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To: Karen Johnson
Town of Hingham
From: Richard Tortora
Re: Institutionalizing Sound Management Policies and Procedures
Date: December 15, 2015

Following my telephone conversation with your committee on December 4th, I contacted credit analysts at each of the major credit rating agencies, namely Standard & Poor's Corporation, Moody's Investors Service and Fitch Ratings, to get their thoughts on "an unnamed local government's plan to institutionalize sound management practices and procedures". The analysts spoke generally about the importance of institutionalizing good management policies and procedures to ease the transition between different administrations and in changing economic conditions. As we discussed on the telephone, I strongly believe that providing Hingham's Town Administrator with the authority to act quickly and decisively on matters affecting the Town's finances, including debt issuance, could be critical to the Town's continued success in the capital markets. As you know, with its "triple, triple-A" credit ratings, Hingham is regarded as one of the strongest local credits in New England.

Standard & Poor's Corporations' **Financial Management Assessment** originally published in June 2006 and republished in October 2013 said the following:

"The rigor of a government's financial management practices is an important factor in Standard & Poor's Ratings Services analysis of that government's creditworthiness. Managerial decisions, policies, and practices apply directly to the government's financial position and operations, debt burden, and other key credit factors. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is a primary determinant of near-term changes in credit quality. Standard & Poor's will now offer a more transparent assessment of a government's financial practices as an integral part of our general obligation and appropriation credit rating process."

The article went on to say:

"Major elements of governmental financial management include economic analysis, revenue forecasting, risk management, accounting practices, financial strategies, cash and liquidity administration, and debt management. All of these elements have an impact on a government's bottom line, and, as a result, on its credit quality. If a government is unable or unwilling to employ its authority in a timely manner to address events that impact its budget and financial condition, its credit rating can be adversely affected."

"A Financial Management Assessment of 'strong' indicates that practices are strong, well embedded, and likely sustainable. The government maintains most best practices deemed critical to supporting credit quality and these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will be continued into the future and transcend changes in the operating environment or personnel."

Two years ago, Moody's Investors Service changed its credit rating criteria assigning new weights to the "Debt" and "Finances" factors that make up a credit rating while reducing the importance of "Economic and Demographic Factors" and expanding on the "Management" factor. In its **US Local Government General Obligation Bond Methodology** report published in August 2013, Moody's expanded "Management" to include "institutional framework". The report states:

"Both the legal structure of a local government and the practical environment in which it operates influence the government's ability to maintain a balanced budget, fund services and continue tapping resources from the local economy. The legal and practical framework surrounding a local government shapes its ability and flexibility to meet its responsibilities."

The report goes on to say:

"The interplay between legally dictated resources and responsibilities contributes to the stability of a local government's credit profile and its capacity to match revenues to expenditures over time. A local government with a stable institutional framework is less likely to face an abrupt change in its obligations without the corresponding ability to meet those obligations.'

Finally, Fitch Ratings, the third major credit rating agency to assign Hingham a "AAA" rating discusses the importance of strong management in its **Tax Supported Rating Criteria** report published in August 2012:

"Management policies, practices, and actions can influence the other major credit factors, affording strong ratings to entities with limited economic or financial resources, or weaker ratings to more diverse or affluent entities. Fitch's analysis of management encompasses both elected officials and appointed staff members. Fitch looks at the tenure and relevant experience of key officials."

As one of the most active independent municipal advisors in the country serving on over 400 financings in 2015, CMA works closely with each of the three rating agencies on a regular basis. During the course of our dealings with credit analysts, and other market participants including underwriters, we have seen that empowering a highly regarded, tenured chief administrative officer with the ability to make quick decisions can enable a jurisdiction to capitalize on opportunities that can be missed by less decisive communities. We know that institutionalizing sound management practices and procedures is viewed with favor by rating analysts and investors alike as a means of providing continuity and stability during volatile economic times.

We hope that the foregoing is helpful. Please contact me if CMA can be of further assistance on this or related matters.