

Hingham, MA

S&P Local Government Report

S&P Global Ratings has assigned its 'AAA' long-term rating and stable outlook to the town of Hingham, Mass.' general obligation (GO) refunding bonds.

At the same time we affirmed our 'AAA' rating, with a stable outlook, on the town's outstanding GO debt.

We rate the town higher than the nation because we believe it can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In fiscal 2015, local property taxes generated 75% of general fund revenue, which demonstrated a lack of dependence on central government revenue.

The bonds are secured by the town's full faith and credit GO pledge, subject to Proposition 2 ½ limitations. Proceeds for the bonds will be used to refund the town's 2007 and 2009 GO Municipal Purpose Loan bonds.

The rating is a reflection of the town's:

- 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 methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 46.1% of total governmental fund expenditures and 7.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.4% of expenditures and net direct debt that is 65.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Hingham's economy very strong. The town, with an estimated population of 22,809, is located in Plymouth County in the Boston-Cambridge-Newton, MA-NH MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 195% of the national level and per capita market value of \$270,742. Overall, the town's market value grew by 4.3% over the past year to \$6.2 billion in 2016. The county unemployment rate was 6.0% in 2014.

Hingham, MA

Located on the Boston Harbor, Hingham is an affluent, coastal community about 15 miles south of Boston. Although, primarily residential, the town maintains a diverse economy with commercial and industrial sectors in retail, healthcare, manufacturing, and bio-technology.

Recent projects happening within the town include a major road expansion near Derby Street Quarter – one of the area’s highest producing open-air malls. The road expansion will improve the main roadway, Derby St., near the town’s major industrial and commercial area. The cost of the project is estimated to be around \$10 million and will be funded entirely by the Massachusetts Department of Transportation (MassDOT).

In addition, the town is also working on a sewer solution in south Hingham, in preparation for numerous upcoming developments within the area; and the latest installment of the town’s shipyard renovation project, which will replace an old building with a new 190-unit apartment complex.

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.

Key management practices include detailed budgetary assumptions, consistent budget monitoring, and long-term planning. Management utilizes historical trends, as well as long-term financial forecasts when determining the town’s revenue and expenditure assumptions. Budget-to-actual performance is reviewed and reported monthly to the Board, and updates to the budget are done as needed during town meetings. The town maintains a five-year capital improvement plan (CIP) outlining specific projects and its funding sources. The town also keeps a long-term financial plan forecasting five years of revenues and expenditures based on straight line assumptions.

Financial policies for the town include a formal investment policy, debt management policy, and reserve policy. The town has adopted state guidelines for their investment management policy, and reports investment holdings quarterly to the Board. The town’s debt policy states that annual debt service should not exceed 7.5% of total expenditures. As for reserves, the town’s policy sets an unassigned fund balance target of 16-20% of expenditures.

Strong budgetary performance

Hingham's budgetary performance is strong in our opinion. The town had surplus operating results in the general fund of 2.1% of expenditures, and slight surplus results across all governmental funds of 0.7% in fiscal 2015.

Fiscal 2015 ended with an operating surplus of approximately \$1.7 million. Management cites a strong performance in local receipts, such as motor vehicle excise tax and meals tax, as a major contributing factor in the 2015 operating surplus. Additionally, management reports an approximate \$1.5 million turned back from departments due to costs coming in under budget.

Hingham, MA

For fiscal 2016, management indicates that revenues and expenditures are performing on target with budgeted expectations. The town expects to end the year with break-even results.

Looking ahead to fiscal 2017, management reports a tighter budget due to an unexpected 15% increase to health insurance costs. However, they are confident that they will be able to manage the cost with the standard 2.5% tax levy increase, as well as restricting spending.

Very strong budgetary flexibility

Hingham's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 30% of operating expenditures, or \$28.7 million.

The town has consistently maintained a healthy fund balance with steady increases each year. According to management, the town grew its reserves by keeping tight controls on spending, with only minimal increases to expenditures for several years, and by focusing on increasing revenues instead of relying on using fund balance reserves. In fiscal 2015, management reports that for the first time, the unassigned fund balance exceeded the town's reserve policy target of 20% of all expenditures. Management expects to utilize some of the excess reserves; however, they plan to keep the unassigned funds above 20%. With continued careful budgeting and a conscious effort to grow the town's reserves, we expect Hingham's flexibility to remain very strong.

Very strong liquidity

In our opinion, Hingham's liquidity is very strong, with total government available cash at 46.1% of total governmental fund expenditures and 7.2x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Hingham's liquidity profile is expected to remain very strong as there is no anticipation of any significant deterioration of cash balances. The town also maintains strong access to external liquidity by frequently issuing debt for any capital project needs. Additionally, we note that Hingham does not have any variable rate debt or direct purchase debt, reducing the town's exposure to any contingent liquidity risks.

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 6.4% of total governmental fund expenditures, and net direct debt is 65.1% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, and approximately 67.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Including this issuance, Hingham has approximately \$85 million in total direct debt. The town also anticipates issuing approximately \$11 million of additional debt within the next two years. Of that amount, \$7 million will be for a Community Preservation Act (CPA) project and will be funded through the CPA, and the remainder is for land acquisition and road reconstruction.

Hingham, MA

Furthermore, we note that Hingham has recently received a court decision regarding the town's proposed acquisition of the Aquarion Water Company. According to management, the initial purchase price proposed by the town was \$60 million; however, the town may consider up to \$80-90 million. The town is still currently evaluating the terms and will not move forward with the purchase unless it is confident the system will be completely self-supporting.

Hingham's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.6% of total governmental fund expenditures in 2016. Of that amount, 3.7% represented required contributions to pension obligations, and 4.0% represented OPEB payments. The town made its full annual required pension contribution in 2016.

The town participates in the Hingham Contributory Retirement System, and provides OPEB on a pay-as-you-go basis. As of January 2014, the town's pension was 69.8% funded, with an unfunded actuarial liability of approximately \$38 million. The unfunded actuarial liability for the town's OPEB was approximately \$50.4 million, as of June 2014. The town currently has an OPEB Trust Fund in place which had a balance of \$7.2 million at the end of fiscal of 2015.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects Hingham's overall financial and managerial strengths, supported further by its wealthy and diverse economy. We do not expect the rating to change within our two-year outlook period. However, we could lower the rating if operating performance weakens, leading to reserves falling below 15% of expenditures, and if the town fails to adhere to current management practices and financial policies. Additionally, if the town's debt and contingent liabilities were to increase due to rising fixed costs or issuance of debt that is not self-supporting, it could also negatively impact the rating.