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Summary:

Hingham, Massachusetts; General Obligation

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Credit Profile		
US$104.095 mil GO wtr bnds ser 2020 due 02/01/2050		
Long Term Rating	AAA/Stable	New
Hingham Twn GO unltd tax bnds		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Hingham, Mass.' series 2020 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the town's existing GO debt. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds, subject to Proposition 2-1/2 limitations. We have not made a rating distinction between the limited-tax pledge and the town's general creditworthiness because the ad valorem tax securing the limited-tax obligation is not derived from a measurably narrower property tax base and financial resources are fungible, supporting our view of the town's overall ability and willingness to pay debt service. Proceeds from the 2020 issuance (approximately $104 million) will be used to fund acquisition of the town's water system, currently held by a private entity.

Credit overview

Hingham's financial management team has a demonstrated history of producing year-end results that outperform the budget, through conservative underlying assumptions and in-year monitoring of performance. The town's primarily residential tax base is affluent and stable, and we expect that residents will generally pay property taxes--the town's primary revenue source--in a timely manner despite the current health and economic pressures. We expect the town's debt and liabilities profile will improve over time, after it has three-years of demonstrated debt service coverage (DSC) within the new water enterprise fund, which the town expects will fully support debt service. The town's acquisition of its water system represents the culmination of nearly a decade of study, including external validation of financial models and projections. While the current issuance is about 170% of Hingham's previously issued and outstanding debt, we believe the town is likely to show more than 1x coverage over the next three years, leading to our view of full self-support of this issuance and improvement in the debt profile, notwithstanding potential future issuances.

We believe the town is incorporating current economic and revenue risks into its fiscal 2021 budget, although the risk of unknown and unquantifiable potential revenue and expenditure pressures exists. Our outlook is generally for two years, but we see some risks due to the COVID-19 pandemic and U.S. recession over the next six-to-12 months. There broadly remains significant uncertainty stemming from the potential effects of the COVID-19 pandemic and the related economic recession, which we incorporated into our view of the town's budgetary performance and overall creditworthiness. We will continue to monitor any material adverse effects throughout the outlook period.

Hingham's GO debt is eligible to be rated above the sovereign, because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under our "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" criteria (published Nov. 19, 2013 on RatingsDirect), Hingham has a predominantly locally derived revenue source, with approximately 78.5% of general fund revenue coming from property taxes. The town also has taxing authority and treasury management independent from the federal government.

The long-term rating reflects our view of the following factors for the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 31% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.0% of total governmental fund expenditures and 6.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.0% of expenditures and net direct debt that is 120.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance risks

We analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. Hingham is a coastal community with substantial waterfront along the Atlantic Ocean. Management recognizes the potential negative effects on the tax base due to sea-level rise and changing weather patterns. The town was designated by the state as a Municipal Vulnerability Preparedness Community, making it eligible to apply for climate resilience grants. Achieving this designation is the result of threat assessment and action planning. The town is working toward improving resilience along its wharf's seawall to protect against storm surge and flooding. It is also coordinating with neighboring communities on land use and other issues related to climate change. We expect the town to continue to revise and implement additional climate action plans. At this time, we do not believe it has outsized risks relative to peers from its environmental risks. Our rating also incorporates our view regarding the indirect risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We believe its governance risks are in line with our view of the sector standard.

Stable Outlook

The stable outlook reflects Hingham's overall financial and managerial strengths, supported by its affluent tax base and participation in a broad and diverse economic area. 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. Additionally, if its debt and contingent liabilities were to increase due to rising fixed costs or if the current issuance falls materially short of self-supporting, we could lower the rating.

Very strong economy

We consider Hingham's economy very strong. The town, with a population of 23,831, is in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 233% of the national level, which we view as extremely high and a positive credit factor and per capita market value of $313,148. Overall, market value grew by 5.1% over the past year to $7.5 billion in 2020. The county unemployment rate was 3.0% in 2019.

Hingham is an affluent, coastal community, with residential properties accounting for nearly 90% of total assessed value (AV). Residents can access downtown Boston via the commuter rail and ferry, as well as state highways. While primarily residential, the town has an open-air mall on Derby Street, which continues to thrive. Although recent health and economic pressures could stress some of the businesses, we do not expect material deterioration in the commercial tax base. The town also has industrial property in its southern part, which management continues to examine for possible expansion and development.

We expect Hingham to remain a desirable community in which to reside. Given the strength of the underlying economy as represented in the town's wealth and income factors, with its economic profile further bolstered by participation in the Boston MSA, we do not expect significant deterioration in the tax base. However, a prolonged economic downturn could pressure growth in AV of existing properties and limit new development, potentially pressuring growth in the town's main revenue source. The town does not have significant unused levy capacity, so any growth in the tax levy would require new growth revenues. S&P Global Economics is projecting a slow economic recovery from the COVID-19 recession. (Please see the article, titled "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020). While at this time, we do not expect a change in our view of the town's economic profile, we will continue to monitor recessionary effects on its budget and financial performance.

Strong management

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

The town has well-embedded financial management policies and practices, which have generated its positive operating results and maintenance of very strong reserves and liquidity. It annually updates a five-year financial forecast, which generally flat-lines growth assumption. However, for fiscal 2021, it produced a detailed financial plan for revising the proposed budget and incorporating projected revenue and expenditure changes in the aftermath of COVID-19 and the ensuing recession. We believe the 2021 financial management plan will minimize fund balance drawdowns and service cuts.

Additional key financial management practices include:

- The use of historic revenue and expenditure trends, as well as long-term financial forecasts when determining the town's revenue and expenditure assumptions;
- Monthly board reviews of budget-to-actual performance;
- The ability to amend the budget midyear at town meeting;
- An annually updated, five-year capital improvement plan that outlines specific projects and funding sources.

Other financial policies for the town include formal investment, debt management, and reserve policies. The town adopted state guidelines for its investment management policy, and reports investment holdings quarterly to the board. Its debt policy limits annual debt service, outlines how to incorporate budgetary savings from declining debt service, and prescribes forecasting and reporting for future debt issuances. The town's policy sets an unassigned fund balance target of 16%-20% of expenditures and outlines uses of reserves if above 20%.

Adequate budgetary performance

Hingham's budgetary performance is adequate, in our opinion. The town had operating surpluses of 2.4% of expenditures in the general fund and 2.3% across all governmental funds in fiscal 2019. General fund operating results of the town have been stable over the last three years, with results of 2.7% in 2018 and 0.9% in 2017.

The town produced positive operating results over the past three years. We understand management projects another surplus operating result of about $1.5 million, on a GAAP basis, in fiscal 2020. However, due to the sudden rapid economic deterioration, our assessment incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and resulting financial pressures. Hingham's budgetary performance assessment as it enters fiscal 2021 is adequate, in our opinion, adjusting for potential revenue and expenditure pressures in an uncertain economic environment.

The fiscal 2021 budget includes a $3.3 million budgeted use of reserves, as the town looks to maintain services while addressing potential revenue shortfalls relative to recent fiscal years. It based the budgeted reserve amount on actual nonproperty tax collections through May 2020 and trends from the last recession. We note that with this issuance, the general fund is to be repaid $1.9 million from the issuance for prior indirect costs associated with the transaction, and consequently, management does not anticipate drawing the full $3.3 million. A $3.3 million drawdown would represent approximately 3.0% of budgeted expenditures, or about 2.9% of 2019 audited expenditures. We note that in fiscal 2018, the town added $3 million to reserves, and in 2019 added $2.8 million. While fiscal years 2017 and 2016 added smaller amounts to reserves, we believe the town's history of outperforming its budget suggests it is unlikely to draw down the full budgeted amount, particularly given the high income and wealth factors and its high reliance on property taxes.

In fiscal years 2017-2019, Hingham collected more than 99% of its levy in the current year. While we believe a portion of its budgeted property tax collections could be delayed in fiscal 2021, we expect the town will receive the predominance of its primary revenue source in a timely manner. In fiscal 2019, audited general fund operating revenue was primarily property taxes (71%), intergovernmental (9.6%), and motor vehicle excise tax (4.1%). The state pass-through payment for the teachers' retirement system accounted for an additional 9.7% of GAAP operating revenues. We expect motor vehicle excise tax, along with other local source revenues, are most likely to decline in fiscal 2021. The budget reduces motor vehicle and other excise taxes, intergovernmental, and departmental revenues, while increasing the budgeted tax levy. We believe management is operating with realistic assumptions and has incorporated potential revenue volatility into the budget through its budgeted use of reserves. However, we adjusted performance to account for the uncertain health and economic environment, likely to lead to revenue declines and a potential decline in the town's budgetary performance over the next few years.

Very strong budgetary flexibility

Hingham's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 31% of operating expenditures, or $36.2 million.

The town added to available reserves in each of the last five fiscal years, with an anticipated addition in 2020. Despite the budgeted use of reserves in fiscal 2021, we do not expect a material deterioration in available reserve or flexibility profiles, given the current high reserve levels.

Very strong liquidity

In our opinion, Hingham's liquidity is very strong, with total government available cash at 45.0% of total governmental fund expenditures and 6.4x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

We adjusted Hingham's cash ratios to exclude cash we believe is not readily available for liquidity purposes. We believe the town has demonstrated strong market access through its frequent issuances of GO debt for capital project needs. Hingham does not have any variable-rate or direct-purchase debt, or any financial provisions with repayment provisions that could accelerate. While the town could face some variability in tax collections due to the current economic environment, we do not expect material pressure from delayed collections.

Adequate debt and contingent liability profile

In our view, Hingham's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.0% of total governmental fund expenditures, and net direct debt is 120.8% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is, in our view, a positive credit factor. We calculate the ten-year amortization at 35%, which we expect will improve when the town permanently finances its outstanding bond anticipation note. However, given the size and length of the current issuance, we do not expect amortization to materially improve within the next several years.

Prior to moving forward with the plan to acquire the water system, the town undertook multiple years of studies, which external tax professionals and consultants validated, to ensure the system remains wholly ratepayer supported. The financial models include regular rate increases that align with historic practices, increased capital investment, and payments-in-lieu of taxes (PILOTs) to the underlying municipalities, all while maintaining at least 1x DSC through the first ten years.

While we rate the issuance to the town's GO pledge, S&P Global Ratings will net from its total direct debt calculation that enterprise debt with demonstrated coverage through user charges. We expect that the new water enterprise fund will maintain at least 1x coverage, but without three years of demonstrated coverage in the new operating environment, we did not net this issuance from our calculation of total direct debt, which we currently calculate at about $164.6 million, including capital leases. The town does not currently have any long-term enterprise debt, as it accounts for sewer debt in a governmental special revenue fund. We estimate that net of the current issuance, Hingham's overall net debt is approximately $60.5 million, or 37% of total governmental funds revenue, which, combined with the current carrying charge, is a level we consider strong.

We understand the town is exploring a public safety building, an elementary school, and senior center projects that could result in additional new-money debt issuances, although these are in the initial feasibility stages and any debt issuance is several years away. It is unclear at this time if these projects will offset any expected improvement in our view of the town's total direct debt as the water fund demonstrates partial or full self-support, or if the governmental funds carrying charge will materially increase. Currently, we do not expect to revise our view of the debt and liabilities profile, but our view could improve with demonstrated self-support of this issuance and clarity on the projects outside the current outlook period.

Pension and other postemployment benefits

- We do not view the town's retirement liabilities or carrying costs as a credit pressure at this time.
- However, while we believe the use of an actuarially determined contribution (ADC) is positive, we believe some of the underlying pension assumptions could lead to cost volatility and increases.
- The town is prefunding its other postemployment benefit (OPEB) liability, but pays costs on a pay-as-you-go basis.

The town participates in the following retirement plans:

- Hingham Contributory Retirement System: 67.8% funded, $51.6 million net pension liability (NPL)
- Massachusetts Teachers Retirement System (MTRS): 54.0% funded, no liability attributable to the town
- Single employer defined-benefit health care plan (OPEB): 18.5% funded, $69.9 million net OPEB liability

The town and municipal light plant account for approximately 94% of the Hingham pension plan's total unfunded liability. The plan did not meet either our static or minimum funding progress metrics in the most recent year, indicating it is neither fully addressing current costs nor making progress in funding the NPL. We believe the plan's 7.5% discount rate and could lead to contribution volatility and the level-percent basis will lead to escalating costs. Additionally, we believe the assumed salary increases of greater than 4% could result in cost escalation. We view the closed amortization period, with 15 years remaining, positively. The town makes the full ADC annually. Hingham's combined required pension and actual OPEB contributions totaled 7.6% of total governmental fund expenditures in 2019. Of that amount, 4.0% represented required contributions to pension obligations, and 3.6% represented OPEB payments. The town's pay-as-you-go OPEB cost was approximately $3.6 million, with a total contribution of $4.8 million. In 2019, it paid about 81% of the OPEB required contribution.

While we do not believe retirement costs are currently pressuring the town's budget, if cost increases outpace budgetary growth, we could view total retirement carrying charge as elevated in the future. Additionally, if the town does not continue to make progress in funding its pension and OPEB liabilities, we could also revise our view of its plan to address them.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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