MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 and Aa2 to Hanover, MA's $1.5M GO BANs and $10.8M GO Bonds

Global Credit Research - 15 Aug 2014

Affirms Aa2 on $44M outstanding debt

HANOVER (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2014 Bonds		Aa2
Sale Amount	$10,810,000	
Expected Sale Date	08/19/14	
Rating Description	General Obligation	
General Obligation Bond Anticipation Notes		MIG 1
Sale Amount	$1,476,698	
Expected Sale Date	08/19/14	
Rating Description	Note: Bond Anticipation	

Moody's Outlook NOO

Opinion

NEW YORK, August 15, 2014 --Moody's Investors Service has assigned a MIG 1 rating to the Town of Hanover's (MA) $1.5 million General Obligation Bond Anticipation Notes (dated September 12, 2014 and payable September 11, 2015) and Aa2 long-term rating to $10.8 million General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's has affirmed the Aa2 rating on $44 million in outstanding general obligation debt. The notes and bonds are secured by the town's unlimited general obligation tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 ½. The notes will renew a like amount of notes originally issued for the high school construction project. The bonds will redeem a like amount of notes originally issued for the high school and street construction projects.

SUMMARY RATING RATIONALE

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

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.

STRENGTHS

- Favorable wealth levels

- Stable reserve levels

CHALLENGES

- Moderate debt and pension liability

- Limited revenue raising flexibility due to Proposition 2 ½

DETAILED CREDIT DISCUSSION

STRONG LIQUIDITY WITH DEMONSTRATED MARKET ACCESS

Hanover has demonstrated a satisfactory history of access to capital markets having issued debt on an annual basis for each of the last five years. Hanover is expected to receive adequate market access due to its sound long-term credit profile. In addition, the town continues to maintain strong liquidity levels at fiscal year-end and cash flow projections indicate available funds to cover over 8 times the total $1.5 million in outstanding notes.

STABLE FINANCIAL POSITION CONTINUES WITH REDUCED FUND BALANCE APPROPRIATIONS

The town's financial position is expected to remain sound given conservative fiscal budgeting practices which include less reliance on free cash appropriations to balance operations. In fiscal 2015 the town has appropriated only $250,000 or 12% of total free cash to balance the budget, down from a high of $1.6 million in fiscal 2011. The trend toward structurally balanced operations has led to improved reserves and stable annual operations. Fiscal 2013 audited financials reflect an operating surplus of $247,000 attributed to a positive variance in local revenue receipts and departmental turnbacks from all major expenditures. The surplus increased available fund balance to $9.5 million (16.9% of revenues).

The fiscal 2014 year-end estimates reflect another operating surplus similar to the prior year, again due to positive variances of approximately $1 million in revenues and $878,000 in expenditure savings. The positive variance will fully replenish $1.9 million in free cash appropriations for the year, including $460,000 used to balance the budget.

The fiscal 2015 budget increased by 2.51% ($1.3 million) from the prior year and is balanced with a 3.2% tax levy increase and $250,000 free cash appropriation. The budget increase is primarily due to increased contractual obligations and education costs. The town has budgeted $1.5 million in total free cash appropriations for annual and special articles related to capital needs. Going forward, the stable financial position will be a pivotal credit factor as it balances the strength of the town's tax base against the above average debt burden.

MATURE TAX BASE EXPERIENCING MODERATE VALUATION DECLINE

The town's $2.4 billion tax base is expected to stabilize over the near term despite a trend of declines over the last five years attributed to the housing market downturn. The mostly-residential (84% of 2014 assessed value) town, is located 25 miles southeast of Boston (Aaa stable), and continues to focus on attracting commercial interests which includes infrastructure improvements along Routes 3 and 53. The Hanover mall continues to be a stable top taxpayer representing 2.6% of the town's 2014 assessed value and has recently added a new Dick's Sporting Goods store. The town continues to conservatively budget for new growth of $240,000 in 2015 although actual results have been above $440,000 over the last two years. Wealth levels in the town remain well above the state and national average with median family income (2009) equal to $110,000 or 136% and 175%, respectively. The unemployment rate of 3.9% (May 2014) remains well below the state (5.2%) and US (6.1%).

ABOVE AVERAGE DEBT BURDEN WITH MODERATE PENSION LIABILITY

The town's above average 2.2% direct debt burden will remain manageable given average amortization of principal (72% within 10 years) and approximately 63% of outstanding debt exempt from tax levy limitations of Proposition 2 ½. The town maintains a five year capital improvement plan with $37 million in projects including plans for $24 million to be financed through a bond issue in fiscal 2016. Fiscal 2013 debt service represented 9.3% of expenditures and is manageable given the large exempt portion. All of Hanover's debt is fixed rate and the town is not party to any derivative agreements.

The town participates in the Plymouth County Retirement System, a multi-employer, defined benefit retirement plans administered by the County Retirement Board. The town's annual required contribution (ARC) for the plan was $2.3 million in fiscal 2013, or 4.2% of operating expenditures. The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $42.5 million, or approximately 0.78 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.

WHAT COULD MAKE THE RATING GO UP:

- Significant tax base expansion

- Reduction in the debt burden

-Increase in available reserves

WHAT COULD MAKE THE RATING GO DOWN:

- Material decline in the tax base and demographic profile

- Significant increase in the debt burden

- Trend of operating imbalance resulting in the decline in reserves

KEY STATISTICS

2014 Full Valuation: $2.4 billion

2014 Full Value Per Capita: $171,397

Median Family Income as % of US Median: 174.7%

Fiscal 2013 operating fund balance as a % of revenues: 16.9%

5-Year Dollar Change in Fund Balance as % of Revenues (2009-2013): 5.91%

Fiscal 2013 Cash Balance as % of Revenues: 21.2%

5-Year Dollar Change in Cash Balance as % of Revenues (2009-2013): 3.86%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures (2009-2013): 1.01x

Net Direct Debt as % of Full Value: 2.2%

Net Direct Debt / Operating Revenues: 0.94x

3-Year Average of Moody's ANPL as % of Full Value: 1.8%

3-Year Average of Moody's ANPL / Operating Revenues: 0.79x

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 Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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