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Hanover (Town of) MA

Update to credit analysis

Summary

Hanover, MA (Aa2) benefits from a large and growing tax base near Boston (Aaa stable), strong resident income levels, as well as conservatively managed finances with stable reserves at sound levels. While the town's debt burden is above average, pension liabilities should remain manageable.

Credit strengths

» Large residential tax base with above average income levels

» Stable financial position with sound reserves

Credit challenges

» Above average debt burden

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

» Significant tax base expansion

» Material increase in available reserves

» Material decline in the debt burden

Factors that could lead to a downgrade

» Significant decline in the tax base and demographic profile

» Multi-year trend of operating imbalance resulting in the decline in reserves

» Material increase in the debt burden

Key indicators

Exhibit 1

Hanover (Town of) MA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$2,435,053	$2,383,515	$2,383,515	$2,595,375	$2,595,375
Population	14,120	14,226	14,332	14,328	13,879
Full Value Per Capita	$172,454	$167,546	$166,307	$181,140	$187,000
Median Family Income (% of US Median)	184.0%	186.4%	180.7%	184.0%	184.0%
Finances					
Operating Revenue ($000)	$57,225	$54,793	$56,431	$65,077	$62,720
Fund Balance ($000)	$9,231	$9,232	$9,627	$11,420	$9,811
Cash Balance ($000)	$12,035	$13,031	$12,924	$14,746	$12,523
Fund Balance as a % of Revenues	16.1%	16.8%	17.1%	17.5%	15.6%
Cash Balance as a % of Revenues	21.0%	23.8%	22.9%	22.7%	20.0%
Debt/Pensions					
Net Direct Debt ($000)	$53,579	$49,707	$47,521	$55,973	$55,316
3-Year Average of Moody's ANPL ($000)	$56,057	$64,317	$60,659	$61,805	$59,833
Net Direct Debt / Full Value (%)	2.2%	2.1%	2.0%	2.2%	2.1%
Net Direct Debt / Operating Revenues (x)	0.9x	0.9x	0.8x	0.9x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.3%	2.7%	2.5%	2.4%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.0x	1.2x	1.1x	0.9x	1.0x

Source: Moody's Investors Service; Hanover's audited financial statements

Profile

Hanover is located 25 miles south of Boston with an estimated population of 14,000. The town is primarily residential with some commercial presence.

Detailed credit considerations

Economy and tax base: large and modestly growing base benefits from proximity to Boston

The tax base will continue to grow modestly driven by residential and commercial improvements. Equalized value increased 8% in fiscal 2019 to $2.8 billion mostly driven by residential growth. The tax base is primarily residential (87% of 2019 assessed value), though it does have a significant commercial presence along Routes 3 and 53, which account for 10% of AV.

Near term new growth will be driven by 130 condominiums at Sconset Landing, a new senior living facility at Barstow Village, and various commercial and retail redevelopments. Improvements at Hanover Mall continue as PREP, the town's largest taxpayer, deploys some of its $40 million commitment, which is promised in exchange for its tax increment financing agreement. PREP has also proposed 297 market rate apartments, which is going through the various approval stages now.

Income and wealth levels are above average with median family income equal to 138% of the state and 184% of the US median, respectively (2017 US Community Survey). Equalized value per capita is also strong at $201,953 and home values of $469,200 in 2017 are well above the state and US medians at 133% and 243%. The town's unemployment rate of 2.6% (February 2019) remains below those of the state and US.

Financial operations, reserves and liquidity: stable reserves at sound levels will continue

The financial position will remain stable given conservative fiscal management and modestly growing property tax revenue driven by new growth. Fiscal 2018 was balanced though the nominal amount of general fund balance declined to reflect the establishment of an OPEB trust. At 2018 year-end, available general fund balance totaled $9.8 million or 15.4% of revenue. The town derives its revenues mainly from property taxes (67.6% in 2018) and state aid (21.8%). Education (53.7%), public safety (12.1%) and employee benefits (11.3%) are the largest expenditures.

Management reports that fiscal 2019 year to date results are slightly ahead of budget and a surplus is expected at year-end. The adopted fiscal 2020 budget increased 4.1% mostly due to an increase in debt service (for BANs) and pension contributions. The town will use $750,000 of free cash towards the operating budget. In addition, the town will use approximately $630,000 of free cash for capital projects and another $100,000 towards the OPEB trust.

LIQUIDITY

Liquidity will remain stable. Cash and investments in the general fund at the end of fiscal 2018 totaled $12.5 million or 19.7% of revenue. The liquidity position provides over two times coverage for the Series 2019 BANs, which will be the only notes outstanding post-issuance.

Debt and Pensions: above average debt burden and moderate pension liability will remain manageable

The debt burden will remain around current levels as additional issues will be offset by growing equalized value and rapid amortization of current debt. The direct debt burden has been stable at around 2.2% for several years. The fiscal 2020-2024 capital plan totals $23.2 million, though projects could change depending on Town Meeting approval. As written, the CIP is expected to be funded with approximately $11 million in debt, including $5 million in debt supported by the water enterprise fund.

DEBT STRUCTURE

All debt is fixed rate with 90% of principal retired in ten years. Fiscal 2018 debt service costs of $5.3 million represented 8.3% of general fund expenditures.

DEBT-RELATED DERIVATIVES

The town is not party to any interest rate swaps or derivative agreements.

PENSIONS AND OPEB

The town participates in the Plymouth County Retirement System, a multi-employer defined benefit retirement plan administered by the County Retirement Board. The town continues to pay required contributions to the plan which totaled $3.1 million in fiscal 2018 or 4.8% of general fund expenditures. The town's three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $59.8 million, or a below average 0.95 times general fund revenues or 2.3% of equalized value. The plan is projected to be fully funded by 2029, which is credit positive.

The town contributed $368,000 towards OPEB in fiscal 2018. The reported net OPEB liability as of June 30, 2017 is $34.1 million. The town dedicates its local meals tax revenues toward its newly created OPEB trust, which has a current balance of $2.6 million. Having a dedicated revenue source to contribute to the trust demonstrates management's commitment to addressing this liability.

Total fixed costs in fiscal 2018 including debt service, required pension contributions and retiree healthcare payments represented $9.7 million, or 15.2% of expenditures.

Management and governance: strong Institutional Framework score

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, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Massachusetts towns major revenue source, property taxes, are subject to the Proposition 2 1/2 cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. However, Massachusetts has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$2,802,906	Aa
Full Value Per Capita	$201,953	Aaa
Median Family Income (% of US Median)	184.0%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	15.6%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	0.5%	Aaa
Cash Balance as a % of Revenues	20.0%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	1.0%	Aaa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.2%	A
Net Direct Debt / Operating Revenues (x)	1.0x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.1%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.0x	Aaa
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.
[2] Notching factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.
[3] Standardized adjustments are outlines in the GO Methodology Scorecard Inputs Updated for 2018 publication.
Source: US Bureau of Economic Analysis, State CAFRs, Moody's Investors Service

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