

RatingsDirect®

Summary:

Hamilton, Massachusetts; General Obligation; Note

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Credit Profile

US\$5.331 mil GO BANs dtd 05/23/2014 due 05/22/2015

Short Term Rating

SP-1+

New

US\$0.0 mil ICR due 05/08/2099

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Hamilton, Mass.' general obligation (GO) bond anticipation notes (BANs).

At the same time, Standard & Poor's assigned its 'AAA' issuer credit rating (ICR) and stable outlook on the town based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect.

A pledge of the town's full-faith-and-credit secures the BANs, scheduled to mature on May 24, 2015. The town is issuing the BANs pursuant to a \$5 million bond authorization for water purposes with \$2 million toward the landfill's closure.

The short-term rating reflects our assessment of the application of our criteria for evaluating and rating BANs. In our view, the town maintains a very strong capacity to pay principal and interest when the notes come due. The town has a low market-risk profile since it maintains, what we regard as, strong legal authority to issue long-term debt to take out the notes and because it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The ICR reflects our opinion of the following factors for the town, specifically its:

- Very strong economy, which benefits from participation in the broad and diverse Boston-Cambridge-Newton metropolitan statistical area (MSA);
- Strong budgetary flexibility with fiscal 2013 audited reserves of 14% of general fund expenditures and no plans to draw them down materially;
- Strong budgetary performance due to careful budgeting, accurate revenue forecasting, and stable revenue profile;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Strong management conditions with good financial policies; and
- Very strong debt and contingent liabilities position.

Very strong economy

We consider Hamilton's economy very strong with participation in the broad and diverse Boston-Cambridge-Newton MSA. The town is an affluent residential community approximately 24 miles north of Boston. With a population estimate of 7,900, residents benefit from participation in the broad and diverse Boston-Cambridge-Newton MSA,

which we view as a credit strength. Hamilton is in Essex County. County unemployment was 7.5% in 2013. Projected per capita effective buying income is 161% of the national level. Market value is \$163,000 per capita for fiscal 2014.

Assessed value (AV) is 94% residential. As with many local and national communities, Hamilton experienced an AV decrease due to the recession. Recent AV, however, has been relatively stable. In fiscal 2014, total AV is \$1.3 billion, about a 0.9% increase compared with fiscal 2013 AV.

In our view, recovery in the broader New England residential real estate market has shown improvement; our data suggest median home prices regionwide have strengthened. We believe there are signs of local property value stabilizing and regional economic development gaining traction, which we think should cater to a stable budgetary environment.

Strong budgetary flexibility

In our opinion, budgetary flexibility is strong. According to management, it does not plan to spend down reserves. Hamilton closed fiscal 2013 with an unassigned general fund balance of \$3.3 million and an assigned general fund balance of \$198,000. Total reserves were 14.3% of expenditures. Officials expect a general fund surplus for fiscal 2014; officials report they will not appropriate reserves in the fiscal 2015 budget for ongoing operations.

Strong budgetary performance

In our view, overall budgetary performance has been strong with a surplus of 2.6% for the general fund in fiscal 2013 and a surplus of 6% for total governmental funds. Despite a challenging revenue environment over the past several fiscal years, Hamilton's operations have remained, what we view as, positive. We believe a renewed focus on, what we regard as, conservative budgeting and an improving economy has catered to a stable budgetary environment.

For fiscal 2014, officials are projecting a budgetary surplus since revenue is slightly ahead of estimates. Currently, we expect operating performance to remain in-line with years past; we, however, acknowledge there will be budgeting challenges due to increasing costs that will test management. We believe a recovery in local fees and taxes due to an improving economy and proactive budget management will likely allow for stable operations. We also believe Hamilton maintains a stable and predictable revenue profile that is largely independent of commonwealth and federal revenue. Property taxes generate 88% of general fund revenue, and we consider collections strong and stable.

Based on our macroeconomic forecasts, (please see the article, titled "U.S. State And Local Government Credit Conditions Forecast, April 7, 2014," published April 7, 2014, on RatingsDirect), credit conditions in New England remain stable, which should translate to ancillary revenue and taxable levy growth coming in as expected. In our view, however, management will need to remain proactive to ensure spending remains in-line with revenue.

Very strong liquidity

Supporting Hamilton's finances is liquidity we consider very strong with total government available cash of 16.9% of total governmental funds expenditures and 586% of debt service. We believe the town has strong access to external liquidity.

Strong management conditions

We view Hamilton's management conditions as strong with "good" financial management practices under our Financial Management Assessment methodology, indicating that financial practices exist in most areas but that

governance officials might not formalize or regularly monitor all of them. The town conducts trend analysis for local revenue sources, and management regularly completes budget-to-actual reports that it presents to the town's board of selectmen quarterly. Hamilton incorporates a five-year capital improvement plan, with funding sources tied to each project, into the budget process. Management also performs three-year budget forecasts as a tool to make revenue and expenditure decisions. Hamilton follows commonwealth guidelines with its investments, and it submits reports to the town's selectman yearly. Hamilton's written reserve policy calls for the maintenance of 5% of the revenue budget as fund balance and 5% of expenditures in the stabilization account.

Very strong debt and contingent liabilities profile

In our opinion, Hamilton's debt and contingent liabilities profile is very strong. Following this bond issuance, the town will have roughly \$12 million of total direct debt outstanding, roughly \$5.3 million of which are BANs. Net direct debt is 39.9% of total governmental funds revenue, and debt service is 2.9% of total governmental funds expenditures. Overall net debt is, in our view, a low 1.3% of market value, bolstering our view of the town's debt. Furthermore, we consider principal debt amortization rapid with officials planning to retire 87% over 10 years.

In our view, Hamilton's pension and other postemployment benefits (OPEB) liabilities are currently manageable. The combined pension and OPEB cost accounts for 3.3% of total governmental funds expenditures. The town participates in the Essex County retirement system, and it contributes 100% of the required amount. In fiscal 2014, Hamilton paid \$671,000, or about 2.6% of expenditures. As of Jan. 1, 2013, the system, as a whole, was 52% funded. While pension costs are manageable due to the county retirement system's below-average funded ratio, we believe this will likely remain a growing cost over the next few years. Hamilton provides OPEB to retirees. As of the last actuarial valuation, the town reported a \$5.5 million OPEB liability. Hamilton funds OPEB through pay-as-you-go financing; fiscal 2013 OPEB contributions totaled \$78,650. The town established an OPEB stabilization fund with a current balance of \$108,720.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts towns strong.

Outlook

The stable outlook on the ICR reflects Standard & Poor's opinion of Hamilton's strong management and economy. We do not expect to change the rating within the next two years because we believe Hamilton will likely maintain, what we consider, strong reserves and balanced operations. In addition, we expect Hamilton to maintain, what we consider, its very strong debt and contingent liabilities profile because there are no sizable long-term capital needs.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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