

Inside Town Finances

Volume 11: Hingham's Bond Rating

Like most municipalities, Hingham issues bonds to finance capital projects. Our goal is to obtain the lowest possible interest cost in order to minimize taxpayer impact

A bond rating is similar to an individual credit score—it measures credit worthiness. The higher the rating, the less likely a municipality is to default on payment. Municipalities with strong bond ratings have greater access to capital markets and pay lower interest costs. Bond ratings are issued whenever a municipality issues debt.

Who issues bond ratings and what are possible ratings?

The three major municipal credit-rating agencies are Moody's Investors Service, S&P Global Ratings, and Fitch Ratings. Each rating agency researches and assesses the economic characteristics and financial health of a municipality as well as the financial particulars of the intended borrowing. This research results in a rating which is assigned to the bond issuance. Ratings fall into two categories: Investment Grade and High-Yield/Non-Investment Grade, based largely upon judgments of credit worthiness.

While each rating agency has its own scale, within the Investment Grade category, a Aaa/AAA rating represents the highest quality, while a rating of Baa/BBB represents adequate quality.

What criteria are used to rate municipalities?

Each firm employs its own methodology for developing ratings, which summarize both qualitative and quantitative factors relative to demographics, financial health, debt profile, and management. Moody's utilizes a *Local Government General Obligation Debt* scorecard, which includes the factors and weightings shown in the graph to the right.

Moody's Factors and Weightings	
Economy and Tax Base	30%
Finances	30%
Management	20%
Debt and Pensions	20%

What is Hingham's bond rating?

Hingham first earned a Aaa/AAA bond rating from each rating agency in 2002 and has maintained it since then. **As of the publication of this document, Hingham is one of 3 municipalities in MA and 35 nationally with a Aaa/AAA bond rating from all three rating agencies.** The "triple triple" rating was most recently affirmed in July 2020 with the issuance of debt to finance acquisition of the Weir River Water System. Below are highlights from each ratings report (all of which can be found on the Town website):

Moody's	Aaa
S&P Global Ratings	AAA
Fitch Ratings	AAA

- **Moody's:** *The town continues to demonstrate strong and conservative fiscal management including formal financial policies, multi-year budget forecasts, and a five-year capital plan. Additionally, the town continues to aggressively fund its long-term liabilities.*
- **Fitch:** *General fund expenditure growth has historically been in line with revenue growth and the town has flexibility to reduce expenditures if necessary.*
- **S&P:** *While we do not anticipate lowering our rating on the town, we could do so if operating performance weakens, leading to reserves falling below 15% of expenditures, or if the town fails to adhere to current management practices and financial policies.*

How valuable is our bond rating?

Hingham's Aaa/AAA bond rating ensures we have access to capital markets at the lowest possible rates, resulting in lower debt costs paid by taxpayers. Our bond rating has saved millions of dollars.

The chart to the right contains examples of recent savings and benefits. In addition to financial benefits, the underlying practices and policies that support our bond rating make Hingham an attractive place to work, do business, and live.

- **2000:** Saved taxpayers \$400,000 over the life of the bond issue for South and High School renovations
- **2008:** Construction borrowing for East School at 1.09% interest rate. Credit markets largely frozen. No Aaa rating meant no credit available at any price.
- **2009:** Saved close to \$1,000,000 over the life of \$43 million bond
- **2010-2020:** Saved over \$6,000,000 vs. AA rating, representing an average differential of over 11% in cost.