January 28, 2026

To: Town Leadership and Warrant Committee
From: Stephen Callahan
Subject: Credit Rating Factors, Structural Balance, and Implications for Medfield
Purpose: To summarize the rating considerations most relevant to Medfield ahead of the Town's largest planned bond issuance and to outline the financial impact of maintaining or improving the Town's credit rating.

Overview

As Medfield prepares for the Dale Street Elementary School bond and additional major capital projects over the next several years, maintaining the strongest possible credit rating is essential. Rating agencies place significant weight on **reserve strength, liquidity, financial management, and structural balance** — factors that typically represent **20–35% of the overall rating**.

A consistent theme across all methodologies is clear: **recurring operating expenses must be supported by recurring revenues.** Use of one-time revenues — including Free Cash — to fund ongoing operations is viewed as a sign of **structural imbalance** and weak financial management.

A detailed summary of Moody's and S&P methodologies is included in the **Appendix**.

Key Rating Considerations for Medfield

1. Structural Balance and Use of One-Time Revenues

Rating agencies explicitly cite the following as negative credit factors:

- Reliance on non-recurring revenues to balance the operating budget
- Drawdowns of reserves for ongoing costs
- Recurring operating gaps or deficit spending
- Weak adherence to adopted financial policies

Even a single year of using Free Cash for operations may not trigger an immediate downgrade, but it can reduce the management score, prompt a negative outlook, and increase scrutiny in future reviews.

2. Reserves and Liquidity

Both Moody's and S&P evaluate:

- Total fund balance as a percentage of revenues
- Cash and liquidity levels
- Five-year trends in reserves
- Adherence to formal reserve policies

Medfield's disciplined budgeting and reserve growth over the past four years strengthen its credit profile and position the Town for potential upward rating consideration.

3. Long-Term Capital Planning and Upcoming Borrowing Needs

Medfield's 20-Year Capital Plan identifies **more than $100 million in capital needs over the next five years**, **excluding** the Dale Street Elementary School project and the Pfaff building replacement. These needs primarily involve:

- School building envelope and HVAC systems
- Water infrastructure improvements throughout the Town

This concentration of major capital projects — in addition to the Dale Street Elementary School and Pfaff projects — underscores the importance of maintaining structural balance and protecting reserves.

Financial Impact of Rating Changes

A typical spread of **50 basis points** between rating categories has a material impact on long-term borrowing costs.

For a hypothetical Dale Street Elementary School $75 million, 30-year bond:

Scenario	Level Debt Service	Level Principal
Upgrade (Aa1 → Aaa)	**≈ $6.7M savings**	**≈ $5.8M savings**
Downgrade (below Aa1)	**≈ $6.7M additional cost**	**≈ $5.8M additional cost**

Across multiple major issuances, even small rate differences compound into **tens of millions** in taxpayer impact.

Conclusion

Medfield's recent financial discipline — structural balance, reserve growth, and adherence to policy — positions the Town well for its upcoming rating review. This is especially important as the Town prepares not only for the Dale Street Elementary School bond and the Pfaff replacement, but also for **over $100 million in additional capital needs** for school building systems and water infrastructure over the next five years.

Protecting reserves, avoiding one-time revenues for operations, and sustaining strong financial management practices will:

- Support potential upward rating movement
- Reduce borrowing costs for the school project and future capital needs
- Preserve long-term financial flexibility during a period of significant capital investment

APPENDIX

Rating Agency Methodology Overview

Moody’s Ratings – Key Components (2024 Methodology)

Finances (30% of Scorecard)

- Fund balance as a percentage of revenues
- Cash balance as a percentage of revenues
- Five-year trends in fund balance and cash
- Reliance on one-time revenues
- Recurring revenues vs. recurring expenditures

Management & Governance (20%)

- Strength and formality of financial policies
- Multi-year financial planning
- Predictability of revenues
- Ability to adjust revenues and expenditures
- Long-term capital and debt planning

Moody’s Identifies as Negative:

- Use of one-time revenues for operations
- Drawdowns of reserves for ongoing costs
- Recurring operating deficits
- Weak adherence to policies

S&P Global Ratings – Key Components (2024 Methodology)

Five Primary Factors (Equal Weight)

- Economy
- Financial Performance
- Reserves
- Liquidity Management
- Debt & Liabilities

Institutional Framework (State-Level Overlay)

- Predictability of revenue environment
- Revenue/expenditure balance
- Transparency and accountability requirements

S&P Evaluates:

- Recurring revenues vs. recurring expenditures
- Use of one-time revenues
- Stability and adequacy of reserves
- Adherence to formal reserve policies
- Multi-year forecasting and budgetary controls

S&P Identifies as Negative:

- Repeated use of Free Cash for operations
- Weak financial management practices
- Erosion of reserves