

Summary:

Hamilton, Massachusetts; General Obligation

Credit Profile

US\$7.142 mil GO mun purp loan bnds ser 2015 due 05/15/2035

<i>Long Term Rating</i>	AAA/Stable	New
Hamilton ICR		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating and stable outlook to the town of Hamilton, Mass.' general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating, with a stable outlook, on the town's GO debt outstanding. The town's full faith and credit pledge secures the bonds.

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

- Very strong economy, which benefits from participation in the broad and diverse Boston-Cambridge-Newton metropolitan statistical area (MSA);
- Strong budgetary performance due to careful budgeting, accurate revenue forecasting, and stable revenue profile;
- Very strong budgetary flexibility, with fiscal 2014 audited reserves of 14.5% of general fund expenditures and no plans to draw them down materially;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Strong management conditions with good financial policies;
- Very strong debt and contingent liabilities position; and
- Strong institutional framework.

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 8,000; 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 6% in 2014. Projected per capita effective buying income is 163% of the national level. Market value is \$170,986 per capita for fiscal 2015.

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 2015, total AV is \$1.365 billion, about a 4.7% increase compared with fiscal 2014 AV. Several private residential developments are under construction or in the permitting phase, which management says will enhance the diversity of the town's housing stock, including an aged 55+ community and a 30-acre tract of land designed with moderately priced homes.

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 performance

In our view, overall budgetary performance has been strong with a surplus of 3.8% for the general fund in fiscal 2014 and a surplus of 1.7% 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 conservative budgeting and an improving economy has catered to a stable budgetary environment.

For fiscal 2015, officials are projecting a budgetary deficit due to higher-than-anticipated snow and ice removal costs. Town officials are permitted to amortize this deficit, and may do so, depending on if Hamilton is successful in recovering any money from the state and federal government to pay for costs associated with an unusually severe winter. Despite a deficit of as much as \$150,000 in 2015, we expect operating performance to remain stable based on historical trends of proactive budget management and anticipated economic growth. We also believe Hamilton maintains a stable and predictable revenue profile that is largely independent of commonwealth and federal revenue. Property taxes generate 89% of general fund revenue, and we consider collections strong and stable.

Very strong budgetary flexibility

In our opinion, budgetary flexibility is very strong. According to management, it does not plan to spend down reserves. Hamilton closed fiscal 2014 with an available general fund balance of \$3.6 million. Total reserves were 14.5% of expenditures. Officials expect a general fund deficit for fiscal 2015, but we do not expect this to have a material impact on the available fund balance. Hamilton's budgetary flexibility is further supported by an estimated \$2.4 million in unused levy capacity.

Very strong liquidity

Supporting Hamilton's finances is liquidity we consider very strong, with total government available cash of 19.2% of total governmental funds expenditures and 7x 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 maintains a seven-year capital improvement plan, which it updates annually. 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 selectmen yearly. The town's written reserve policy calls for the maintenance of 5% of the revenue budget for the 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 completely retire its bond anticipation notes and have about \$13 million of total direct debt outstanding. Net direct

debt is 25.9% of total governmental funds revenue, and debt service is 2.7% of total governmental funds expenditures. Overall net debt is, in our view, a low 1% of market value, bolstering our view of the town's debt. Furthermore, we consider principal debt amortization rapid with officials planning to retire 69% over 10 years. Hamilton's medium-term debt plans are limited. Management reports an estimated \$30 million in anticipated improvements to the town's water system over the next 15 years, but has proactively raised water rates to cover projected debt service.

In our view, Hamilton's pension and other postemployment benefits (OPEB) liabilities are currently manageable. The combined pension and OPEB cost accounts for 3.4% of total governmental funds expenditures. The town participates in the Essex County retirement system, and it contributes 100% of the required amount. In fiscal 2015, Hamilton paid \$718,000, or about 3% of expenditures. As of Jan. 1, 2013, the system, as a whole, was 50.7% 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. Contribution rates for the 47 participating entities are expected to double over the next 10-12 years so that the system is 100% funded by 2036. Although we believe Hamilton should be able to absorb this additional cost as current payments represent a small portion of the town's annual operating budget, should required contributions be larger than expected or should other operating pressures limit the ability to absorb these increases, this could become a source of pressure. Hamilton provides OPEB to retirees. As of the last actuarial valuation, the town reported a \$5.6 million OPEB liability. Hamilton funds OPEB through pay-as-you-go financing; fiscal 2014 OPEB contributions totaled \$171,283. The town established an OPEB stabilization fund with a current balance of \$110,324.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts towns strong.

Outlook

The stable outlook 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 sustain its very strong debt and contingent liabilities profile due to limited long-term capital needs.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions,

Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.