

Summary:

Hamilton, Massachusetts; General Obligation

Credit Profile

US\$2.765 mil GO rfdg bnds ser 2016 due 09/15/2025

<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 and stable outlook to Hamilton, Mass.' series 2016 general obligation (GO) refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

S&P Global Ratings also affirmed its 'AAA' issuer credit rating (ICR), with a stable outlook, on Hamilton.

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, as demonstrated by the very high general fund balance as a percent of expenditures, as well as very strong liquidity.

Hamilton's full-faith-and-credit-GO pledge secures the bonds. Officials intend to use series 2016 bond proceeds to refund the town's September 2005 GO bonds.

The following factors for the town were considered when determining the rating:

- 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;
- Adequate budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 13% of operating expenditures, and the flexibility to raise additional revenue despite statewide tax caps;
- Very strong liquidity, with total government available cash at 16.4% of total governmental fund expenditures and 6.8x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 2.4% of expenditures and net direct debt that is 21% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.4% of debt scheduled to be retired within 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 located in Essex County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 172% of the national level and per capita market value of \$173,048. Overall, the town's market value grew by 5.1% over the past year to \$1.4 billion in 2016. The county unemployment rate was 5.2% in 2015.

Hamilton is a suburban community located on the North Shore of Massachusetts, approximately 24 miles north of Boston. 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 Hamilton's property tax base in fiscal 2016. Assessed value for the town continues to grow with several private residential developments under construction or in the permitting phase. In addition, the town recently approved a contract allowing for the construction of two cell towers.

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 three-year, long-term financial plan and a seven-year rolling capital improvement plan. The town 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.

Adequate budgetary performance

Hamilton's budgetary performance is adequate in our opinion. The town had operating deficits of 3.3% of expenditures in the general fund and 2.1% of expenditures across all governmental funds in fiscal 2015.

Management attributes the operating deficit in fiscal 2015 mainly to the use of reserves for capital projects. Approximately \$1.7 million of reserves were used to fund one-time capital expenditures during fiscal 2015. Fiscal 2015 still performed better than expected with a budgetary surplus of more than \$1 million. Revenue exceeded budgeted estimates while expenditures were less than budgeted estimates.

According to management, fiscal 2016 is performing in-line with the budget. Management expects a budgetary surplus of about \$600,000. For fiscal 2017, the town is working on budgeting for health care costs and managing controllable

expenses. Management reports an approximate \$100,000 in health care savings expected in fiscal 2017. Despite the operating deficit of fiscal 2015, we expect budgetary performance for Hamilton to remain stable based on previous operating performances and practical budget management.

Very strong budgetary flexibility

Hamilton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 13% of operating expenditures, or \$3.5 million. In addition, the town has the flexibility to raise additional revenue 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. The town has well exceeded the target with total general fund balance at fiscal year-end 2015 at approximately 15% of the annual revenue budget. Management does not expect to increase the balance, but it instead would like to maintain it closer to the minimum 5% level.

Very strong liquidity

In our opinion, Hamilton's liquidity is very strong, with total government available cash at 16.4% of total governmental fund expenditures and 6.8x governmental debt service in 2015. 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 the town's 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 2.4% of total governmental fund expenditures, and net direct debt is 21% of total governmental fund revenue. Overall net debt is low at 0.8% of market value, and approximately 65.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this issuance, the town will have approximately \$11.7 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 the town's debt profile could further weaken should future debt issuances cause its 10-year amortization schedule to fall below 65%. Currently, the town maintains a 10-year amortization rate of 70%.

Hamilton's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 3.1% of total governmental fund expenditures in fiscal 2016. Of that amount, 2.5% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2016.

The town participates in the Essex Regional Retirement System. The town's required pension contribution is its actuarially determined contribution, which is calculated at the commonwealth level, based on an actuary study. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the town's net pension liability was measured as of Jan. 1, 2014, and was \$348.7 million. The pension is currently

funded at 52.3%, using the plan's fiduciary net position as a percent of the total pension liability. For additional details on GASB Nos. 67 and 68, please see the report, titled "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect.

Hamilton also offers OPEB 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 \$143,572 at fiscal year-end 2015. 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 the town's 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 operating performance were to weaken, leading to reserves falling below 8% of expenditures, or if the town were to fail to adhere to current management practices and financial policies.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,