

## ISSUER COMMENT

20 December 2018

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

Aa2 No Outlook

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## Town of Stratham, NH

### Annual Comment on Stratham

#### Issuer Profile

The Town of Stratham is located in Rockingham County in the heart of the New Hampshire seacoast, approximately 30 miles east of Manchester. The county has a population of 300,365 and a moderate population density of 432 people per square mile. The county's median family income is \$99,847 (1st quartile) and the September 2018 unemployment rate was 2.5% (1st quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are retail trade, health services, and professional/scientific/technical services.

#### Credit Overview

Stratham has a very high quality credit position, and its Aa2 rating slightly exceeds the median rating of Aa3 for cities nationwide. Key credit factors include a robust financial position, a modestly sized tax base with very strong wealth and income profile, an exceptionally light debt burden, and a mid-ranged pension liability.

**Finances:** The town's financial position is very healthy and is relatively favorable when compared to its assigned rating of Aa2. Stratham's cash balance as a percent of operating revenues (155.7%) far surpasses the US median, and saw an impressive increase between 2013 and 2017. In addition, the available fund balance as a percent of operating revenues (40.3%) is slightly stronger than other Moody's-rated cities nationwide.

**Economy and Tax Base:** Stratham has a very healthy economy and tax base overall, which are a modest credit strengths relative to the town's Aa2 rating. The median family income is a robust 183.9% of the US level. Moreover, the full value per capita (\$178,646) is materially above the US median, and increased between 2013 and 2017. On the contrary, the total full value (\$1.3 billion) is slightly weaker than other Moody's-rated cities nationwide.

**Debt and Pensions:** The debt burden of the town is extremely small and is favorable in comparison to the assigned rating of Aa2. Stratham's net direct debt to full value (0.4%) is lower than the US median, and decreased slightly from 2013 to 2017. The pension liability of the town is moderate and is weak in relation to its Aa2 rating. The Moody's-adjusted net pension liability to operating revenues (1.1x) is slightly below the US median.

**Management and Governance:** New Hampshire cities have an Institutional Framework score <sup>3</sup> of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New Hampshire cities major revenue source is property taxes. Some cities have adopted local tax caps tied to a three-year average of the CPI-U index. The cap allows for moderate revenue-raising ability, can be overridden by a two-thirds vote of the city council and does not limit the city's obligation to pay debt service in accordance with the Municipal Finance Act. Unpredictable

revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, New Hampshire has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

### Sector Trends - New Hampshire Cities

New Hampshire's economy continues to expand, largely attributed to the southeastern region of the state which benefits from the vibrant Boston economy. Job creation in manufacturing and a highly educated labor force will help fuel income gains and housing appreciation. Over the long-term the state's low tax burden will position the state favorably for continued economic improvement compared to other northeastern states. Cities will continue to rely on modest tax increases and a generally positive trend in property valuation to maintain balanced financial operations. Pension liabilities will continue to be slightly above the national median given the unfunded liability of the state's retirement system.

EXHIBIT 1

#### Key Indicators <sup>4 5</sup> Stratham

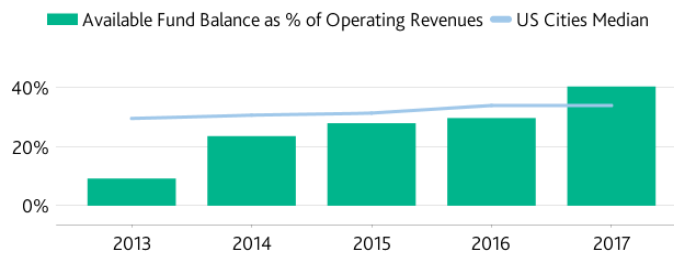
	2013	2014	2015	2016	2017	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$1,211M	\$1,177M	\$1,244M	\$1,302M	\$1,323M	\$1,867M	Improved
Full Value Per Capita	\$166,366	\$161,193	\$169,969	\$176,911	\$178,646	\$89,200	Improved
Median Family Income (% of US Median)	204%	218%	209%	184%	184%	113%	Weakened
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	9.2%	23.5%	27.9%	29.6%	40.3%	33.9%	Improved
Net Cash Balance as % of Operating Revenues	38.9%	141.5%	141.1%	139.3%	155.7%	36.9%	Improved
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	0.7%	0.7%	0.6%	0.5%	0.4%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.34x	1.14x	0.92x	0.76x	0.68x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.7%	0.7%	0.7%	0.6%	0.7%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.31x	1.19x	1.06x	0.99x	1.08x	1.51x	Weakened
	2013	2014	2015	2016	2017	US Median	
<b>Debt and Financial Data</b>							
Population	7,285	7,303	7,320	7,361	7,410	N/A	
Available Fund Balance (\$000s)	\$2,423	\$1,705	\$2,136	\$2,500	\$3,354	\$7,419	
Net Cash Balance (\$000s)	\$10,257	\$10,253	\$10,803	\$11,749	\$12,954	\$8,404	
Operating Revenues (\$000s)	\$26,336	\$7,244	\$7,657	\$8,436	\$8,322	\$21,930	
Net Direct Debt (\$000s)	\$8,968	\$8,259	\$7,075	\$6,385	\$5,695	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$8,269	\$8,638	\$8,130	\$8,334	\$8,988	\$32,507	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

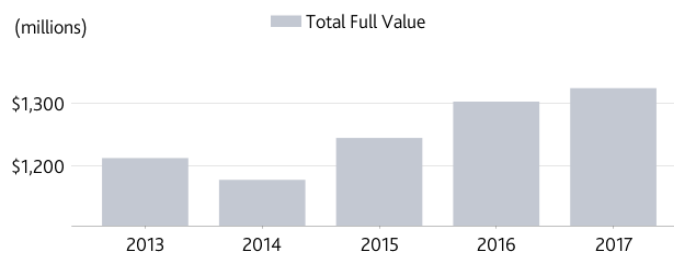
## Available fund balance as a percent of operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

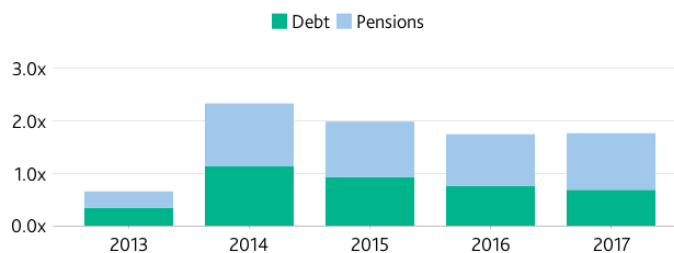
## Full value of the property tax base increased from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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