

RatingsDirect®

Summary:

Hubbardston, Massachusetts; General Obligation

Primary Credit Analyst:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

Secondary Contact:

Christina Marin, Boston 617-530-8312; christina.marin@standardandpoors.com

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Credit Profile

US\$1.605 mil GO mun purp loan bnds ser 2015 dtd 04/30/2015 due 05/15/2028

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Hubbardston, Mass.' general obligation (GO) bonds. The outlook is stable.

We base our long-term rating on our local GO criteria, reflecting our assessment of the following factors for Hubbardston, including its:

- Strong economy, with strong wealth and income indicators, tempered slightly due to its location on the outer edge of the Worcester metropolitan statistical area (MSA);
- Strong management conditions, with and a "good" Financial Management Assessment (FMA), reflecting the town's adopted policies and practices;
- Strong budgetary performance that the town is likely to maintain due to conservative budgeting;
- Very strong budgetary flexibility with available reserves at 27.5% of operating expenditures and no considerable draws anticipated;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong debt and contingent liability position due to rapid amortization and a low net debt-to-market value ratio; and
- Strong institutional framework.

The town's full faith and credit secures the bonds. We understand that proceeds of the bonds will be used to fund capital improvements and equipment purchases, as well as to retire bond anticipation notes (BANs) issued to pay for road reconstruction.

Standard & Poor's is aware of an auditor's qualified opinion in 2013 regarding an alleged misappropriation of assets in the collection of property taxes and has taken it into account in the determination of this rating. We believe the town is taking appropriate measures to regain control of lost revenues, which are estimated at \$536,000. We also believe that the town has implemented appropriate measures such as pending software updates and new policies to ensure a similar situation does not happen in the future.

Strong economy

Hubbardston is a rural residential community 50 miles west of Boston and 20 miles northwest of Worcester. Its 4,406 residents are employed primarily in manufacturing, health care, and education services and benefit from access to employment centers in the Worcester MSA. Per capita effective buying income is 115.5% of the national average and unemployment for Worcester County was 7.5% in 2013, which was on par with national levels. Primary employers

include the town, the school district, a consulting firm, and a farm.

The town's assessed value (AV) has fallen in recent years from \$442 million in 2011 to \$399 million in 2015, but there is evidence that it has stabilized, with a slight 0.6% growth since 2014. Per capita market values are what we consider strong at \$93,151. The tax base remains very diverse, with the 10 leading taxpayers representing 4.1% of AV.

Strong management conditions

We view the town's management conditions as strong. The town recently underwent a restructuring and adopted a new charter, which led to a review of all the internal controls of the finance department. On a review, it was discovered that there was an alleged misappropriation of assets by the town tax collector related to the collection of real estate taxes. The new town administrator immediately undertook a forensic investigation, and while there was sufficient audit evidence to determine that cash collections were indeed unaccounted for, there was, in some respect, a lack of adequate detail, which led to a qualified opinion in 2013 financial statements.

While the auditor provided no opinion on the amount of unaccounted cash, they opined that in all other respects, the audit presented the financial condition of the town fairly.

Most importantly, as a result of these events, and according to management, this has led to the professionalization of many former roles and responsibilities previously filled by volunteers.

We currently consider the town's financial management assessment "good" based on our FMA methodology. This indicates that financial practices exist in most areas, but that officials might not formalize or regularly monitor all of them.

The town does a five-year look-back in formulating the budget and tends to budget conservatively, as a history of balanced budgets shows. Although management doesn't do long-term financial planning, it does engage in capital planning with a detailed list of pending capital projects and proposed funding sources. The town also maintains an investment policy, a debt policy, and a fund balance policy.

Strong budgetary performance

Due to conservative budgeting, the town's operating performance has been consistent and balanced in recent years. Close to 80% of operating revenues are derived from property tax; 6.4% comes from state aid. In fiscal 2013, Hubbardston reported a 2.9% surplus (\$200,000), following a multiyear trend of surpluses. However, unaudited fiscal 2014 results show a deficit due to one-time capital expenditures on tennis courts, fields, and streets. Management is also projecting, at worst, a \$130,000 deficit in 2015 due to larger-than-anticipated snow and ice removal costs. These projected deficits are currently small and for the current fiscal year, some of the deficit will likely be cured through budgetary savings. At the moment, there is no evidence performance will deteriorate to adequate or weak levels over the next few years.

Very strong budget flexibility

We view the town's budgetary flexibility as very strong, with available reserves in 2013 representing 27.5% of expenditures, up from 21% in 2012. In fiscal 2013, the available fund balance totaled \$1.9 million and the town expects to keep fund balance level through 2015. Selectmen approved a policy to maintain available reserves at a minimum of 3% of the prior year's general fund balance. Management targets a general stabilization fund balance equal to 5%-7%

the prior year's operating budget. As such, available reserves are managed to a minimum of 8% of expenditures. There is no indication that management will draw down to those levels over the next few years.

Very strong liquidity

Supporting Hubbardston's finances is what we consider very strong liquidity, with total government available cash at 23.9% of total governmental fund expenditures and nearly 18x debt service. Further enhancing our view of the town's liquidity position is Hubbardston's access to external liquidity. Although the town's capital needs are limited, it has demonstrated access to the market with several debt issuances in the last 15 years.

Very strong debt and contingent liability profile

Following this bond issue, Hubbardston has about \$1.8 million of total direct debt outstanding. Overall, the town's total governmental funds debt service is 1.3% of total governmental funds expenditures and net direct debt is 22.4% of total governmental funds revenue, levels we consider low. The debt profile improves further when considering credit factors such as rapid amortization and the ratio of debt to market value. The town expects to retire 76% of principal debt over the next 10 years and net direct debt is less than 3% of market value, both factors that strengthen our evaluation of debt levels. Town management is expecting to undertake additional capital projects in the near future, and expects to issue \$6.75 million in new money. Despite this additional issue, we expect Hubbardston's debt profile to remain low.

Hubbardston participates in the Worcester Regional Retirement System and contributed \$152,000 or 2% of expenditures in 2014. The town's share of the system's unfunded liability is \$2 million. It has no other postemployment benefits exposure as it provides benefits to retirees so long as they pay 100% of the cost. Currently, no retirees make use of the town's health insurance plan.

Strong institutional framework

We consider the institutional framework score for Massachusetts municipalities strong.

Outlook

The stable outlook reflects our view that Hubbardston's strong management practices and predictable operating profile should translate into strong budgetary performance and operating flexibility over our outlook horizon. In addition, we expect Hubbardston to maintain strong reserves.

Precluding a higher rating is Hubbardston's somewhat limited economy due to a lack of direct access to major employment centers and adequate property wealth. Although unlikely, we could lower the rating if financial performance deteriorates, putting pressure on available reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- Institutional Framework Overview: Massachusetts Local Governments

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