

RatingsDirect®

Summary:

Medford, Massachusetts; General Obligation; Non-School State Programs

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Credit Profile

US\$2.75 mil GO mun purp loan bnds ser 2024 due 04/01/2034

<i>Long Term Rating</i>	AA+/Stable	New
Medford GO muni purpose loan		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Medford GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Medford, Mass.' \$2.75 million series 2024 general obligation (GO) municipal-purpose loan bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's existing GO debt.
- The outlook is stable.

Security

Medford's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the bonds. The rating reflects the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria; despite limitations imposed by the commonwealth levy limit law, we do not make a rating distinction between the limited-tax GO pledge and Medford's general creditworthiness because the tax limitation imposed on the city's ability to raise revenue is already embedded in our analysis of its financial and economic conditions. Medford also has several outstanding issues that participate in the Massachusetts Qualified Bond Program (for more information on the program, please see our summary analysis on the Massachusetts Qualified Bonds Act Program, published May 4, 2018.)

Bond proceeds will finance sidewalk upgrades.

Credit overview

Medford's credit profile is characterized by consistent financial results and improved reserve levels, which are further supported by a well-embedded financial policy framework and partially result from annual new growth in the city's economy. Medford's levels of new growth in its taxable base has rebounded from pandemic-related slowdowns to further support its positive financial operations. The city generated a substantial level of free cash in fiscal 2022 as local receipts in particular outperformed conservative budget estimates; fiscal 2023 estimates indicate positive performance that is likely below prior-year highs. While not unique to Medford, we continue to monitor school

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department budgets and labor contract negotiations that could ultimately impact the city's financial operations over the longer-term. The schools were projecting a slight \$500,000 deficit for fiscal 2024 (less than 1% of the school budget); however, operations are now expected to be balanced after identifying expenditure savings. Officials anticipate the city will continue receiving additional Chapter 70 state aid in upcoming fiscal years. Medford also recently settled the fire union labor contract for manageable increases and is in preparation for discussion on the school teacher contract which is settled through August 2025. While we believe Medford continues to plan for and absorb these increases in its budget, we will monitor over the long-term for potential cost escalations that could significantly pressure the budget. Medford's available reserve levels lend further stability as fund balance has nearly doubled over the last three years, to \$30.9 million in fiscal 2022 from \$16.7 million in fiscal 2020. While the city may utilize a portion of certified free cash for one-time capital and equipment, it does not anticipate material draws on reserves. City council also recently approved establishing a general stabilization account (which will be accounted for in unassigned fund balance) with a goal to appropriate \$5 million into the fund once fiscal 2023 free cash is certified. The city's general goal is to maintain between \$5 million to \$10 million in combined free cash and stabilization.

Medford will have \$79.7 million in total debt after this issuance. The city has substantial potential debt plans over both the near-term and longer-term; a fire station project is currently in design with a projected cost of \$30 million for the whole project, which the city is considering funding through a debt exclusion. Medford was also recently accepted into the MSBA program for a new high school project but the project's scope and state reimbursement rate have not been determined yet; should the project consist of a new build it would likely cost about \$350 million and would also likely be contingent on voter approval of either a debt exclusion or tax limitation override to fund the city's share of the project. Finally, Medford's adopted pension plan funding schedule aims to achieve full funding by 2032, approximately three years ahead of its previous funding target of 2035. While the city has historically made its full required contribution, should pension costs escalate faster than the overall budget it could pressure financial operations or crowd out other expenditures. Its long-term approach is to fully fund the pension plan, then redirect pension contribution savings toward the other postemployment benefits (OPEB) liability, which was \$273 million as of fiscal 2022.

The long-term rating further reflects the city's:

- Densely populated residential suburb (representing 90% of assessed value) with a local economic base comprised of higher education, health care, and commercial retail, as well as direct participation in the Boston and Cambridge regional economies;
- Strong management environment with a suite of formal policies and robust long-term capital and financial planning;
- Stable general fund revenue mix (69% property taxes and 21% state intergovernmental aid) supporting consistent financial results and improved reserve levels. The city is establishing a general stabilization account following recent city council approval, with a targeted amount of \$5 million;
- Manageable debt position but considerable debt plans that could result in our view of debt weakening over the longer-term. In addition, the city's large \$357 million pension and OPEB obligation remains a potential source of budgetary pressure despite pension funding progress and low costs for now.

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Environmental, social, and governance

We have assessed Medford's environmental, social and governance factors relative to its economy, management, financial measures, and debt profile and view them neutral in our credit-rating analysis.

Outlook

The stable outlook reflects our view of Medford's consistent financial performance and reserve levels that is likely to be sustained based on the city's strong management framework.

Downside scenario

We could consider a negative rating action if there were significant pressure on the city's finances, whether due to city or school department expenditures outpacing revenues or other external pressures, leading to sustained draws on reserves.

Upside scenario

We could consider a positive rating action if the city improves and sustains reserve levels and economic indicators comparable with 'AAA' peers, while addressing its unfunded pension and OPEB liabilities.

Medford, Massachusetts--key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	151	147	146	139
Market value per capita (\$)	244,513	213,479	199,509	195,401
Population		60,981	59,729	60,145
County unemployment rate(%)		3.1		
Market value (\$000)	14,910,627	13,018,155	11,916,451	11,752,367
Ten largest taxpayers % of taxable value	5.7			
Strong budgetary performance				
Operating fund result % of expenditures		6.4	1.6	1.1
Total governmental fund result % of expenditures		7.5	3.0	2.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		17.8	10.5	9.2
Total available reserves (\$000)		30,889	19,788	16,775
Very strong liquidity				
Total government cash % of governmental fund expenditures		52	36	30
Total government cash % of governmental fund debt service		1835	905	809
Strong management				
Financial Management Assessment	Good			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.8	4.0	3.7
Net direct debt % of governmental fund revenue	35			

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Medford, Massachusetts--key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Overall net debt % of market value	2.4			
Direct debt 10-year amortization (%)	60			
Required pension contribution % of governmental fund expenditures		6.3		
OPEB actual contribution % of governmental fund expenditures		4.6		

Strong institutional framework

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 20, 2024)

Medford GO state qual sch bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Unenhanced Rating</i>	NR(SPUR)	
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed
Medford GO st qualified mun purp loan of 2018 bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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