

New Issue: Moody's assigns MIG 1 rating to Hanover's (MA) \$13.3M GO BANS

Global Credit Research - 30 Aug 2013

Affirms Aa2 on \$48M in outstanding GO debt

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

Moody's Rating

ISSUE	RATING
Bond Anticipation Notes	MIG 1
Sale Amount \$13,285,000	
Expected Sale Date 09/04/13	
Rating Description Note: Bond Anticipation	

Moody's Outlook

Opinion

NEW YORK, August 30, 2013 --Moody's Investors Service has assigned a MIG 1 rating to the Town of Hanover's (MA) \$13.3 million General Obligation Bond Anticipation Notes. Concurrently, Moody's has affirmed the Aa2 underlying rating assigned to \$48 million in outstanding general obligation debt. The notes, dated September 13, 2013 and payable on September 12, 2014 have been voted exempt from the limitations of Proposition 2-1/2. The notes will renew \$8.5 million in notes maturing September 13, 2013 and provide \$4.8 million in new financing for various capital projects.

SUMMARY RATING RATIONALE

The MIG 1 rating incorporates the town's satisfactory history of access to the capital markets as well as its above-average long-term credit profile.

The Aa2 rating incorporates the town's large residential tax base with proximity to Boston (rated Aaa/stable outlook), manageable debt burden with limited future borrowing plans, and stable financial position.

STRENGTHS

- Affluent suburb of Boston
- Satisfactory reserves

CHALLENGES

- Declining Equalized and Assessed property tax valuations

DETAILED CREDIT DISCUSSION

DEMONSTRATED MARKET ACCESS

Hanover has demonstrated a satisfactory history of access to capital markets. The town received six bids on its most recent note sale dated September 5, 2012 and six bids on a note sale dated March 14, 2012. Additionally, the town received four bids on a note sale dated September 7, 2011 and 10 bids for a note sale dated September 15, 2010. All bids were received from major regional and national financial institutions. Hanover's history indicates the town's ability to refinance the notes at their September 2014 maturity.

STABLE FINANCIAL POSITION WITH HEALTHY RESERVES

The town's financial position is expected to remain stable given strong financial management and conservative budgeted practices. The town adopted a series of formal financial policies in December 2011 to ensure on-going financial stability including multi-year capital improvement plans and planning for future liabilities including establishing an OPEB trust funded with receipts from local meals taxes. The town has maintained an average General Fund balance of 17.3% from 2008 through 2012 reflecting structurally balance operations. The fiscal 2014 budget assumes 1.8% budget to budget growth, below the limits of Proposition 2-1/2 and reduced the annual free cash appropriation. The town had historically appropriated between \$1.3 million to \$1.7 million in free cash however has reduced the appropriation to \$840,000 and \$400,000 in fiscal 2013 and 2014, respectively, reflecting management's commitment to minimize its reliance on reserves to fund operations.

Fiscal 2013 is expected to end with a healthy General Fund surplus attributable to \$1.2 million in expenditure reductions and an increase in local revenue collections. The fiscal 2013 budget grew by 3.9% primarily driven by increased employee benefit costs. Fiscal 2012 ended with a \$2 million General Fund surplus which increased undesignated fund balance to \$3.6 million up from \$2.39 million in fiscal 2011. Certified free cash increased to \$3 million in fiscal 2012, up from \$2.2 million in fiscal 2011 providing the town with healthy financial flexibility. The surplus in fiscal 2012 was primarily driven by an increase in unbudgeted local and state revenues and \$1.6 million in positive expenditure variances resulting from conservatively budgeted expenditure estimates and unexpended appropriations in the snow and ice budget given the mild winter.

MATURE TAX BASE IN CLOSE PROXIMITY TO BOSTON

Moody's expects the town's \$2.4 billion tax base to stabilize in the near term despite recent declines in property taxes given the town's close proximity to Boston and increased building permit activity. The mostly-residential town, situated approximately 25 miles southeast of Boston, reflects a diverse tax base that includes a moderate representation of commercial properties (12.8%) and modest industrial development (2.6%). Town officials report continuing efforts to attract commercial enterprises, which include new zoning efforts and infrastructure improvements along Routes 3 and 53. Permit activity has increased significantly to over \$17.3 million in 2013 from \$9.3 million in 2011 and town officials report several new business expansions that will have a positive impact on employment and property tax valuations. After years of significant tax base growth from 2001 through 2007, equalized values decreased by 7.9% and 7.3% in 2011 and 2012, respectively and remained flat in 2013 reflecting stabilization within the local economy. In addition, assessed values increased by 1.6% in 2013. Real property tax collections have remained strong, with a reported 100% collected on a current year basis for 2011 and 2012. Wealth and income levels are healthy, with per capita income equal to 117% and 140% of commonwealth and national medians, respectively, and a strong equalized value per capita.

MANGEABLE DEBT BURDEN WITH LIMITED FUTURE BORROWING PLANS

Moody's believes that the town's above average 2.4% direct debt burden will remain manageable given average amortization of principal (71.8% within 10 years) and limited future borrowing plans. The town plans to permanently finance a portion of the current bond anticipation notes in 2014 once the town receives an anticipated state building aid reimbursement. Annual debt service is manageable as 7.4% of the town's outstanding debt has been exempted by the voters from the limitations of Proposition 2-1/2, significantly relieving pressure on the general fund budget. Debt service was a manageable 7.8% of 2012 General Fund expenditures. 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 plans was \$5.5 million in fiscal 2012, or just under 4% of operating expenditures. The town's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$45.9 million, or approximately a below average .88 times Operating 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 district's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans.

WHAT COULD MAKE THE RATING GO UP:

- Trend of operating surpluses that result in stronger reserves
- Significant tax base expansion

-Reduction in the direct debt burden

WHAT COULD MAKE THE RATING GO DOWN:

- Decline in General Fund balance
- Deterioration of the town's tax base and demographic profile
- Significant increase in debt burden

KEY STATISTICS

2010 Population: 13,879

2013 Equalized Valuation: \$2.4 billion

2012 Equalized Value per capita: \$174,449

2010 Per Capita Income: \$39,631 (113% of Commonwealth, 1401% of U.S.)

2010 Median Family Income: \$83,371 (137% of Commonwealth, 178% of U.S.)

Overall debt burden: 2.9% of equalized value

Direct debt burden: 2.4% of equalized value

Amortization of principal, 10 years: 71.8%

FY12 General Fund balance: \$10.3 million (18.9% of General Fund revenues)

FY12 Available Reserves: \$9 million (16.5% of General Fund revenues)

Post-Sale Long Term Debt Outstanding: \$48 million

The principal methodology used in this rating was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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