

RatingsDirect®

Summary:

Hamilton, Massachusetts; General Obligation

Primary Credit Analyst:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@spglobal.com

Secondary Contact:

Christina Marin, Boston 617-530-8312; christina.marin@spglobal.com

Table Of Contents

Rationale

Outlook

Related Research

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Credit Profile

US\$3.344 mil GO mun purp loan bnds ser 2017 due 03/15/2037

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

Rationale

S&P Global Ratings assigned its 'AAA' rating to Hamilton, Mass.' series 2017 general obligation (GO) municipal purpose bonds and affirmed its 'AAA' rating on the town's existing GO debt. We also affirmed our 'AAA' issuer credit rating (ICR) on Hamilton. The outlook is stable.

Hamilton's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The town's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the town. The institutional framework in the nation is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Hamilton has considerable financial flexibility and its primary revenues are locally derived. The town also has very high general fund balance as a percent of expenditures, as well as very strong liquidity.

The town's faith-and-credit pledge, subject to the limitations of Proposition 2-1/2, secures the bonds. Despite the limitations imposed by the state levy limit law, we did not make a rating distinction for the limited-tax GO pledge given the town's reserves and budgetary flexibility under the levy cap.

Officials intend to use series 2017 bond proceeds to fund land acquisition and water purposes.

The rating reflects our opinion 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 (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2016, which closed with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 18% of operating expenditures, and

the flexibility to raise additional revenues despite statewide tax caps;

- Very strong liquidity, with total government available cash at 19.5% of total governmental fund expenditures and 7.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.8% of expenditures and net direct debt that is 32.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 72.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Hamilton's economy very strong. The town, with an estimated population of 8,292, is in Essex County on the North Shore of Massachusetts, approximately 24 miles north of Boston. It is in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 173% of the national level and per capita market value of \$180,531. Overall, market value grew by 4.3% over the past year to \$1.5 billion in 2017. The county unemployment rate was 5.2% in 2015.

The town's close proximity to the Atlantic seashore provides easy access to beaches and coastal reservations.

The town is primarily residential with residential properties accounting for 95.1% of the property tax base in fiscal 2017. Assessed value for the town continues to grow with several private residential developments under construction or in the permitting phase.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The town incorporates historical trend analysis into its conservative budgeting practices. Hamilton maintains strong practices in budgetary control with bimonthly budget monitoring and quarterly budget-to-actual reports presented to the board of selectmen and finance committee. The town maintains a multiyear long-term financial plan and a five-year rolling capital improvement plan, with funding sources identified. It does not have formal debt management or investment management policies. However, monthly bank reports are received by the treasurer but only provided to the board annually. The town's reserve policy requires the general fund balance to be maintained at a minimum balance of 5% of the annual combined revenue budget.

Strong budgetary performance

Hamilton's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 2.1% of expenditures, but a slight deficit result across all governmental funds of negative 0.6% in fiscal 2016.

In our analysis of budgetary performance, we net out approximately \$866,000 in expenditures that were paid by bonds and notes in the capital projects fund. In measuring total governmental funds' performance, we also account for recurring transfers into the general fund from enterprise funds.

The positive operating result in 2016 was a result of conservatively estimating expenditures and revenues that outperformed budget. Town officials are expecting stable budgetary results in 2017 as expenditures have been within budget and revenues have remained on target. Although town departments have just begun the 2018 budget process,

officials anticipate similar operating performance as in years past.

With Hamilton's property tax levy accounting for more than 75% of total revenue, the town benefits from property tax base diversity and strength. In our opinion, tax collections have historically remained strong; current collections have averaged 99% over the past five years. Including delinquent-tax collections for the previous year, the town has exceeded 100% of its tax levy.

We expect strong budgetary performance over the next few years because the budgetary environment is stable. Looking ahead, however, we believe future pensions costs will remain a budgetary pressure given the low funded ratio of the county-administered plan. We note management is actively managing these liabilities and making adjustments when needed. Hamilton is funding the actuarially determined contributions (ADCs), and prefunding a modest amount into other postemployment benefit liabilities (OPEBs). We believe these liabilities may strain future operations, particularly if economic or business conditions worsen and actuary assumptions are not met, revised, or found to be inadequate at the county level.

Very strong budgetary flexibility

Hamilton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 18% of operating expenditures, or \$4.9 million. In addition, the town has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

The town maintains a policy for keeping its general fund balance at a minimum of 5% of the annual combined revenue budget. It has well exceeded the target. As mentioned, we anticipate Hamilton maintaining strong budgetary performance. The town also maintains a sizable unused levy capacity nearing \$2.1 million, which allows it to raise the levy above the levy limitations without voter approval.

Very strong liquidity

In our opinion, Hamilton's liquidity is very strong, with total government available cash at 19.5% of total governmental fund expenditures and 7.1x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

Hamilton's liquidity profile is expected to remain very strong as there is no expectation 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. In addition, we note Hamilton is not aggressive with its use of investments. It does not currently have any variable-rate or direct-purchase debt, reducing its exposure to any contingent liquidity risks.

Very strong debt and contingent liability profile

In our view, Hamilton's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.8% of total governmental fund expenditures, and net direct debt is 32.5% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 72.6% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, Hamilton will have approximately \$15.1 million in total direct debt. The town does not expect any additional debt within the next two years. However, we note that our view of its debt profile could further weaken should future debt issuances cause its 10-year amortization schedule to fall below 65%.

Hamilton's combined required pension and actual OPEB contributions totaled 3.1% of total governmental fund expenditures in 2016. Of that amount, 2.4% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The town made its full annual required pension contribution in 2016.

The town participates in the Essex Regional Retirement System. Its required pension contribution is its ADC, which is calculated at the commonwealth level, based on an actuary study. The pension is currently funded at 52.3%, using the plan's fiduciary net position as a percent of the total pension liability. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the town's proportionate share of the net pension liability was \$9.5 million.

Hamilton also offers OPEBs to retirees, which it funds on a pay-as-you-go basis. Based on the most recent actuarial valuation completed, as of July 1, 2015, the unfunded actuarial accrued liability was \$5.9 million. The town currently has an OPEB stabilization fund in place with a balance of \$172,488 at fiscal year-end 2016. Management has budgeted for \$50,000 toward the fund in fiscal 2017; it expects to continue to add \$50,000-\$75,000 each year until the obligation is fully funded.

Currently, we believe the town's pension and OPEB costs are manageable; however, due to the county retirement system's below-average funded ratio, we believe this will likely remain a growing challenge.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Hamilton will likely sustain its very healthy reserves due to its strong management practices and conservative operating profile. We believe the town's growing economy provides additional underlying strength. Therefore, we do not expect to change the rating within our two-year outlook period. However, we could lower the rating if costs associated with long-term liabilities begin to weaken budgetary performance, leading to a sustained deterioration of reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box

located in the left column.