“Your Town’s Credit and Bond Rating”
Presentation to the Association of Town Finance Committees, October 19, 2013

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Town of Dedham
Town of Dedham’s Bond Rating History

- In 2001, Dedham was rated AA
- In 2008, the Town was upgraded to AA+
- In 2012, the Town was upgraded to AA+ with a positive outlook
- On May 20, 2013, Dedham’s rating was upgraded to AAA
Factors in the Bond Rating Upgrade

• Achieving the upgrade to AAA required a multi-pronged approach. Factors included:

  o Establish Financial Policies with Periodic Reviews
  o Economic Development Program and Strategy
  o Infrastructure Rehabilitation and Maintenance Plan
  o Building Stabilization and Reserves
  o Adoption of the Meals Tax and Additional Hotel/Motel Tax
  o Establishment of Facilities Stabilization Fund
  o Pension System Funding
  o Municipal Health Insurance Reform
  o Other Post-Employment Benefits (OPEB)
Financial Policies

- Dedham has adopted four financial policies:
  - Overall Financial Management Policy
  - Debt Management Policy
  - Investment Policy
  - Capital Policy and Process

- Study Committees’ recommendation on the use of local option tax revenue is under consideration for adoption as a Policy

- Policies endorsed by Chairs of Board of Selectmen, Finance and School Committees, and high ranking appointed officials

- Policies reviewed every five years, updated as necessary

- Codification of policies in Town By-Laws under consideration, a recommendation of Standard & Poor’s
Economic Development

• Created Economic Development Director position in 2007
• Proximity to Boston and mass transit provided certain opportunities that were unique to Dedham
• Major projects completed
  o Legacy Place, $105 million assessed value
  o Hebrew Senior Life, $180 million assessed value, $90 million taxable
  o Dedham Square, $6.5 million investment in downtown
• Trend toward mixed use development

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

Additional mixed use projects in development
Infrastructure Maintenance

• Roads and Sidewalks
  o $2,000,000 annual appropriations began in FY2006
  o Pavement condition index (PCI) increased from under 70 in FY2006 to over 80 by FY 2015
  o Program projected to reach maintenance level in two years

• Town and School Facilities
  o Combined Department established in FY2012
  o Hired Facilities Director, Plumber, and HVAC Technician
  o $550,000-$600,000 annual capital appropriations
  o Comprehensive long-term maintenance schedule for all Town and School facilities under development

• Entered into Energy Savings project with Siemens
  o Updated energy systems to achieve long-term savings
Financial Management: Reserves

- Unassigned fund balance, available for any purpose

Dedham’s Unassigned Fund Balance ($Millions)

Reserves as % of Expenses (Liquidity)
Adoption of the Meals Tax and the Additional 2% Hotel/Motel Tax

• In 2008 the Town adopted the .75% meals tax and added an additional 2% to our Hotel/Motel tax
• The success of our Economic Development efforts has helped to define a new revenue source for our Community
• The important questions raised during the debate to raise this new revenue were centered around what we were going to use the new revenue for once we had it
• The debate focused in on what our greatest need - new facilities for the Town and School Department
Facilities Stabilization Fund

- 2009 Town Meeting dedicated local option taxes to new fund
  - 0.75% meals and additional 2% Hotel/Motel excise taxes
  - Recent average quarterly revenue, $297,438
- Revenues to be used for debt service on building projects

<table>
<thead>
<tr>
<th></th>
<th>Local Meals</th>
<th>Hotel/Motel</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY10 (Q2-Q4)</td>
<td>$300,745</td>
<td>$86,429</td>
<td>$387,174</td>
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<tr>
<td>FY11</td>
<td>$697,114</td>
<td>$315,208</td>
<td>$1,012,322</td>
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<tr>
<td>FY12</td>
<td>$821,965</td>
<td>$354,169</td>
<td>$1,176,134</td>
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<tr>
<td>FY13</td>
<td>$813,338</td>
<td>$376,415</td>
<td>$1,189,754</td>
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<tr>
<td></td>
<td>$2,633,162</td>
<td>$1,132,222</td>
<td>$3,765,383</td>
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</tbody>
</table>
Pension Funding

• Dedham Retirement System’s pension liabilities 79.4% funded

• Statute allows funding schedule to be extend to 2040; Dedham’s schedule for full funding extends to just 2026
  o Ability to extend further provides budgetary flexibility in case of unanticipated constraints
Municipal Health Insurance Reform

- Statute passed in 2011 allowed changes to health plan design outside of traditional collective bargaining
- Came to agreement with committee of employees, savings shared with employees to mitigate impact

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross FY13 Savings</td>
<td>$2,849,676</td>
</tr>
<tr>
<td>Employee’s Share (20%)</td>
<td>$569,935</td>
</tr>
<tr>
<td>Town’s Share (80%)</td>
<td>$2,279,741</td>
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<tr>
<td>Health Reimbursement Accounts</td>
<td>-$484,445</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>-$90,000</td>
</tr>
<tr>
<td><strong>Net Savings</strong></td>
<td><strong>$1,705,296</strong></td>
</tr>
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- Savings were used to fund the Town’s FY13 Annual Required Contribution (ARC) to its OPEB liability for the first time
OPEB

- With the savings from Municipal Health Insurance Reform, full funding of the ARC is now an annually recurring budgetary item
- Unfunded liability reduced 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
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:
  o Strong and well-embedded financial management policies
  o Low to moderate overall debt coupled with manageable future capital needs
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

Data Source: Thomson Reuters, Municipal Market Monitor
Summary and Key Points

• Achieving the AAA rating was a long process, and required a multi-pronged approach
• Dedham’s presentation to S&P showed how the Town is:
  o Managing and reducing long-term liabilities
  o Maintaining services at sustainable costs
  o Maintaining reserves to provide sufficient liquidity
  o Maintaining budgetary flexibility

• As a starting point, all towns can develop financial policies

• Listen to the rating agency’s feedback, and follow through on what you tell them you are planning to do!