

Summary:

Hadley, Massachusetts; General Obligation

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US\$8.145 mil GO mun purp loan of 2019 bnds due 01/15/2049

<i>Long Term Rating</i>	AAA/Stable	New
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Hadley GO

<i>Long Term Rating</i>	AAA/Stable	Upgraded
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Rationale

S&P Global Ratings raised its long-term rating one notch on Hadley, Mass.' existing general obligation (GO) bonds to 'AAA' from 'AA+'. At the same time, S&P Global Ratings assigned its 'AAA' long-term rating to the town's \$8.145 million series 2019 GO municipal purpose loan bonds. The outlook is stable.

The upgrade reflects our view of the town's maintenance of very strong budgetary flexibility through historically balanced financial operations with available reserves at 16% of general fund expenditures, which is enhanced by a low overall property tax rate and capacity to increase revenue to support future operations and capital needs. We also believe Hadley's historically positive finances support its stable economic conditions and growing tax base, which has increased in total assessed value (AV) by more than 7.5% in the past five years. Also underpinning the rating is Hadley's very strong management conditions, with strong policies and plans that the town adheres to and updates accordingly. Of further benefit is the town's retirement-cost planning that we view as improving compared with that of peers across the commonwealth, while demonstrating consistent funding of its other postemployment benefits (OPEB) trust fund to manage growth in future liabilities. Therefore, absent a substantial reversal of budgetary performance and flexibility or a deterioration in its wealth and income conditions, we believe Hadley's credit quality will remain stable.

Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" published Nov. 19, 2013, we rate Hadley higher than the sovereign, because we believe the town can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2018, local property taxes generated 66.7% of revenue, which demonstrated a lack of dependence on central government revenue.

Hadley's full-faith-and-credit pledge, payable from taxes levied on all property within the territorial limits of the town, secures the series 2019 bonds. A portion of the bond issue (approximately \$560,000) is subject to limitations imposed under Proposition 2 1/2 (Chapter 59, Section 21C of Massachusetts General Laws). The remaining portion (approximately \$7.585 million) were exempted from the limitations of Proposition 2 1/2 as authorized by the town's voters at a meeting passed on Jan. 10, 2017.

Despite limitations imposed by the commonwealth levy limit law on a portion of the series 2019 bonds, and the town's

nonexempted debt outstanding, we do not make a rating distinction between the limited-tax GO pledge and Hadley's general creditworthiness because the local ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on resource fungibility, supporting our view of the town's overall ability and willingness to pay debt service.

Town officials intend to use a portion of proceeds from the series 2019 bonds to permanently finance land acquisition for related capital improvements, as well as the design, construction, and equipping of a new senior center and fire substation. The town will also finance improvements to the heating, ventilation, and air conditioning (HVAC) systems at the town's schools and upgrades to the storm-water collection and disposal system.

The rating reflects our opinion of Hadley's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 30.3% of total governmental fund expenditures and 6.8x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 4.4% of expenditures and net direct debt that is 61.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score

Very strong economy

We consider Hadley's economy very strong. The town, with an estimated population of 5,458, encompasses 24.75 square miles in Hampshire County in the Springfield MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 128% of the national level and per capita market value of \$179,863. Overall, the town's market value (MV) grew by 1.7% over the past year to \$981.7 million in 2019. Hampshire County's unemployment rate was 3.0% in 2018, which was below the state's (3.3%) and the nation's (3.9%) average.

Interstate 91 borders Hadley, connecting residents to employment centers throughout the Springfield MSA. We recently modified our assessment of the Springfield MSA to moderate from strong relative to all MSAs, due to subdued employment growth (about 6% over the last five years) and demographic challenges from an aging regional workforce. IHS Markit projects that employment growth in the Springfield MSA will slow over the near term from a 2.0% growth rate in 2019 to 0.2% in 2020, supporting our expectation for low-to-moderate economic gains. If material deterioration of the region's economic indicators--including employment population base, growth, or diversity factors--weigh on local wealth and income indicators or increase service demand pressures beyond the outlook period, this could weaken our view of Hadley's economy.

Summary: Hadley, Massachusetts; General Obligation

Hadley is a predominantly agricultural and residential community along the Connecticut River in western Massachusetts, approximately 15 miles north of Springfield and 80 miles west of Boston. The community is committed to preserving open space-- with 4,000 acres of protected farmland and 563 parcels with farming operations that have lower assessed values (AV)--that is balanced with a mix of higher-density commercial developments along the State Route 9 corridor. Due largely to infill redevelopment along this corridor, the town's total AV has risen steadily, increasing by an average of 1.5% annually over the past five years. Hadley also reports increases in new growth have been incorporated into its tax levy; new growth accounted for about \$72 million in new taxable value since 2014, reflecting the town's steady residential and commercial real estate market. Also, due to its largely residential composition, we consider the tax base diverse with the 10-leading taxpayers accounting for roughly 15% of AV.

Anchoring the local economic base are employers in education, health care, commercial retail, and leisure and hospitality services. Hadley is within the "Five-College Region", including the University of Massachusetts, Amherst College, Hampshire College, Smith College, and Mount Holyoke College. The presence of these colleges and the university supports the community's large agricultural, service, and retail base and insulates the employment base from substantial variability across economic cycles. Other leading private employers include Stop & Shop, Whole Foods, Hadley at Elaine, Home Depot, and Lowes.

Town officials report that several private developments are in planning or under construction, including commercial retail, hotels, and professional office developments, as well as potential expansion of commercial solar facilities. Although tax-exempt, the University of Massachusetts has announced improvements to student housing, academic, and agricultural facilities that will support enrollment growth and spur economic activity in the surrounding communities. Furthermore, Hadley's recent public infrastructure investments and application for other state incentive programs could provide additional funding for local economic development initiatives over the next several years. Based on the steady composition of its tax and employment base, coupled with its embeddedness in the broader regional economy, we believe Hadley's wealth and income conditions will likely remain very strong over the two-year outlook horizon.

Very strong management

We view the town's management as very strong, characterized by strong financial policies and practices under our FMA methodology, which indicate that financial practices are strong, well-embedded, and likely sustainable. We revised our assessment to very strong from strong, reflecting enhancements to the town's 10-year capital improvement plan (CIP) to identify financial resources for future capital improvements, and its six-year financial forecast features more comprehensive analysis of revenue and expenditure assumptions.

Demonstrating the town's key budgeting practices is management's use of five years of historical trend data to build its annual revenue and expenditure assumptions. In preparation of its annual budget, management conducts a line-item review of each department's annual operation request; prioritizes operating expenditures, including future debt service and long-term liability costs; and incorporates changes in contractual obligations. Hadley also consults state and regional economic publications and local tax assessment information to compare its budget growth assumptions for the upcoming budget year. Finance officials conservatively estimate revenue from new sources, and management solicits department input on local fees and charges for services.

During each fiscal year, management monitors the budget regularly, reporting budget-to-actual results to the town select board monthly. Furthermore, Hadley adheres to its formal investment policy and reports earnings and holdings monthly to the select board. The town also has a comprehensive six-year financial forecast in its budget development process, which features analysis of key revenue and expenditure assumptions and tests budget performance under various conditions; this allows the town to manage decisions and changes related to future operations and debt service.

Hadley also maintains a strong focus on capital planning, as evidenced by its 10-year comprehensive CIP that identifies capital and nonrecurring capital expenditures. The town updates its CIP annually and details pay-as-you-go funding requirements, intergovernmental grants and reimbursements, and debt financing of all capital projects. Although not formalized, management has historically met and sustained reserves in accordance with an informal stabilization fund target. Management maintains an unassigned fund balance in excess of 10% of general fund revenue, which town officials can use to manage financial resources and maintain current service levels in the event of unexpected revenue shortfalls or unpredicted one-time expenditures. Should funds fall below 10%, town officials will take necessary steps to restore fund balances to or above the minimum target level.

The town also sustains a formal debt management policy, which stipulates the use of certain debt instruments and reporting requirements. The policy formalizes measurable debt benchmarks and metrics, including annual debt service that will be optimally above 6%, but no more than 10% of general fund revenue. In addition, the policy also limits debt issuance to no more than 5% of the town's equalized AV. The town has historically monitored and sustained debt management practices in accordance with this policy.

Strong budgetary performance

Hadley's budgetary performance is strong in our opinion. The town had operating surpluses of 3.4% of expenditures in the general fund and of 6.9% across all governmental funds in fiscal 2018. For analytical consistency, we adjusted fiscal 2018 budgetary performance to account for net transfers out of the general fund to other governmental funds, and we adjusted the general and total government funds for one-time capital expenditures paid with debt proceeds.

Hadley has benefitted from growth in its taxable base that has translated into modest increases to its revenue base, and we view management's use of conservative revenue projections and intrayear budget monitoring as yielding overall predictable financial operations over the past five fiscal years. Hadley derives a majority of general fund revenue from stable revenue sources, the largest of which is property tax. Real estate and personal property taxes made up 66.7% of general fund revenue in fiscal 2018, and the property tax collection rate averaged 99.6% over the past five years. Penalties, interest, and other taxes account for 7.3% of general fund revenue, while charges for services comprise 4.2%. State and intergovernmental aid account for about 15% of revenue, and we note that commonwealth funding has been stable recently.

The town reported a nearly \$205,000 operating deficit for fiscal 2018, which town officials attributed to the planned appropriation of \$776,618 in available free cash to provide pay-as-you-go funding for one-time capital expenditures. Hadley partially offset the use of these funds with conservative revenue forecasting, which resulted in better-than-budgeted revenue collections (approximately \$245,000 over budget) from local excise-tax receipts, as well as licenses and permits. At the same time, Hadley reported lower-than-budgeted expenditures (approximately

\$325,000 under budget) due to the return of unexpended departmental appropriations (particularly public works and public safety), as well as employee benefit costs at fiscal year-end.

Hadley approved a balanced \$18.3 million general fund budget for fiscal 2019, which reflects a 4.2% increase over the previous fiscal year. The budget accounted for annual increases in public safety expenditures (2.92% over the previous year) and benefit costs (1.33%), while management identified cost savings across its other governmental departments. On a budgetary basis, management reports that local revenue is performing better than budgeted, and the town realized expenditure savings that should generate a positive year-end result. Based on these operating projections, Hadley conservatively expects to post an operating surplus in excess of \$150,000.

The adopted fiscal 2020 budget totals \$19.37 million, and officials will continue with the budgetary practice of appropriating free cash for one-time expenditures and to balance the town's operating budget. Although management has communicated to increase its tax rate to support future debt service for upcoming capital improvements, the town maintains the lowest tax rate in Hampshire County, totaling \$12.36 per \$1,000 of AV. Given its recent history of, at least, balanced operations, some revenue-raising flexibility to support its CIP, and the careful use of reserves for one-time needs, we anticipate budgetary performance will remain strong during our outlook horizon.

Beyond the current fiscal year, one potential source of budgetary pressure for Massachusetts issuers continues to be rising pension and OPEB costs, as the town continues to pay down unfunded liabilities. Hadley has responded to these future pressures through its recent planning efforts and planned transfers to its pension and OPEB trusts in its budget, and management does not generally expect a material change in these costs over the near term. However, we will continue to monitor the budget for potential pressures related to long-term liabilities. Should we see these costs escalate to a point of causing budgetary imbalance, we could modify our view of Hadley's budgetary performance.

Very strong budgetary flexibility

Hadley's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 17% of operating expenditures, or \$2.9 million.

In recent years, Hadley has appropriated free cash or overlay surplus to limit increases to the tax levy or provide pay-as-you-go financing for various town improvements. While the town budgeted to appropriate some fund balance to support one-time expenditures or other purposes, it has consistently reported better-than-budgeted performance that has often regenerated the town's reserve appropriation in recent years. In our view, additional one-time capital expenditures in preparation for the upcoming bond issuance contributed to use of \$776,618 in free cash, but management expects budgeted free cash use to normalize and decline by \$75,000 annually over the next two years.

The town's informal reserve target emphasizes maintaining an unassigned fund balance above 10% of general fund expenditures, a target the town has historically met and sustained. Based on management's expectation that the town will return to positive operating performance in fiscal 2019, and produce at least balanced operations for fiscal 2020, we do not expect Hadley's overall flexibility to deteriorate.

Very strong liquidity

In our opinion, Hadley's liquidity is very strong, with total government available cash at 30.3% of total governmental fund expenditures and 6.8x governmental debt service in 2018. In our view, the town has strong access to external

liquidity if necessary.

Hadley's record of GO bonds and bond anticipation notes (BANs) over the past 20 years supports our view of its strong access to external liquidity. In addition, the town has no variable-rate or direct-purchase debt, and management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Hadley's bank holdings and investments are subject to strict state guidelines, and, where applicable, Hadley invests cash in high-quality, low-risk assets with original maturities of three months or less, including the Massachusetts Municipal Depository Trust, money markets, and short-term certificates of deposit. For these reasons, the town's available cash position remains strong and stable, and we expect its liquidity profile to remain very strong over the next two years.

Strong debt and contingent liability profile

In our view, Hadley's debt and contingent liability profile is strong. Total governmental fund debt service is 4.4% of total governmental fund expenditures, and net direct debt is 61.0% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, which is in our view a positive credit factor.

After the current bond issuance, Hadley will have \$14.2 million of total direct debt outstanding, including \$12.9 million in bonds and \$1.3 million in BANs (which we do not rate). At the same time, we adjusted approximately \$407,000 of self-supported water system GO debt out from our net direct debt calculations. The town set rates to support operations and at least 50% of annual debt service costs. GO-related water system debt centers on three years of evidence that user charges have provided partial coverage to support obligations outstanding. In anticipation of future water system capital projects, the town approved a 5% annual increase in 2019, and plans to increase the rate by 2.5% in 2020 and 2021. The town does not currently have any debt related to overlapping and underlying entities.

Hadley could issue additional debt over the medium term, financing all or a portion of the remaining \$8.9 million (currently authorized, but unissued) over the next three to five years for the library, senior center, and fire station projects. However, management indicates that the magnitude and timing of future bond or note issuances may be adjusted based on the interest-rate environment and other conditions that may affect borrowing costs. Furthermore, given its low overall net debt relative to market value and level debt amortization, we do not expect our assessment of its debt profile to weaken over the outlook period.

Hadley's combined required pension and actual OPEB contributions totaled 7.2% of total governmental fund expenditures in 2018. Of that amount, 4.8% represented required contributions to pension obligations, and 2.3% represented OPEB payments. The town made its full actuarially determined contribution (ADC) in fiscal 2018, continuing the trend of making its full pension contributions over the past 10 years.

Hadley participates in the Hampshire Contributory Retirement System, a cost-sharing, multiemployer public employee retirement system. At June 30, 2018, the town's proportionate share of the reported pension liability of approximately \$9.2 million (4.96% of the total liability). The town contributed nearly \$1.06 million to the system for fiscal 2018. In our view, the town's pension and OPEB liabilities will increase at a sustainable pace, and we acknowledge town officials have been proactively managing them. Hadley contributed the full ADC in each of the past six fiscal years, and the pension system funding ratio increased to 63.1% in 2018 from 55.3% in 2016 (based on Governmental Accounting Standards Board Statement No. 68), even following changes to actuarial assumptions to reflect more conservative

mortality and discount rates. The town expects the pension liability to be amortized by June 30, 2035.

The unfunded liability is projected to increase slightly in fiscal 2020, reflecting a revision to its discount rate to 7.45% from 7.5%, a payroll growth assumption to 4.25%, and updated experience study as of the Jan. 1, 2018, actuarial valuation. Hadley reported that its ADC increased to \$1.1 million in fiscal 2019 and projects the ADC to increase to \$1.29 million in fiscal 2020.

The town also provides postemployment health care benefits for retired employees through a town-administered plan, the Hampshire County Group Insurance Trust. At June 30, 2018, the town's total OPEB liability was \$7.75 million, using a discount rate of 5.75%, which we view as conservative relative to the national trend. Hadley has traditionally funded OPEB through pay-as-you-go financing, but the town established an OPEB trust fund to provide funding for future employee health care costs. At June 30, 2018, the trust's assets totaled \$844,000, or 13.7% of the total liability. It also implemented an OPEB trust funding policy in fiscal 2016 to contribute a baseline contribution to of \$245,000 and increase this amount by 2.5% annually. Hadley reported a current-year balance of nearly \$1.44 million in the OPEB trust, and the town intends to contribute \$270,434 in the fiscal 2020 budget. Based on its formal policies and recent commitment to prefunding these long-term liabilities, we generally expect these factors to support Hadley's credit stability.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our view of Hadley's overall strong financial practices and policies, which have contributed to generally stable and predictable budgetary performance, and support its very strong budgetary flexibility and liquidity over the outlook period. At the same time, we expect that the town will maintain strong and manageable debt and postemployment benefit costs, supported by low overall net debt and proactive contributions to its pension and OPEB trusts over the next two years. The outlook also reflects our expectation that recent and prospective economic expansion in Hadley will support strong-to-very strong overall wealth and income metrics. Therefore, we do not anticipate changing the rating over the two-year outlook period.

We could lower the rating if the Springfield MSA economy sustains significant downward pressure, causing regional and local wealth and income metrics to deteriorate to levels inconsistent with those of 'AAA' rated peers. We could also lower the rating should the town's budgetary performance decline, leading to weakened flexibility or a decrease in liquidity to levels that are no longer commensurate with those of similarly-rated peers.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Summary: Hadley, Massachusetts; General Obligation

- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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