



Moody's Investors Service

**New Issue: MOODY'S ASSIGNS Aaa RATING TO TOWN OF HINGHAM'S (MA) \$42.34 MILLION GO BONDS; OUTLOOK IS NEGATIVE**

Global Credit Research - 19 Oct 2009

**Aaa LONG-TERM RATING AND NEGATIVE OUTLOOK AFFECT TOTAL OF \$75 MILLION IN OUTSTANDING DEBT, INCLUDING CURRENT ISSUE**

Municipality  
MA

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Municipal Purpose Loan of 2009 Bonds, Series A	Aaa
<b>Sale Amount</b>	\$38,565,991
<b>Expected Sale Date</b>	10/19/09
<b>Rating Description</b>	General Obligation
General Obligation Refunding Bonds, Series B	Aaa
<b>Sale Amount</b>	\$3,780,000
<b>Expected Sale Date</b>	10/19/09
<b>Rating Description</b>	General Obligation

**Opinion**

NEW YORK, Oct 19, 2009 -- Moody's Investors Service has assigned a Aaa rating to the Town of Hingham's \$38.5 million General Obligation Municipal Purpose Loan of 2009 Bonds, Series A and \$3.78 million General Obligation Refunding Bonds, Series B. Concurrently, Moody's has affirmed the town's Aaa rating and negative outlook, affecting roughly \$75 million in outstanding long-term debt. The Series A bonds are issued to permanently finance maturing bond anticipation notes originally issued for various capital needs including, the purchase of an apartment building, which has been leased to the town's non-profit low-income housing agency, as well as land acquisition, school construction projects and a public works facility renovation. The Series B bonds are issued to refund certain maturities of the town's 1998 Series A and B bonds for a projected net present value savings of roughly 7.8% of refunded principal. Approximately \$25 million of the Series A bonds, issued for school construction projects, are secured by the town's unlimited general obligation tax pledge as voters have excluded related debt service from the property tax levy limitations of Proposition 2 1/2. The \$13.5 million remainder of Series A and the Series B bonds are secured by Hingham's general obligation limited tax pledge, as debt service remains under the Proposition 2 1/2 levy limitations.

The Aaa rating reflects the town's sizeable and wealthy tax base, historically strong voter support for Proposition 2 1/2 overrides and favorable debt profile. The affirmation also factors the town's management practices, which include adoption of long-range policies which are anticipated to be strengthened in the near term. The negative outlook reflects significant erosion of reserves, with general fund balance falling by nearly half, as a percent of revenues, since fiscal 2002, when the town was upgraded to Aaa given decisions to use free cash to balance budgets in each fiscal year. Financial flexibility has been reduced, as reflected by significantly diminished levy capacity, and Hingham's overall financial position is inconsistent with medians for other Aaa rated communities. Additionally, the negative outlook acknowledges the difficulty of generating new revenue and replenishing and rebuilding reserves in a recessionary economic environment.

**DIMINISHED FINANCIAL POSITION AND FLEXIBILITY; CHALLENGES TO REBUILDING RESERVES TO LEVELS ON PAR WITH Aaa MEDIANS**

Although Hingham has a solid history of strong management and Proposition 2 1/2 override votes, recent draws on reserves have resulted in weakened financial strength and a reserve position inconsistent with its

current rating level. Operations in fiscal 2008 generated a modest surplus of \$454,000, however, since fiscal 2002, general fund balance declined significantly to \$8.8 million, a satisfactory at 11.3% of general fund revenues but less than half the 29.2% national median for Aaa-rated communities, and a significant decline from the peak of \$12.1 million in fiscal 2002, a solid 21.8% of revenues. Available reserves, including the unreserved general fund and stabilization fund balances, were reduced in fiscal 2008 to \$8.3 million, which at 10.7% of revenues is significantly lower than the national median of 21.6% for Aaa-rated communities. Despite a mid-year effort to control expenditures, which is expected to yield up to \$1.5 million in unspent appropriations, projections for fiscal 2009 indicate the potential for an additional decline in available reserves of up to \$600,000, including a planned \$100,000 appropriation from stabilization for excluded debt service, bringing available reserves to a narrow 9% of revenues. Contributing to the deficit were a sizeable \$1.9 million appropriation of free cash to balance the budget, a snow removal overexpenditure of over \$600,000 and a mid-year state aid cut of \$150,000.

Favorably, the fiscal 2010 budget includes \$1.1 million in new property tax revenue from a successful operating override vote, which passed by a strong 2:1 margin, significant departmental expenditure reductions and a return to structural balance. Hingham has embarked on a comprehensive service evaluation and benchmarking review of operations designed to identify opportunities for regionalization and other efficiencies aimed at ensuring long-term stability and financial health. Interim measures to balance near-term budgets include institution of a controlled hiring process, departmental budget reductions and elimination of free cash appropriations. Additionally, the town produces a five-year budget forecast, which incorporates conservative estimates in state aid and motor vehicle excise revenues as well as a \$1.3 million increase in post-employment (OPEB) health insurance funding beginning in fiscal 2012. The town is in compliance with GASB 45 accounting standards and has identified an unfunded OPEB liability of nearly \$68 million, although a new actuarial study is under review and is expected to reflect a reduction in the liability due to changes in plan design. Hingham has established an OPEB trust fund and began partially funding its liability with a modest appropriation of \$300,000 in fiscal 2008 and plans to increase annual appropriations gradually until the town's expected annually required contribution (ARC) of approximately \$4 million is reached. Management anticipates that its OPEB ARC will be fully funded when the town's pension system, currently funded at 73%, reaches full funding. Hingham remains only moderately reliant on commonwealth assistance (20.4% of revenues in fiscal 2008), a favorable characteristic given cuts in this revenue stream in fiscal 2009. Local property taxes represent the town's primary revenue source (73% in fiscal 2008).

Hingham's financial flexibility has been significantly reduced since fiscal 2002 when available reserves peaked at \$10.8 million, a comfortable 19.4% of general fund revenues, and excess levy capacity under the Proposition 2 ½ limit stood at \$1.3 million, roughly 3.4% of the property tax levy. Unreplenished free cash appropriations have reduced reserves, leaving Hingham less favorably positioned to absorb unanticipated budgetary pressures and to replenish reserves to levels more consistent with similarly-rated communities. Excess levy capacity was reduced to \$103,000 in fiscal 2008, a negligible 0.19% of the property tax levy. The town has begun to pro-actively address long-term liabilities while its management team is revamping the annual budgeting process to preserve structural balance. Additionally, town officials plan to propose strengthened long-range financial policies designed to improve Hingham's financial position. However, Moody's believes that operating pressures will increase in the near term, due to slumping national and state economic trends, and that Hingham is likely to be challenged to regain structural balance and rebuild available reserves to levels consistent with its current rating level. Further erosion of reserves and flexibility and failure to adhere to a multi-year plan to restore financial flexibility and reserves is likely to negatively impact Hingham's long-term credit strength and rating level.

#### WEALTHY COASTAL SUBURB EXPECTED TO SUSTAIN MEDIUM-TERM GROWTH

Moody's expects that Hingham will continue to experience growth in its tax base, but at a slower pace, due to both strong residential market value appreciation and new commercial development. Hingham is primarily residential (88% of assessed valuation in fiscal 2009) and is located 15 miles southeast of Boston (G.O. rated Aa1/stable outlook) in northern Plymouth County on the Atlantic Ocean. Equalized value has tripled since 1997 to over \$6 billion and since 2003 has increased at an above-average rate of 10.2%. Although expansion in the residential sector has slowed and assessed valuation declined slightly by 1.2% in fiscal 2009, significant redevelopment opportunities are expected to contribute to moderate taxable value growth in the medium term. Income levels are well above national and state medians, and equalized value per capita is a robust \$274,386 in fiscal 2009.

#### AFFORDABLE DEBT BURDEN BOLSTERED BY VOTER SUPPORT

Moody's believes that the town's debt burden will remain affordable reflecting its low existing debt burden, favorable history of voter approvals for debt exclusions, state school reimbursement and the self-supporting nature of municipal utility obligations. The overall debt burden represents a modest 1.5% of the tax base, however school debt represents approximately 67% of outstanding long-term obligations and is partially reimbursed by the commonwealth. Additionally, Hingham's self-supporting sewer operations account for approximately 5% of the town's general obligation debt, and user rates are historically set to cover all related debt service payments as well as operating expenses. With the current issue, amortization of principal drops to an average 64% within 10 years; however due to support from enterprise and debt exclusions, overall debt service, which represented a reasonable 6.2% of fiscal 2008 expenditures, is expected to remain manageable. Moody's anticipates that the town's modest future borrowing plans will be accommodated without exerting pressure on subsequent operating budgets. Pressure on the general fund is lessened by the high 71% (including outstanding short-term notes and the current issue) of debt excluded by voters from the limitations of Proposition 2 1/2. Hingham has no exposure to variable or auction rate debt or swap agreements.

### **Outlook**

The negative outlook represents Moody's expectation that Hingham will be challenged to replenish reserves to levels consistent with those of other Aaa-rated communities. The town's general fund balance has steadily declined to an adequate \$8.38 million, 11.3% of general fund revenues, in fiscal 2008 from a peak of \$12.15 million, a more solid 19.2% of revenues, in fiscal 2002. Despite the town's solid record of voter support for property tax levy increases above Proposition 2 1/2 limits, significant appropriations of free cash were only partially replenished. Critical to maintaining Hingham's credit strength will be effective long-range planning and expenditure management as well as a return to structural balance in the short-term coupled with significant augmentation of reserves in the medium term.

What would move the rating---UP (remove the negative outlook)

"Adoption and adherence to comprehensive financial management policies including significant progress in plans to both increase reserves and fund long-term liabilities (pension and OPEB) in the medium term

"Restoration of fund balance to levels consistent with similarly-rated communities

What could move the rating--DOWN

"Failure to grow reserves as a percentage of revenues, specifically, failure to follow long-range budget projections for reserves

"Adoption of structurally imbalanced budgets

"Less conservative assumptions for revenue and expenditure growth

"Significant appropriations of free cash without replenishment

"Persistent voter disapproval for overrides and exclusions from Proposition 2 1/2

### **KEY STATISTICS**

2008 Population (est, US census): 22,394 (+12.6% since 2000)

2009 Equalized Valuation: \$6.19 billion

2009 Equalized Value per capita \$276,432

Average annual growth, equalized valuation (2003-2009): 10.2%

1999 Per Capita Income: \$41,703 (160.7% of MA, 193.2% of US)

1999 Median Family Income: \$98,598 (159.9% of MA, 197% of US)

Overall debt burden: 1.5%

Adjusted overall debt burden: 1.2%

Amortization of principal (10 years): 64.3%

FY08 General Fund balance: \$8.8 million (11.3% of general fund revenues)

FY08 Available Reserves (unreserved General Fund and Stabilization Fund): \$8.3 million (10.7% of general fund revenues)

Long-term general obligation debt outstanding: \$75 million

#### METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the Town of Hingham, Massachusetts was Moody's "Local Government General Obligation and Related Ratings," published in December, 2008 and available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on June 9, 2009 when a MIG 1 rating was assigned to the Town of Hingham, Massachusetts' Bond Anticipation Notes, the town's Aaa rating was affirmed and a negative outlook was assigned.

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