MOODY'S
INVESTORS SERVICE

CREDIT OPINION
12 June 2017

New Issue

Rate this Research

Contacts

Nicholas Lehman 617-535-7694
AVP-Analyst
nicholas.lehman@moodys.com

Robert Azrin 617-535-7692
VP-Senior Analyst
robert.azrin@moodys.com

Hanover (Town of) MA

New Issue - Moody's assigns MIG 1 to Hanover MA's GO BANs; Affirms Aa2 GO

Summary Rating Rationale

Moody's Investors Service has assigned a MIG 1 rating to the Town of Hanover MA's $14.5 million General Obligation Bond Anticipation Notes (BANS, dated June 23, 2017 and payable June 22, 2018). Concurrently, Moody's has affirmed the Aa2 long term rating on the town's outstanding general obligation bonds.

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

Credit Strengths

» Favorable wealth and income levels

» Stable financial operations and reserves

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	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 2,614,165	$ 2,435,053	$ 2,435,053	$ 2,383,515	$ 2,383,515
Full Value Per Capita	$ 188,042	$ 173,598	$ 172,454	$ 167,546	$ 171,735
Median Family Income (% of US Median)	190.8%	184.0%	184.0%	186.4%	186.4%
Finances					
Operating Revenue ($000)	$ 54,155	$ 55,087	$ 57,225	$ 54,793	$ 56,431
Fund Balance as a % of Revenues	16.8%	17.2%	16.1%	16.8%	17.1%
Cash Balance as a % of Revenues	21.6%	21.6%	21.0%	23.8%	22.9%
Debt/Pensions					
Net Direct Debt ($000)	$ 60,700	$ 52,155	$ 53,579	$ 49,707	$ 47,521
Net Direct Debt / Operating Revenues (x)	1.1x	0.9x	0.9x	0.9x	0.8x
Net Direct Debt / Full Value (%)	2.3%	2.1%	2.2%	2.1%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.8x	0.9x	1.0x	1.2x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.6%	2.1%	2.3%	2.7%	2.5%

As of June 30 fiscal year-end; Full value = equalized value
Source: Moody's Investors Service; Town's audited financial statements

Detailed Rating Considerations

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

The town's $2.6 billion tax base (2017 equalized value) 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 (86% of 2017 assessed value) but does have a commercial presence primarily along Routes 3 and 53. Assessed value has seen consecutive increases over the last year including growth of 4.5% in 2017, bringing the five year compound annual growth to 1.9%. Annual new growth revenue in 2017 declined to $256,000, the lowest total in over ten years, although that is due to a timing issue and 2018 is expected to be in-line with the five year average.

New residential development includes new single family homes, condo units and an apartment complex. Commercial growth is expected to be strong over the near term anchored by a pending tax increment financing agreement with the new owners of the Hanover Mall. The agreement outlines a minimum investment of $40 million by the developer and insulates the town from any significant tax decline while providing a tax exemption for sixteen years. Additionally, 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 186% of the US median and a 2017 equalized value of $187,000. The unemployment rate of 3.3% (April 2017) continues to trend below the commonwealth (3.8%) and US (4.1%).

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 2016 audited financials report relatively balanced operations with a slight deficit of $181,000 due to the use of $2.2 million in free cash for capital needs that was not entirely replenished. The available General Fund balance (committed, assigned and unassigned) was $9.6 million or 17% of revenues. The available reserves includes $1.3 million in committed fund balance dedicated as an OPEB stabilization fund. The town plans to establish and move these funds into an OPEB trust in fiscal 2018. The primary revenue source is property taxes, representing 73% of revenues with a strong collection rate of 99% within the current year. Education costs represent 51% of total expenditures.

Fiscal 2017 year-end projection indicate a similar operating performance as in 2016. Revenues and expenditures are trending positive and the variance should come close to covering $1.4 million in free cash appropriations towards capital and a snow and ice deficit. No material changes in reserves are expected.

The adopted fiscal 2018 budget increased 2% from the prior year driven by education and public safety. The budget is balanced with a tax levy increase to the limit, $1 million from the Ambulance Fund and $500,000 free cash appropriation to help cover special education costs. The town has also appropriated $1.7 million of free cash for capital expenditures. Future rating reviews will focus on the town's ability to maintain balanced General Fund operations with limited use of free cash and a stable operation in the Ambulance Fund given annual transfers to the General Fund.

LIQUIDITY

Cash and investments at the end of fiscal 2016 represented $12.9 million or a healthy 22.9% of revenues. The liquidity position provides just under 1 times coverage to the BANs outstanding should market access be a challenge at maturity. The limited coverage is mitigated by a history of strong market access.

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

The town's net direct debt burden of 2.3% of equalized value will remain above average given future borrowing plans. We expect the burden to remain manageable given sufficient amortization of principal and a large portion that is excluded from Proposition 2 ½ levy limits. The 2018 five-year capital plan is down considerably given recent issuance. The plan totals $19.3 million with $9.2 million anticipated to be funded with long term debt.

DEBT STRUCTURE

The entire debt portfolio is fixed rate with 79% of principal retired in ten years. Fiscal 2016 debt service represented $6 million or 10.5% of expenditures.

DEBT-RELATED DERIVATIVES

Hanover is not party to any swaps or 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 contributions to the plan which was $2.8 million in fiscal 2016, or 5% of General Fund expenditures. The town's 2016 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $60.6 million, or approximately 1.01 times General Fund revenues or 2.5% of equalized value. The projected funding date for the county plan is 2032.

The town also makes pay-as-you-go contributions towards its OPEB liability totaling $1 million in 2016 or 27% of the annual cost. As of the valuation report dated January 1, 2015, the plan has an unfunded liability of $37.8 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 2016 including debt service, required pension contributions and retiree healthcare payments represented $9.9 million, or 17.3% 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

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

Use of Proceeds

The notes will fund various capital projects of the town including the Sylvester School renovations.

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 December 2016. The principal methodology used in the short term rating was US Bond Anticipation Notes published in April 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Hanover (Town of) MA

Issue	Rating
General Obligation Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	$14,525,185
Expected Sale Date	06/14/2017
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

REPORT NUMBER 1075782

Contacts

Nicholas Lehman 617-535-7694
AVP-Analyst
nicholas.lehman@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE