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Ratings

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Summary:

Hamilton, Massachusetts; General Obligation

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Credit Profile		
US$4.155 mil GO mun purp loan of 2019 bnds due 11/01/2039		
Long Term Rating	AAA/Stable	New
Hamilton ICR		
Long Term Rating	AAA/Stable	Affirmed
Hamilton GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the Town of Hamilton, Mass.' issue of general obligation (GO) municipal purpose loan of 2019 bonds. S&P Global Ratings also affirmed its 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds, subject to the limits of Proposition 2 1/2, and is therefore a limited-tax GO. We rate the limited tax based on the application of the "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Jan. 22, 2018). Towns have the power to levy ad valorem taxes on all the property within their respective territorial limits, subject to the limits of Proposition 2 1/2. However, due to Hamilton's revenue-raising ability, we have not made a rating distinction between the limited and unlimited nature of the pledge. A portion of the town's existing GO debt is excluded from the limits of Proposition 2 1/2.

Proceeds of the bonds will be used for various capital projects, including roadway improvements and replacement of the water distribution system.

We view Hamilton as a desirable, affluent community with a strong economy, supported by a wealthy property tax base and high household incomes, with access to the Boston metropolitan statistical area (MSA). In our opinion, these factors, along with stable financial operations and very strong management, including comprehensive policies and practices, support the 'AAA' rating. Although we think long-term retirement liabilities and costs could pressure the budget, we expect Hamilton will likely manage these costs prudently.

We rate Hamilton higher than the sovereign, because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario, due to 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 2019, local property taxes generated 89.6% of general fund revenue, demonstrating a lack of dependence on central government revenue. (See "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

The rating reflects our opinion of Hamilton's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 15% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 18.1% of total governmental fund expenditures and 5.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.2% of expenditures and net direct debt that is 29.7% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 68.5% 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 8,521, 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 $195,953. Overall, the town's market value grew by 5.8% in 2018, to $1.7 billion in 2019. The county unemployment rate was 3.4% in 2018.

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

Hamilton is primarily residential, with residential properties accounting for 95.3% of the property tax base in fiscal 2019. Assessed value for the town continues to grow, with several private residential developments, including a 55+ community, under construction or in the permitting phase.

The 10 leading taxpayers account for 4.3% of the tax base, indicating a diverse tax base. In our opinion, we believe Hamilton will see modest growth in the tax base over time, and this, combined with very strong tax collection rates at 99%, will contribute to ongoing revenue stability for the town, particularly as it absorbs higher debt, pension, and other postemployment benefit (OPEB) costs.

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. The town's reserve policy requires the general fund balance to be maintained at 8%-12% of the annual combined revenue budget. It does not have investment management policies. Monthly bank reports are received by the treasurer, but only provided to the board annually. Officials indicated that the town also works with a cyber-security consultant and has installed several protections on all of their computers. The town has a draft debt management policy that is awaiting approval from the board of selectmen. This policy limits total debt service, including debt exclusions and any self-supporting debt, to 10% of general fund revenues, with a target balance of 5%-7%. Pending approval and implementation of and adherence to draft debt management policy, we could improve our view of our financial management assessment.

Strong budgetary performance Hamilton's budgetary performance is strong, in our opinion. The town had balanced operating results in the general fund of 0.3% of expenditures, and slight surplus results across all governmental funds of 0.8% in fiscal 2018.

Our calculation of the town's performance includes adjustments for recurring transfers and capital spending paid for with bond proceeds.

According to management, the 2018 result was primarily attributed to higher-than-budgeted revenue, including building over-budget motor vehicle excise and other local receipts. On the expense side, the town experienced savings across its budget as a result of departmental turnbacks. Officials indicate the town ended fiscal 2019 with a general fund surplus of about $1.2 million, primarily due to departmental turnbacks, higher-than-budgeted local receipts, and employee turnover. For fiscal 2020, management noted that the budget is relatively the same as previous years and contains no significant structural changes.

With Hamilton's property tax levy accounting for more than 90% of general fund revenue, the town benefits from property tax base diversity and strength. In our opinion, tax collections have historically remained strong, with current collections averaging 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 OPEB liabilities. 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 2018 of 15% of operating expenditures, or $4.4 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 limiting its general fund balance to 8%-12% of the annual combined revenue budget, to which it has historically adhered. We anticipate that Hamilton will maintain strong budgetary performance. The town also maintains a sizable unused levy capacity nearing $2 million, roughly 8% of the tax levy, 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 18.1% of total governmental fund expenditures and 5.7x governmental debt service in 2018. In our view, the town has strong access to external liquidity, if necessary.

We expect Hamilton's liquidity profile 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 3.2% of total governmental fund expenditures and net direct debt is 29.7% of total governmental fund revenue. Overall net debt is low, at 0.6% of market value, and approximately 68.5% of the direct debt is scheduled to be repaid within 10 years, and in our view these are positive credit factors.

Following this issuance, Hamilton will have approximately $14.8 million in total direct debt. Next fall the town expects to issue $1.2 million in new money debt for water-related projects. We do not anticipate this will materially affect the debt profile. Additionally, the town is considering a $9.3 million issuance for renovations to the town hall, but officials indicate that this will likely occur outside of our outlook period. We could revise our view of the town's debt profile if they were to issue more than anticipated or if both projects occur during our outlook period.

Hamilton's combined required pension and actual OPEB contributions totaled 3.8% of total governmental fund expenditures in 2018. Of that amount, 2.6% represented required contributions to pension obligations and 1.2% represented OPEB payments. The town made its full annual required pension contribution in 2018.

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 55.4%, using the plan's fiduciary net position as a percent of the total pension liability. The discount rate is 7.5%, which we consider higher than average. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 67, the town's proportionate share of the net pension liability was approximately $9 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, 2017, the total OPEB liability was $7.8 million. The town currently has an OPEB stabilization fund in place, with a balance of $521,000 at fiscal year-end 2019. Management has budgeted $125,000 toward the fund in fiscal 2020, and expects to continue to add at least $125,000 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 as a result of 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 costs associated with long-term liabilities begin to weaken budgetary performance, leading to a sustained deterioration of reserves.

Related Research

- 2019 Update Of Institutional Framework For U.S. Local Governments
- 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