

RatingsDirect®

Summary:

Hingham, Massachusetts; General Obligation

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Credit Profile

US\$39.144 mil GO mun purp loan bnds ser 2015 due 05/15/2037

Long Term Rating AAA/Stable New

Hingham Twn GO unlted tax bnds

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating and stable outlook to the town of Hingham, Mass.' series 2015 general obligation (GO) municipal purpose loan bonds.

At the same time, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on the town's GO debt outstanding.

The rating reflects or opinion of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash of 41.0% of total governmental fund expenditures and 5.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 6.9% and net direct debt that is 68.2% of total governmental fund revenue and low overall net debt at less than 3.0% of market value and rapid amortization with 66.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

The bonds are general obligations of Hingham, secured by its full faith and credit pledge. We understand the town will use bond proceeds to finance various capital projects, which were originally funded by bond anticipation note proceeds.

Very strong economy

We consider Hingham's economy very strong. Hingham, with an estimated population of 22,428, is in Plymouth County in the Boston-Cambridge-Newton, Mass., MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 208% of the U.S. level and per capita market value of \$263,931. Overall, the town's market value grew by 6.7% over the past year to \$5.9 billion in 2015. The county unemployment rate was 6.0% in 2014.

Hingham is an affluent, seacoast community in Plymouth County about 15 miles south of Boston. The town's local

employment base is somewhat concentrated in the retail and health care sectors; leading local employers include Blue Cross/Blue Shield (1,270 employees) the town itself (947), and Linden Ponds (health care, 800). However, town residents have good access to employment opportunities in Boston via the two commuter rail stops and a commuter boat.

The town's assessed value (AV) has experienced solid growth of 2.0% and 6.7%, in the past two fiscal years, respectively, and totals \$5.9 billion for fiscal 2015. Management expects to continue to see modest growth within the town in the next two fiscal years, which is in line with our regional forecast. While residential properties dominate the tax base at 88.8%, commercial properties represent a sizable 8% of AV. Overall, the tax base is very diverse, in our view, with the 10 leading taxpayers accounting for 8.2% of 2015 AV.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management practices emphasize long-term planning, including a five-year financial forecast, and five-year capital improvement plan. The town maintains a formal policy of maintaining a fund balance of 16% to 20% of operating expenditures, a level we consider very strong. We understand management monitors revenue and expenditure performance on a regular basis, and presents quarterly reports to the Board of Selectmen. The town also maintains a debt policy of sustaining annual debt service at a level no greater than 7.5% of expenditures.

Strong budgetary performance

Hingham's budgetary performance is strong in our opinion, with operating surpluses of \$4 million (4.3% of budget) in the general fund and \$4 million (3.7%) across all governmental funds in fiscal 2014. The total governmental funds results include adjustments for one-time capital outlay financed by bond proceeds in the middle school project fund, and within the other governmental funds, as well as for one-time Massachusetts School Building Authority reimbursement for the middle school construction project.

Overall, the Hingham's budgetary performance has been strong in the past three fiscal years with consecutive general fund surpluses. We understand the town's performance has been driven by conservative budgeting, and strong local receipt performance, specifically motor vehicle and meals taxes. Hingham's fiscal 2015 budget totals about \$96 million, which is a slight increase over the fiscal 2014 budget, and is balanced. Management indicates the fiscal year is tracking on target for revenues and expenditures, and expects to close the year with at least break-even operations, despite a slight snow and ice deficit of \$1.5 million. The town expects to fund the snow and ice deficit with available reserves. Town management expects savings across other departments and better-than-budgeted revenue performance to sustain available reserves at an equivalent level to fiscal 2014. We understand Hingham's fiscal 2016 budget is balanced and totals about \$100 million.

Property taxes, accounting for 71% of general fund revenue in fiscal 2015, are the town's leading revenue source; we believe this remains a very strong and consistent revenue source. Current-year property tax collections remain extremely healthy, in our view, with Hingham averaging a rate above 98% in the past five years. Intergovernmental aid, which has been stable, accounts for 9% of revenues. Overall, we anticipate the town's budgetary performance will

remain strong given management's demonstrated ability to make the necessary budget adjustments to align revenues and expenditures. Furthermore, we believe the continued economic recovery will support stable local receipt and property tax performance.

Very strong budgetary flexibility

Hingham's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 24% of operating expenditures, or \$23.0 million. According to management, the town's available reserve position at the close of fiscal 2015 should remain flat relative to fiscal 2014 results. Management indicates it does not have plans to spend down reserves, and the town is currently in compliance with its reserve policy at the close of fiscal 2014.

Very strong liquidity

In our opinion, Hingham's liquidity is very strong, with total government available cash of 41.0% of total governmental fund expenditures and 5.9x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

Very strong debt and contingent liability profile

In our view, Hingham's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.9% of total governmental fund expenditures, and net direct debt is 68.2% of total governmental fund revenue. Overall net debt is low at 1.5% of market value and approximately 66.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. We understand the town is currently researching an opportunity to purchase Acquarion Water Co. of Massachusetts to take over its operations as the town's sole water provider. While this is an ongoing discussion among town management, the acquisition would likely be funded by GO debt. Town management has stated that it does not intend to proceed with financing of the acquisition unless the enterprise is self-supporting via user fees. We will monitor the potential that this acquisition could weaken the town's debt profile depending on the structure of the deal and management's plan to incorporate the additional debt into the town's operating budget.

Hingham participates in the Hingham Contributory Retirement System, which is 68% funded as of Jan. 1, 2014, with an unfunded liability of \$41.6 million. The town continues to fund 100% of its annual required contribution (ARC). Contributions in fiscal 2014 amounted to \$4 million, about 3.6% of budget. Hingham's other postemployment benefit (OPEB) unfunded actuarial accrued liability was \$50.5 million, and 13% funded as of June 30, 2014. The fiscal 2014 OPEB ARC was \$4.3 million (about 4% of governmental funds expenditures), and the town's actual payment was 100% of the ARC. The town has established an OPEB trust, which has a current balance of \$5.9 million. Hingham's combined pension and OPEB contributions totaled \$8.3 million or 7.6% of total governmental fund expenditures in 2014.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion of Hingham's very strong budgetary flexibility and liquidity, supported by good financial management policies, as well as a very strong underlying economy. At the same time, we believe

management will continue to make the necessary budgetary performance to yield balanced operations. For these reasons, we do not expect to change the rating within the outlook's two-year time frame. If the town's debt and contingent liability profile deteriorates due to rising fixed costs associated with additional debt long-term liabilities, resulting in a trend of weak budgetary performance and a decline in budgetary flexibility, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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