

## CREDIT OPINION

13 June 2016

New Issue

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## Hanover (Town of) MA

New Issue - Moody's Assigns Aa2 to Hanover MA's \$14.5M GO Ref. Bonds and MIG 1 to \$1.4M GO BANs

### Summary Rating Rationale

Moody's Investors Service has assigned a MIG 1 rating to the Town of Hanover's (MA) \$1.4 million General Obligation Bond Anticipation Notes (BANS, dated June 24, 2016 and payable June 23, 2017) and Aa2 long-term rating to \$14.5 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa2 rating on \$45.6 million in outstanding general obligation debt.

The Aa2 rating reflects the stable financial position with adequate reserves, sizable tax base with favorable wealth levels and an above-average but manageable debt burden.

The MIG 1 rating incorporates the town's long-term credit strength, satisfactory refinancing risk and strong liquidity.

### Credit Strengths

- » Favorable wealth and income levels
- » Solid reserve and liquidity levels

### Credit Challenges

- » Moderate debt and pension liability
- » Limited revenue raising flexibility due to Proposition 2 ½

### Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

### Factors that Could Lead to an Upgrade

- » Significant tax base expansion
- » Large reduction in the debt burden
- » Increase in available reserves

## Factors that Could Lead to a Downgrade

- » Material increase in the debt burden
- » Multi-year trend of operating imbalance resulting in the decline in reserves
- » Significant decline in the tax base and demographic profile

## Key Indicators

Exhibit 1

Hanover (Town of) MA	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 2,614,165	\$ 2,435,053	\$ 2,435,053	\$ 2,378,821	\$ 2,383,515
Full Value Per Capita	\$ 188,354	\$ 175,449	\$ 175,449	\$ 165,656	\$ 171,735
Median Family Income (% of US Median)	N/A	190.8%	190.8%	190.8%	190.8%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 50,854	\$ 54,155	\$ 55,087	\$ 57,225	\$ 54,793
Fund Balance as a % of Revenues	15.3%	16.8%	17.2%	16.1%	16.8%
Cash Balance as a % of Revenues	21.1%	21.6%	21.6%	21.0%	23.8%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 58,775	\$ 60,700	\$ 52,155	\$ 53,579	\$ 49,707
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	0.9x	0.9x	0.9x
Net Direct Debt / Full Value (%)	2.2%	2.5%	2.1%	2.3%	2.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.8x	0.9x	1.0x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.8%	2.1%	2.4%	2.0%

As of June 30 fiscal year-end

Full value = equalized value

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Moderate Tax Base Growth Expected As Wealth Levels Remain Strong

The town's \$2.4 billion tax base has recently stabilized and will experience modest growth over the medium term as the housing and commercial sectors continue to rebound from the recession. The town is primary residential (85% of 2016 assessed value) but does have a commercial presence primarily along Routes 3 and 53. Assessed value has seen increases of 5.1% and 2.8% in 2015 and 2016, respectively, bringing the five-year compound growth to 0.5%. New growth revenue continues to trend above the conservatively budgeted \$340,000 annually and we expect that to continue over the near term. New residential development includes new single family homes, 130 condo units and a 76-unit apartment complex. Additionally, the Hanover Mall and the University Sports Complex continue to have a regional attraction. Wealth and income levels continue to be well above average with median family income equal to 175% of the US median. The unemployment rate of 3.5% (February 2016) continues to trend below the commonwealth (4.7%) and US (5.2%).

### Financial Operations, Reserves and Liquidity: Stability Expected To Continue Through Conservative Budgeting

The town's financial position will remain stable over the near term given conservative fiscal management. The fiscal 2015 audited financials reflect an operating surplus of \$1.1 million attributable to strong local receipts including excise taxes and modest departmental turnbacks. The surplus helped to increase restricted reserves while the available General Fund balance (committed, assigned and unassigned) remained unchanged from 2014 at \$9.2 million or 16.8% of revenues. The available reserves includes \$923,337 of committed reserves towards an OPEB stabilization fund. If the town establishes an irrevocable trust, those funds would

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be transferred out of the General Fund and reserves would experience a decline. The primary revenue source is property taxes (70% of 2015 revenues) with strong history of collection rates of 99% within the current fiscal year.

The fiscal 2016 budget increased by 4.5% from the prior year driven in part by salaries and employee benefits. The budget was balanced with a 6% increase in the tax levy including debt exclusions. Operations through April are trending positive and year-end projections indicate an operating surplus.

The fiscal 2017 budget increased by just under 3% from 2016 and will be balanced with a tax levy of around 3.5%. As in the last two years, we expect the town to continue to operate and manage a structurally balanced budget with recurring revenues matching recurring expenditures without the use of free cash.

#### LIQUIDITY

Cash and investments at the end of fiscal 2015 represented \$13 million or a healthy 23.8% of revenues. The liquidity position provides just under 10 times coverage to the BANs outstanding should market access be a challenge at maturity.

#### Debt and Pensions: Above Average Debt Burden and Moderate Pension Liability To Remain Manageable

The town's net direct debt burden of 1.9% of 2016 equalized value will remain above average given future borrowing plans. We expect the burden to remain manageable given amortization of principal and plans for large portion to be excluded from Proposition 2 ½. The 2017 five-year capital plan totals \$46.6 million with 78% to be funded through debt financing. The primary factor to the larger debt burden is school related projects. The current plan includes a \$15 million school renovation.

#### DEBT STRUCTURE

The entire debt portfolio is fixed rate with 78% of principal retired in ten years. Fiscal 2015 debt service represented 9.4% of expenditures.

#### DEBT-RELATED DERIVATIVES

Hanover is not party to any derivative agreements.

#### PENSIONS AND OPEB

The town participates in the Plymouth County Retirement System, a multi-employer, defined benefit retirement plans administered by the County Retirement Board. The town continues to pay required contribution to the plan which was \$2.6 million in fiscal 2015, or 4.9% of General Fund expenditures. The town's 2015 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$46.8 million, or approximately 0.85 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the county-run plan in proportion to its contributions to the plan. The projected funding date for the plan is 2032.

The town also makes pay-as-you-go contributions towards its OPEB liability totaling \$1.9 million in 2015 or 56% of the annual cost. As of the latest valuation report dated January 1, 2015, the plan is 0.09% funded with an unfunded liability of \$34.9 million. The town dedicates its local meals tax revenues (\$516,000 in fiscal 2015) toward an OPEB stabilization fund in the General Fund.

Total fixed costs in 2015 including debt service, required pension contributions and retiree healthcare payments represented \$9.6 million, or 17.8% of General Fund expenditures.

#### Management and Governance

The town continues to operate under fiscally conservative budgeting with formal policies and a five-year capital plan.

Massachusetts towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Towns have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Towns have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

## Legal Security

A portion of the advance refunding bonds, that are refunding bonds dated May 15, 2009, are secured by the town's general obligation unlimited tax pledge as debt service has been voted exempt from the tax levy limits of Proposition 2 ½. The balance of the refunding bonds are secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from the levy limitation of Proposition 2 ½.

The notes are secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from the tax levy limits of Proposition 2 ½.

## Use of Proceeds

The bonds will current refund the town's bond dated June 15, 2004 and advance refund bonds dated May 15, 2008 and May 15, 2009 for a total estimated net present value savings of \$1.1 million or 7.2% of refunded principal with not extension of maturity.

The notes will renew a \$826,757 of BANs maturing on June 24, 2016 and provide new funding all towards various capital projects.

## Obligor Profile

Hanover is located 25 miles south of Boston (Aaa stable) with a population of 13,879. The town is primarily residential with some commercial presence.

## Methodology

The principal methodology used in the long term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short term rating was US bond Anticipation Notes published in April 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

## Ratings

Exhibit 2

### Hanover (Town of) MA

Issue	Rating
General Obligation Refunding Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	\$14,537,000
Expected Sale Date	06/16/2016
Rating Description	General Obligation Limited Tax
General Obligation Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$1,388,159
Expected Sale Date	06/23/2016
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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