



RatingsDirect®

Summary:

Dartmouth, Massachusetts; General Obligation

Primary Credit Analyst:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

Secondary Contact:

Karl Jacob, Boston (1) 617-530-8134; karl.jacob@standardandpoors.com

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Summary:

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Credit Profile

US\$3,382 mil GO bnds ser 2014 due 02/15/2024

Long Term Rating

AAA/Stable

New

Dartmouth GO

Long Term Rating

AAA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Dartmouth, Mass.' general obligation (GO) bonds to 'AAA' from 'AA', based on our local GO criteria released Sept. 12, 2013, and on its strong and stable economy. Another contributing factor involves its financial management policies that we believe will underpin future budgetary performance, which will likely result in the town maintaining very strong liquidity and strong budgetary flexibility measures. The outlook is stable.

We also assigned our 'AAA' long-term rating to Dartmouth's 2014 GO bonds. The outlook on the long-term GO debt is also stable.

A pledge of the town's full faith credit secures the bonds. Proceeds will be used to finance various town capital improvement projects.

The rating reflects our assessment of the following factors for the town:

- A strong and stable economy that participates in a broad and diverse economy and is anchored by the presence of the University of Massachusetts' (UMass) Dartmouth Campus;
- Strong budgetary flexibility with 2013 audited available reserves in excess of 13% of general fund expenditures;
- Strong budgetary performance and stable revenue profile with no appreciable funding interdependence with the state or federal government;
- Very strong liquidity providing very strong cash levels to cover both debt service and operating expenditures;
- Strong management environment and good financial policies and practices; and
- Very strong debt and contingent liabilities position bolstered by the town's low debt-to-market value and aggressive amortization, and manageable pension and other postemployment benefit (OPEB) liabilities.

Very strong economy

Dartmouth, with an estimated population of 34,448, is in Bristol County in southeastern Massachusetts. New Bedford and Fall River border the town on the east and the north, respectively. It also lies along the waterfront of Buzzards Bay in the south. Its economy participates in the broad and diverse employment base within the Providence-Warwick, R.I.-Mass. metropolitan statistical area (MSA), and is considered one of the many commercial destinations for the region.

Unemployment in Bristol County averaged 9.3% in 2012, down from 10% and 10.7% in 2011 and 2010, respectively. While the county average is slightly high, the presence of the UMass Dartmouth campus bolsters the local economy and its local unemployment. It provides a level of stability that in many ways insulates the town's commercial base from economic downturns. The campus has about 9,000 students, roughly 8,000 of which are undergraduates. The town's projected per capita effective buying income is 102% of the U.S. level, but we note the presence of the UMass Dartmouth campus discounts this measure.

The per capita market value of the tax base is \$138,967. The tax base is diverse, with the 10 leading taxpayers accounting for 5.7% of assessed value (AV). North Dartmouth Mall is the leading taxpayer, accounting for roughly 1.5% of AV. Overall, commercial properties account for roughly 12.5% of taxable properties. The town saw good tax base growth over the past decade, in part, reflecting new commercial construction and development, particularly in sectors that benefit from the university's presence. Over the past few years, new developments have been modest, but the town has been active in solar power development, which we believe will result in new tax levy growth over the next two years and lower the town's cost of energy over the long term.

We note real estate values have decreased 15.5% from peak valuation in 2008. However, our latest forecasts show the region's median home price will improve through 2015, and so we anticipate the town's values should be stable as a result.

Strong budget flexibility

Over the past three fiscal years, available reserves have remained above the town's minimum 10% policy target. In 2013, Dartmouth closed with an available fund balance (unassigned and assigned) of \$11 million, equal to 13% of expenditures. Included in the unassigned fund balance are the town's stabilization reserves, which have been maintained at roughly 7.5% of expenditures over the past three years. Over the medium term, we anticipate the town will maintain strong operating flexibility as there are no expectations of management drawing on reserves below policy targets.

Strong budgetary performance

In 2013, Dartmouth realized a general fund surplus of \$1.6 million, equal to 2% of operating expenditures. Across all governmental funds, the town also realized an operating surplus equal to 0.7% of expenditures after adjusting total governmental revenues to account for indirect administrative costs from the enterprise funds.

The favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes due to the improving economy. In our opinion, Dartmouth maintains a stable and predictable revenue profile, with property taxes comprising 62% of revenues. Property tax collections are strong and stable. State aid accounts for a low 28% of revenues and local revenues account for the remainder.

Currently, we anticipate Dartmouth's operating performance will remain stable. Based on our macroeconomic forecasts (See "U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, on RatingsDirect), credit conditions in New England are improving. In addition, the town stands to benefit from its recent investment in solar energy in several ways. Higher tax revenues, and other ancillary revenues are anticipated over the next two fiscal years, while over the long term, the town will benefit from lower energy costs.

The 2014 budget totals \$81.6 million, an increase of 2.1% over 2013. Management states that year-to-date revenues are ahead of budget and the town may realize an additional surplus barring any unforeseen expenditure demands.

Very strong liquidity

Supporting the town's finances is what we consider very strong liquidity, with total government available cash at 34% of total governmental fund expenditures and at 5.7x debt service. Further enhancing our view of the town's liquidity position is that Dartmouth maintains strong access to external liquidity. The town is a regular market participant, having issued GO bonds frequently over the past several years, including short-term bond anticipation notes (BANs).

Very strong management conditions

Local legislative decisions are made by its representative town meeting consisting of 390 members. The town maintains professional management and over the years, has enhanced financial policies and practices. Standard & Poor's considers Dartmouth's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Dartmouth maintains best practices deemed critical to supporting credit quality and these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will continue in the future and transcend changes in the operating environment or personnel.

Among its practices are conservative assumptions in budgeting for revenue and expenditures and monthly budget monitoring, ensuring budget amendments are done on a timely basis. Along with the budget, management creates a five-year capital improvement plan that identifies funding sources and a five-year budget forecast prepared by the town administrator and director of budget and finance and reviewed by the Finance Committee and Select Board. The town also recently adopted a debt management policy and reserve policy. The town's debt service budget will be no greater than 10% of general fund expenditures and not less than 5%. Dartmouth's reserve and liquidity policy affirms the town's goal to maintain stabilization reserves at 7.5% of expenditures. State statutes guide the town's investment policy.

Very strong debt and liabilities

Following this bond issue, Dartmouth has roughly \$55.6 million of total direct debt. Of this amount, we calculate roughly \$15 million is the unpaid balance of state school construction grants and roughly \$17 million is tax-secured enterprise debt with partial self-support. Overall, the town's total governmental funds debt service is 6% of total governmental funds expenditures and net direct debt is 25.7% of total governmental funds revenue. Bolstering our view of the town's debt profile is that net debt, at 0.6% of market value, is very low, and that the town is very aggressive in its debt amortization. Roughly 83% of debt will be retired over 10 years.

In our view, the town's pension and OPEB liabilities will remain a budget pressure, but we believe costs are currently manageable, and note management has been proactively managing them. Pension and OPEB costs currently account for 6% of total governmental fund expenditures. The town participates in the Bristol County retirement system and contributes 100% of its required amount. In 2014, the town has budgeted to pay \$3.7 million, or about 4.3% of expenditures. As of Jan. 1, 2012, the system as whole was 59% funded. Given its below-average funded ratio, we believe this will remain a growing, but manageable cost for the town in the foreseeable future.

Dartmouth also provides OPEBs to its retirees. As of the last actuarial valuation, the town reported a \$52 million liability. It has traditionally funded this on a pay-as-you-go basis, but has set up an irrevocable trust fund and has begun funding the liability for the long term. The current balance in the fund is \$1.1 million. The town contributed \$200,000 into the fund in 2014 and plans to do so again out of the operating budget through fiscal year 2016. It is the town's policy to review the amounts paid into the trust every three years.

Strong institutional framework

We consider the institutional framework score for town as strong. (See the Institutional Framework score for Massachusetts.)

Outlook

The stable outlook reflects our view that Dartmouth's strong underlying economy, strong management, and predictable operating profile should translate into strong budgetary performance and operating flexibility over our outlook horizon. In addition, we anticipate Dartmouth maintaining a strong debt and liability profile as there are no sizable long-term capital needs. Debt service costs, as well as pension and OPEB costs, should remain manageable and not pose an immediate budgetary challenge over our two-year outlook horizon. For these reasons, we do not anticipate changing the rating over the next two years.

While we do not expect this within the outlook horizon, we note that should the town's financial performance deteriorate significantly and no actions taken to remedy the fiscal imbalance, it could pressure the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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