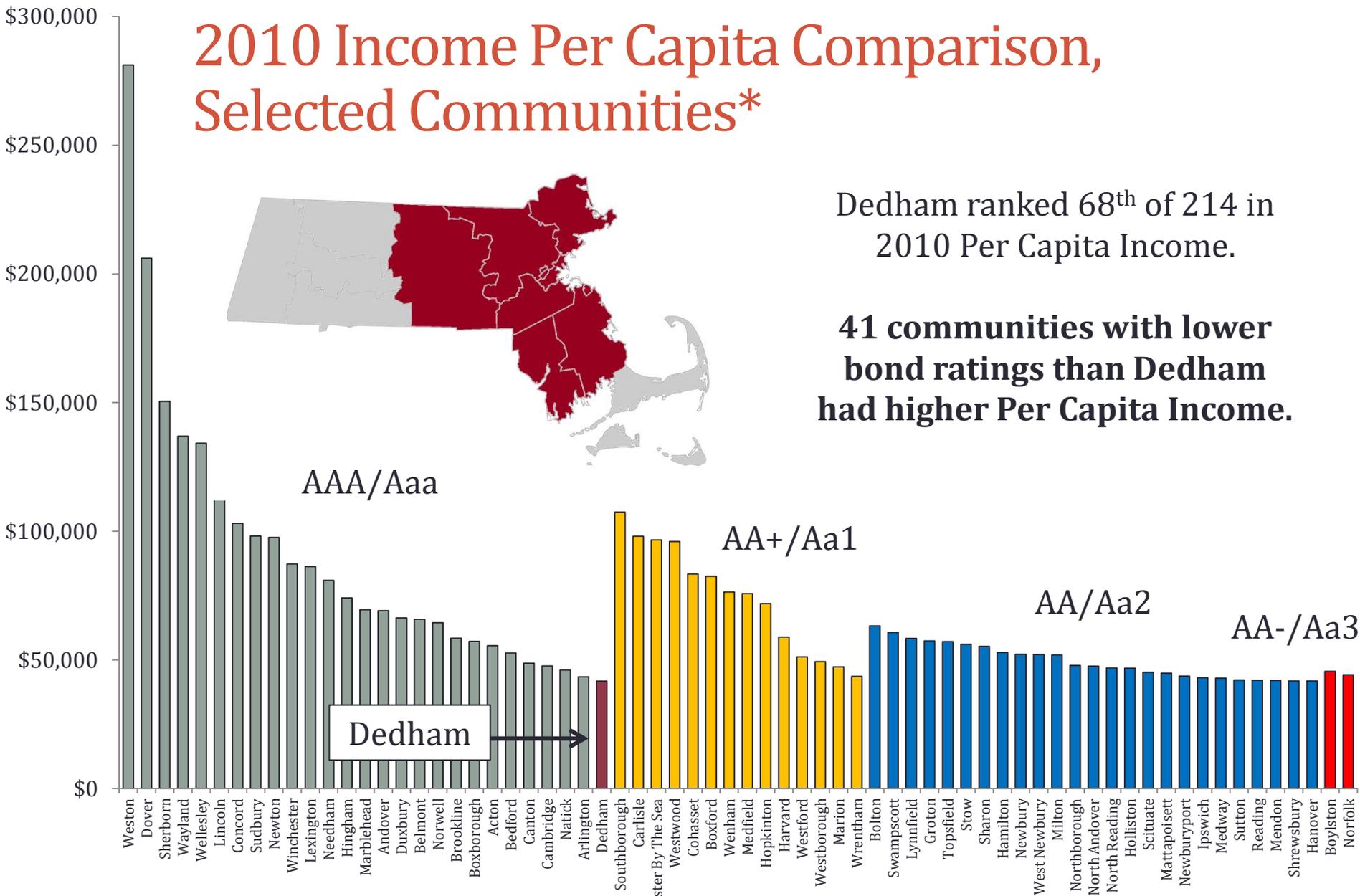


# 2010 Income Per Capita Comparison, Selected Communities\*



Dedham ranked 68<sup>th</sup> of 214 in 2010 Per Capita Income.

**41 communities with lower bond ratings than Dedham had higher Per Capita Income.**

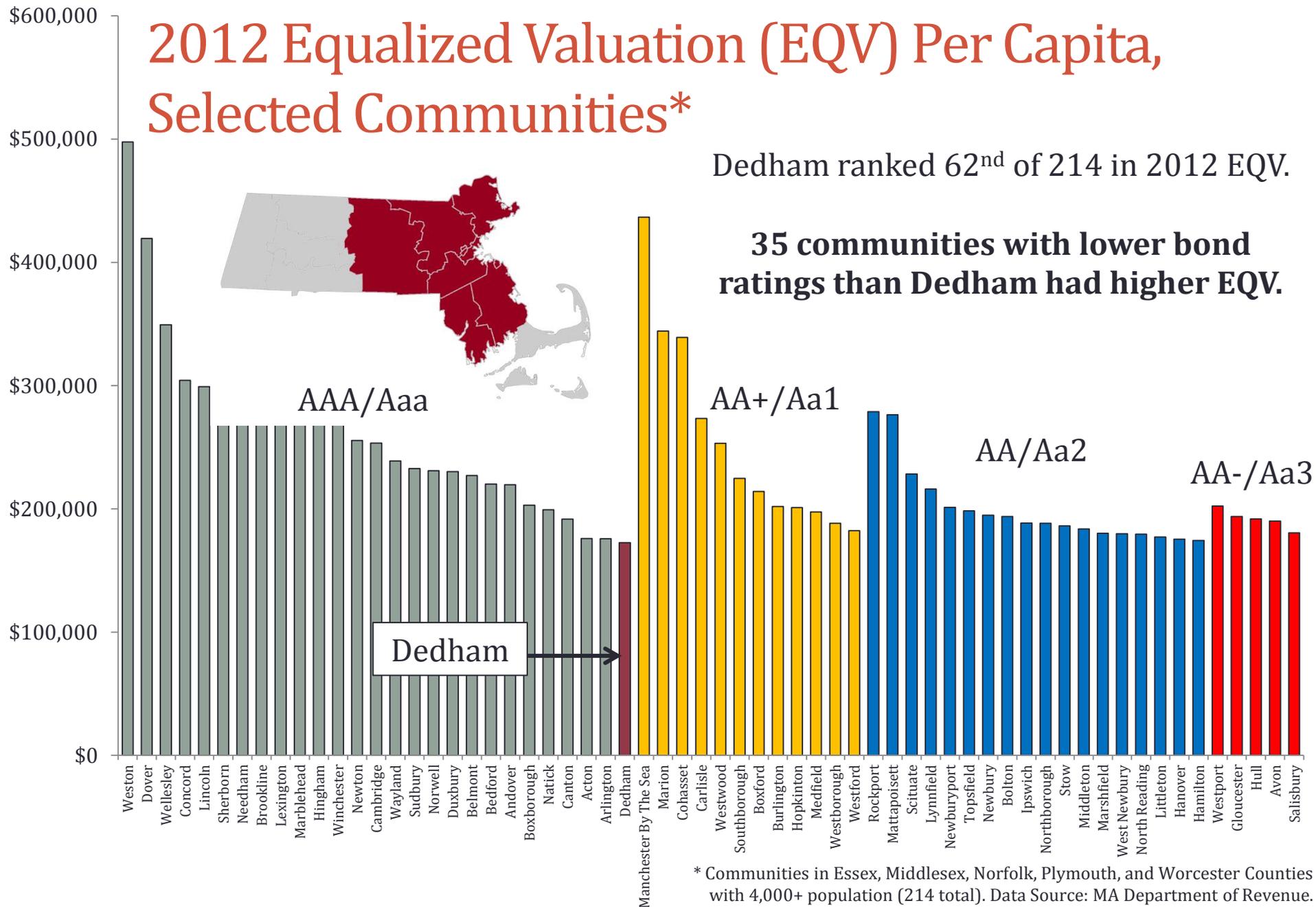
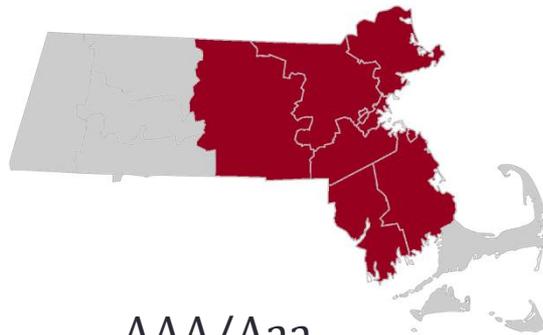


\* Communities in Essex, Middlesex, Norfolk, Plymouth, and Worcester Counties with 4,000+ population (214 total). Data Source: MA Department of Revenue.

# 2012 Equalized Valuation (EQV) Per Capita, Selected Communities\*

Dedham ranked 62<sup>nd</sup> of 214 in 2012 EQV.

**35 communities with lower bond ratings than Dedham had higher EQV.**



\* Communities in Essex, Middlesex, Norfolk, Plymouth, and Worcester Counties with 4,000+ population (214 total). Data Source: MA Department of Revenue.

## Cost Impact of the Bond Rating Upgrade

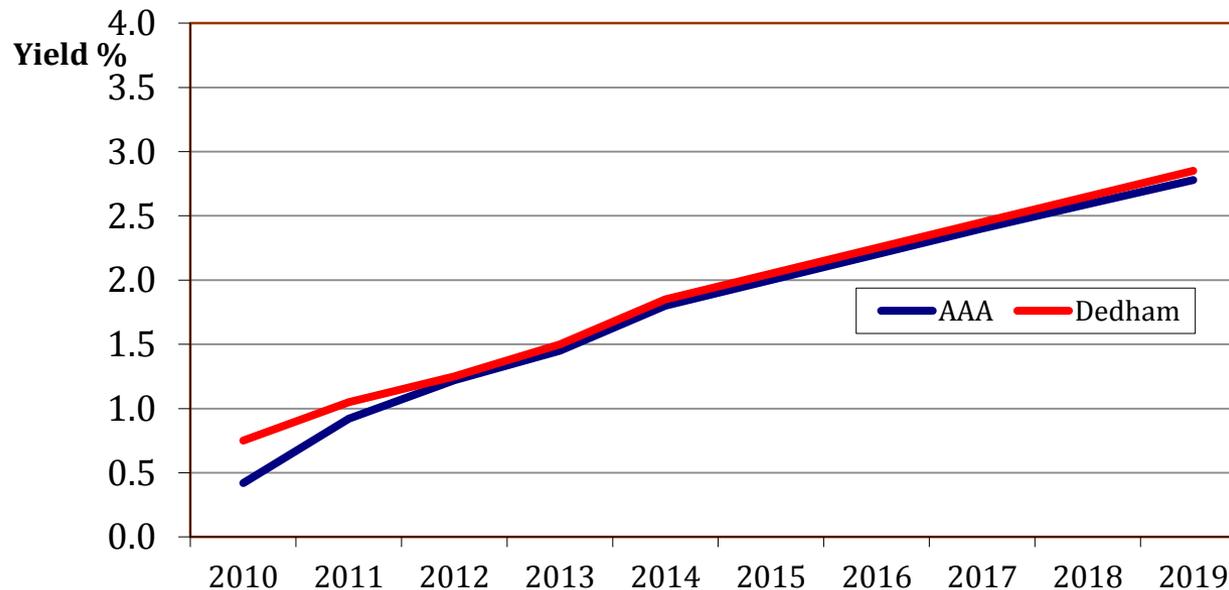
- Cost avoidance at most recent borrowing presented earlier
  - With AAA rating, Dedham will pay \$69,423 less over 15 years for the June 2013 borrowing than had the Town borrowed on the AA scale
- In prior years, Dedham paid more to borrow at a AA+ rating than had the Town borrowed on the AAA scale

Bond Issue	Borrowing	Term	Cost at AA+ vs. AAA
June 1, 2009	\$5,310,000	10 years	\$25,497
November 5, 2010	\$8,000,000	20 years	\$106,120
June 8, 2011	\$8,890,000	20 years	\$162,563
			<b>TOTAL: \$294,180</b>

- Yield curves for these borrowings on the following slides

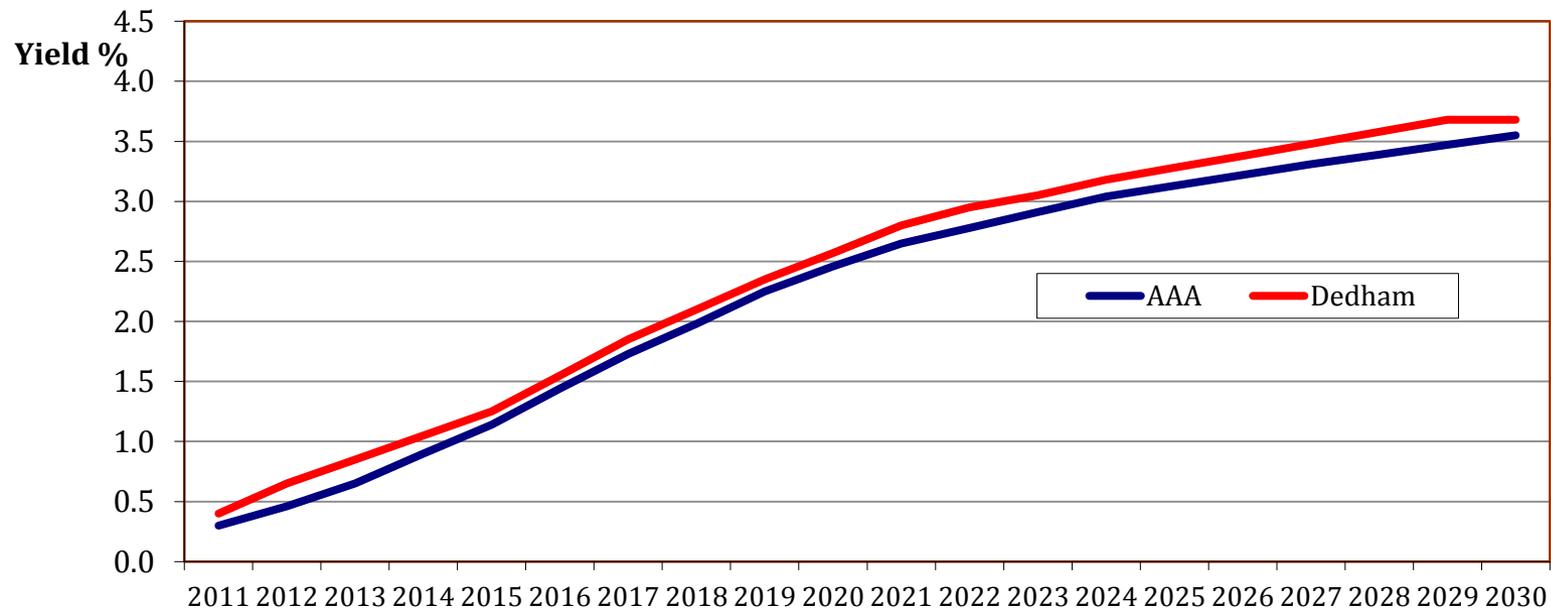
# Cost Impact of the Bond Rating Upgrade

- Dedham borrowed \$5,310,000 on June 1, 2009
- Having borrowed with a AA+ rating, Dedham will pay \$25,497 more for this debt over 10 years than had the Town borrowed on the AAA scale



# Cost Impact of the Bond Rating Upgrade

- Dedham borrowed \$8,000,000 on November 5, 2010
- Having borrowed with a AA+ rating, Dedham will pay \$106,120 more for this debt over 20 years than had the Town borrowed on the AAA scale



# Cost Impact of the Bond Rating Upgrade

- Dedham borrowed \$8,890,000 on June 8, 2011
- Having borrowed with a AA+ rating, Dedham will pay \$162,563 more for this debt over 20 years than had the Town borrowed on the AAA scale

