

CREDIT OPINION

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Hingham (Town of) MA

Update to credit analysis

Summary

Hingham (Aaa stable) is expected to maintain a strong financial position over the near term given conservative budgeting and prudent fiscal management that includes formal policies and multiyear planning. The tax base is large and primarily residential with an affluent population that is expected to continue to benefit from a strong residential real estate market even during an economic downturn. The debt burden has recently doubled to an above average level given the purchase of a private water system. The new debt issuance for the system is expected to be self supporting and could mitigate the net direct debt burden. We expect the town's unfunded pension and OPEB liabilities to remain manageable over the long term.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action but could affect the town in fiscal 2021 which begins July 1. The town depends on state aid for approximately 10% of its operating revenue. The Commonwealth of Massachusetts (Aa1 stable) is currently experiencing significant declines and delays in income tax and sales tax revenue. Unless the federal government provides additional assistance, the state could reduce state aid to municipalities in 2021. Given the town's minimal exposure to state aid, and conservative budgeting, cuts to state aid are expected to remain manageable. The situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the town changes, we will update the rating and/or outlook at that time.

Credit strengths

- » Large and affluent tax base
- » Strong fiscal management
- » Healthy reserves and liquidity

Credit challenges

- » Recent increase in the debt burden due to purchase of Hingham Water Company
- » Transitional operating risk associated with purchase and management of water system
- » Moderate unfunded pension and OPEB liabilities that will in part continue to be budget drivers over the long term

Rating outlook

The stable outlook reflects our expectation that the town will maintain a healthy financial position including the establishment of a self-supporting water enterprise while continuing to address the funding of long term liabilities. The outlook further incorporates the strength of the tax base that is expected to continue to see at least limited growth over the near term.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

- » Further growth in the debt burden uncharacteristic of the highest rating category
- » Inability of the water enterprise to maintain sufficient annual debt service coverage on GO water bonds
- » Material decline in general fund reserves and liquidity
- » Significant multiyear decline in the tax base
- » Large increase in the unfunded pension and OPEB liabilities

Key indicators

Exhibit 1

Hingham (Town of) MA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$5,981,637	\$5,981,637	\$6,668,867	\$6,668,867	\$7,407,974
Population	22,733	22,901	23,047	23,298	23,298
Full Value Per Capita	\$263,126	\$261,195	\$289,359	\$286,242	\$317,966
Median Family Income (% of US Median)	232.2%	233.0%	231.4%	256.1%	256.1%
Finances					
Operating Revenue (\$000)	\$98,259	\$104,068	\$111,516	\$115,457	\$118,042
Fund Balance (\$000)	\$30,121	\$30,253	\$31,311	\$34,408	\$37,248
Cash Balance (\$000)	\$32,093	\$31,809	\$33,452	\$39,810	\$40,035
Fund Balance as a % of Revenues	30.7%	29.1%	28.1%	29.8%	31.6%
Cash Balance as a % of Revenues	32.7%	30.6%	30.0%	34.5%	33.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$87,627	\$80,106	\$79,204	\$73,413	\$66,482
3-Year Average of Moody's ANPL (\$000)	\$100,620	\$124,559	\$132,830	\$135,435	\$115,401
Net Direct Debt / Full Value (%)	1.5%	1.3%	1.2%	1.1%	0.9%
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.7x	0.6x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.7%	2.1%	2.0%	2.0%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.0x	1.2x	1.2x	1.2x	1.0x

As of June 30 fiscal year end

Source: Moody's Investors Service and Hingham's audited financial statements

Profile

Hingham is a primarily residential community located 15 miles south of Boston (Aaa stable) in Plymouth County. The town is a coastal community bordering the Atlantic Ocean to the north and occupies a land area of 22.5 square miles and has a population of around 23,298 (2018 American Community Survey).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Detailed credit considerations

Acquisition of Hingham Water Company

The Hingham Water Company was established in 1879 and since then has been owned by a private company. Section 11 of the company's Massachusetts establishing Act allows the town to purchase all assets of the company at any time if approved by a two-third vote at Town Meeting. The company is currently owned by Aquarion Water Company of Massachusetts, which has been owned by Eversource Energy since 2017. The town began reviewing the potential purchase in 2012 that eventually led to litigation on the purchase price that began in July 2013 and concluded in April 2018. In April 2019, the town voted by more than two-thirds majority to exercise the right to purchase the company.

The bond proceeds of \$104.1 million will be used for the acquisition which is expected to close around July 31, 2020. The water system currently has 12,715 accounts with residential customers accounting for 95% of the accounts. The system also provides water to the neighboring towns of Hull and Cohasset, around 5,000 of the accounts. The system's water supply comes from groundwater aquifers currently using about 90% of state regulated capacity. Water loss is currently high at over 10% and the average life of the system water mains is around 66 years. The town has entered into a five-year contract with Suez Water Environmental Services, Inc. to operate the system. The contract has a five year renewal option as well.

Beginning in fiscal 2021, the town plans to hire a Water Superintendent (July 2020), establish a water system enterprise fund, and begin a capital study and rate structure study. The town's 10 year financial projections for the water system indicates the enterprise will be self-supporting, providing debt service coverage ranging from 1.19 to 1.28 times over the next five years (FY21-25). A 10% rate increase is planned for every three years with the last increase in fiscal 2019. Rates will not change in fiscal 2021. The projections are conservative including a 2% annual salary increase, 3% annual increase in operating expenses and 2.5% annual increase in the PILOT and property taxes to the member towns. The annual debt service on the 2020 water bonds is expected to be below \$6 million annually with level debt service and 30 year term. The annual water budget will include \$250 thousand for emergency repairs and \$2.7 million in cash funded capital improvements. Over the next two to three years there is transition risk related to the town acquiring the water enterprise. Although given the town's history of strong fiscal management both in general fund operations as well as the operations of the Hingham Electric Department (a component unit of the town), we feel the risk is low.

The town's ability for the water enterprise to eventually meet the Moody's definition of self-supporting debt (three consecutive years of net revenue providing at least 1 times debt service coverage) for the 2020 water bonds will be a key factor in future rating reviews and provide greater flexibility in the town's net direct debt burden for future debt plans. The water bonds are backed by the town's GO pledge and ultimately would be covered by the general fund if needed.

Economy and tax base: large and growing, affluent tax base

Hingham's tax base is a large \$7.4 billion in size (2019-20 equalized value) that is expected to see healthy growth over the next few years. Preliminary figures for the 2021-22 equalized value is a 7% increase. The town is primarily residential and the housing market is expected to remain strong even with the recent economic downturn given the town's coastal location and distance from Boston. Assessed value in 2020 increased by 5.1% bringing the five year compound annual growth rate to 5.1% as well. The top taxpayers are not concentrated at just 8% of total assessed value. The Hingham Shipyards marina and village does have a large retail presence which could be impacted by the economic downturn related to the coronavirus pandemic. There is also an Avalon apartments complex in the location as well. The top three employers - Blue Cross Blue Shield (health care), the Town of Hingham and Linden Ponds (health care) - to date have not announced any material layoffs or furloughs. Recent new development includes a new Dunkin Donuts, some small subdivisions and the redevelopment of the Settles Glass parcel into a mixed use building which would help link the downtown area with the harbor. There is also a 900-acre parcel in south Hingham that has large tracts available for commercial and industrial development.

The town is affluent with resident wealth and income levels well above state and national medians. The median family income is equal to 256% of the US median and the 2020 equalized value per capita is a very strong \$321,276, reflecting the high home values. The median age for the town is elevated at 45.7 compared to 39.4 and 37.9 for the state and US, respectively. The April 2020 unemployment rate jumped to 10.1% from 2.2% compared to the prior year but still reflects the historical trend of holding below the state and US which were at 15.9% and 14.4%, respectively.

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts. Hingham is expected to be largely insulated from the initial economic impacts of the pandemic especially given the timing of assessed value certification. Any negative impact on the town's residential, commercial and industrial valuation will be evident over the next two to three years depending on how severe an impact on property values and any mitigating effects the strength of the town and region have on any declines.

Financial operations and reserves: Strong fiscal management expected to maintain healthy financial position over the next few years

The town's financial position is expected to remain stable over the next two years due to strong fiscal management and conservative policies. Annual operations in the past six years have produced year over year surpluses in the general fund. This trend along with the strength of the management team support our expectation that the establishment of a water enterprise fund will be a self-supporting operation. Additionally, the Hingham Light Department is a component unit of the town with a strong operating history as well.

Fiscal 2019 audited financial reports reflect an operating surplus of \$2.8 million due to positive variances in both revenue and expenses. The surplus increased the available general fund balance to \$37.2 million representing 31.6% of revenue. The town's largest revenue source is property taxes representing 71% of 2019 general fund revenue while state aid represents around 10% for operations (another 10% is for the state's on behalf of teacher pension contribution). The largest expense is education representing 46% of general fund expenses followed by public safety at 12%.

Fiscal 2020 year end operations are trending positive despite the decline in meals tax over the last quarter. Economically sensitive revenue is a very small revenue component and the coronavirus pandemic's impact over the last quarter of the fiscal year has been minimal. The town expects a general fund surplus of around \$1.5 million. Additionally, once the water system closes in early fiscal 2021, the general fund will be repaid \$1.9 million for a feasibility study and transition expenses from the enterprise.

The fiscal 2021 approved budget will increase by 1.37% compared to the prior year driven by contractual salary obligations and education costs. The budget is balanced with a 2.8% tax levy increase and a \$3.3 million use of free cash for capital needs. The free cash amount is covered by the prior year surplus and the \$1.9 million reimbursement from the new water enterprise. The town will also use \$178,836 from the stabilization reserve to offset the tax levy. The budget includes a 19.2% decrease in state aid funding which represents less than 10% of the operating budget, a 0.9% decrease in property tax collections based on a lookback of the impact of the Great Recession. The state has not finalized a fiscal 2021 budget to date and state aid funding for municipalities for education and general use is uncertain but the town's assumption seems to be a conservative approach.

LIQUIDITY

Cash and investments at the end of fiscal 2019 were \$40 million representing a healthy 33.9% of general fund revenue. The liquidity position at the end of fiscal 2020 is expected to be relatively unchanged from prior year audited results.

Debt, pension and OPEB liabilities: recent increase in debt burden is expected to be self-supporting while pension and OPEB liabilities remain manageable

Hingham's debt burden will rise to 2.1% of equalized value and 1.4 times general fund revenue when including the \$104.1 million 2020 water bonds. This is a material increase compared to the metrics of 0.9% and 0.6 times at the end of fiscal 2019. The median for Massachusetts Aaa rated communities is 1% of equalized value. Including the 2020 issuance the town will have \$164.6 million in debt outstanding including \$38.7 million related to school projects. The town is projecting the new water enterprise to be self supporting and the ability for the enterprise to cover the less than \$6 million in debt service annually will be an important credit factor in future reviews. The town's five year capital plan (FY21-25) includes annual capital needs averaging \$9.4 million with the tax levy and user charges funding the majority of costs. There are currently no large debt plans although a few projects are anticipated to be added in the next two to five years, including a public safety complex, renovation to the senior center, and a new elementary school building.

DEBT STRUCTURE

All debt is fixed rate with 78% of principal retired in 10 years. When accounting for the amortization of the water bonds, the amortization rate drops to below 50% within 10 years. Fiscal 2019 debt service was \$8.7 million representing 7.5% of general fund expenditures.

DEBT-RELATED DERIVATIVES

Hingham is not party to any swap agreements or other derivative products.

PENSIONS AND OPEB

Hingham's pension and OPEB liabilities are relatively equal to the debt burden and, though manageable at this time, represent a potential future credit challenge. The town participates in the Hingham Contributory Retirement System, a multi-employer defined benefit plan and makes annual required contributions based on at least its proportional share. The retirement plan is expected to be fully funded by 2035 and currently uses a 7.5% discount rate in which annual contributions increase by 6.5% annually. The town's teachers participate in the Massachusetts Teachers Retirement System in which the town receives on-behalf payments toward the liability that is covered by the Commonwealth. The town also funds its OPEB liability on a pay-go basis plus annual budgeted deposits into an OPEB trust. The table below summarizes the town's 2019 debt, pension and OPEB unfunded liabilities and contributions.

Exhibit 2

Hingham's fiscal 2019 debt, pension and OPEB unfunded liabilities and contributions

2019	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	118,042		
Reported Net Pension Liability	48,670	41.23%	7.50%
Moody's Adjusted Net Pension Liability	110,246	93.40%	4.22%
Reported Net OPEB Liability	68,777	58.26%	7.50%
Moody's Adjusted Net OPEB Liability	133,854	113.40%	3.51%
Pension Contribution	4,502	3.81%	-
Pension Tread Water Gap [1]	129	0.11%	-
OPEB Contribution	4,668	3.95%	-
Net Direct Debt	66,482	56.32%	-
Debt Service	8,704	7.37%	-
Total Fixed Costs	17,874	15.14%	-

[1] A positive pension tread water gap reflects a pension contribution smaller than the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A negative tread water gap reflects a contribution larger than the amount required to keep the unfunded liability from increasing if all assumptions are realized.

Source: Moody's Investors Service and Hingham's audited financial statements

The town's annual pension contributions over the past five years (2016-2019) have averaged a strong 185% of the tread water indicator which is the amount required to keep the unfunded liability from increasing if all actuarial assumptions are realized. Although, fiscal 2018 and 2019 contributions were more average at just under 100% of tread water. Failure to realize the assumed return on pension assets could result in larger required increases to meet the funding schedule. Additionally, the town makes sizeable annual contributions toward its OPEB liability which has a good fiduciary net position of 18.5% of the total OPEB liability. Fixed costs for debt service, pension contributions and retiree healthcare contributions are expected to remain manageable and below 20% of general fund revenue.

ESG considerations

Environmental considerations are not expected to be a primary credit driver over the medium term although as a coastal community the town does have exposure to sea level rise and storm events including hurricanes. Given this long term exposure, the town has recently been designated by the state as a municipal vulnerability preparedness community making it eligible for state grants to help plan for climate change resiliency initiatives. The town expects to develop a climate action plan in fiscal 2021. Other mitigation efforts include a multi-phased project to raise the height of wharf walls to protect against storm surge and flooding. The town is also partnering with neighboring towns of Hull and Cohasset to review land use and fiscal implications of climate mitigation projects.

Social factors are incorporated into the economy and tax base factors of the town including the recent economic impact related to the coronavirus pandemic referenced in previous sections of this Credit Opinion.

The town continues to adhere to conservative fiscal practices and formal policies that include multiyear financial and capital planning. The new water enterprise will be governed by the town select board and will have a citizens advisory board with Hull having two seats, Cohasset will have one seat and three seats for Hingham.

Massachusetts cities and towns have an Institutional Framework score of "Aa", which is strong. The sector's major revenue source of property taxes, are subject to the Proposition 2 1/2 tax levy cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, as well as education costs for cities and towns that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Hingham (Town of) MA		
Scorecard Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$7,942,261	Aa
Full Value Per Capita	\$340,899	Aaa
Median Family Income (% of US Median)	256.1%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	31.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	10.8%	Aa
Cash Balance as a % of Revenues	33.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	9.7%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Notching Factors: ^[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.1%	A
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.5%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available. [2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology. [3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: Moody's Investors Service and US Census Bureau

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