STANDARD & POOR'S RATINGS SERVICES
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Summary:

Derry, New Hampshire; General Obligation

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Credit Profile		
US$3.5 mil GO bnds ser 2014 dtd 04/17/2014 due 04/17/2034		
Long Term Rating	AA+/Stable	New
Derry Twn GO bnds ser 2013 B due 04/23/2033		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on the town of Derry, N.H.'s general obligation (GO) bonds one notch to 'AA+' from 'AA' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

Standard & Poor's also assigned its 'AA+' rating and stable outlook to Derry's series 2014 GO bonds.

The town's full-faith-and-credit pledge secures the bonds. Officials intend to use bond proceeds to finance various town capital improvement projects.

The rating reflects our opinion of the following factors for the town, including its:

- Strong economy with access to the diverse Boston metropolitan statistical area;
- Strong management environment and "good" financial management policies under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them;
- Very strong budgetary flexibility with fiscal 2013 audited available reserves in excess of 30% of general fund expenditures and no plans to draw them down materially;
- Strong budgetary performance and stable revenue profile with no appreciable funding interdependence with the state or federal government;
- Very strong liquidity, providing very strong cash to cover debt service and operating expenditures; and
- Strong debt and contingent liabilities position, bolstered by low debt-to-market-value ratios, aggressive amortization, and manageable long-term liabilities.

Strong economy

We consider Derry's economy strong. Derry, with a population estimate of 33,285, is in Rockingham County, approximately 50 miles north of Boston and about 13 miles south of Manchester. Derry, the fourth-largest community in New Hampshire, is off Interstate 93, which runs north to south, providing residents access to additional labor markets throughout northern Massachusetts. The town maintains a modest employment base with HCA Health Service of New Hampshire, a small hospital, as its leading employer with more than 500 employees.

Projected per capita effective buying income is 110% of the national level. In our view, local unemployment is favorable with preliminary estimates for January 2014 at 6.2%. More broadly, county unemployment averaged 6% in

2012, below the nation's rate. Based on our forecasts, we expect that employment growth will continue modestly through 2015 and that unemployment will remain steady.

In our opinion, total assessed valuation (AV) remains strong, even following a 16% decrease from fiscal 2008 AV due, in large part, to lower real estate values regionwide. In fiscal 2013, total AV was $2.5 billion; market value was $71,800 per capita. The tax base is very diverse with the 10 leading taxpayers accounting for 8% of AV.

Recovery in the broader New England residential real estate market has shown improvement as our data suggest median home prices regionwide have strengthened. While we believe there are signs of local property values stabilizing and economic development beginning to gain traction, it is currently uncertain when future AV will reflect this.

Strong management conditions

In our opinion, management conditions are strong. Since 1993, Derry has operated under a Town Charter form of government in compliance with New Hampshire statute RSA 49-D. The governing council has policymaking authority, and a town administrator runs the day-to-day operations. We consider Derry's financial management practices "good" under our FMA criteria, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Derry maintains best practices, well embedded in the government's daily operations and practices, deemed critical to supporting credit quality. Formal policies support many of these activities, adding to the likelihood they will continue and transcend changes in the operating environment or personnel. Derry performs financial planning and maintains a six-year comprehensive capital improvement plan that it votes on and reprioritizes annually with funding sources included. Management reviews the budget quarterly and provides detailed monthly variance reports to the town council. Derry manages investment policies to state guidelines. The town has also recently adopted a new fund balance policy that manages unassigned general fund reserves to 12.5% of total tax assessments, including school and county. We understand Derry is currently adhering to the policy.

Very strong budget flexibility

In our opinion, budget flexibility is very strong. We calculate available reserves at $12.2 million, or 35% of expenditures, at fiscal year-end 2013. Derry closed fiscal 2013 with an unassigned general fund balance of $11.3 million, or 32% of expenditures, and an assigned fund balance of $951,000. The town also maintains general fund committed reserves designated for capital and compensated absences. While management does not consider these reserves available for operations, and we do not factor them into our calculations, we believe these reserves provide indirect budgeting flexibility.

Despite continued budget pressure stemming from higher pension and labor costs, we expect the town to continue to adhere to its reserve policy of limiting unassigned general fund balance to 12.5% of total tax commitments. We believe this policy suggests reserves will remain, what we consider, very strong and in-line with current balances.

Strong budgetary performance

In our view, overall budgetary performance is strong. Despite a challenging revenue environment over the past several fiscal years, Derry's finances have been stable and, what we view as, very strong. We believe a culture of, what we regard as, conservative budgeting and a stable revenue profile have contributed to strong and consistent financial operations.

In fiscal 2013, Derry realized a general fund surplus of $806,000, or 2.3% of operating expenditures. Across all governmental funds, after adjusting for capital outlay spent from bond proceeds, operations are balanced.

We believe the favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes. We also believe Derry maintains a stable and predictable revenue profile that is largely independent of state and federal revenue. Property taxes generate 63% of revenue, and collections are strong and stable. State aid accounts for 18% of revenue, and we note state funding has been stable recently. For fiscal 2014, the town expects budgetary performance to remain stable. Currently, management estimates revenue exceeds budgeted estimates.

Currently, we expect Derry's operating performance will remain in-line with years past. Based on our macroeconomic forecasts (Please see the "U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, on RatingsDirect.), credit conditions in New England are improving, which should translate to higher ancillary revenue and taxable levy growth.

Very strong liquidity

Supporting Derry's finances is, what we consider, very strong liquidity with total government available cash of 123% of total governmental fund expenditures and 3,292% of debt service. Further enhancing our view of the town's liquidity is its strong access to external liquidity. Derry is a regular market participant, issuing GO bonds frequently over the past several years.

Strong debt and contingent liabilities

In our opinion, Derry's debt and contingent liabilities position is strong. Following this bond issue, Derry has roughly $21.3 million of total direct debt outstanding, roughly $3.6 million of which is self-supporting enterprise debt. Overall, total governmental funds debt service is 3.7% of total governmental funds expenditures and net direct debt is 48% of total governmental funds revenue. Overall net debt is, in our view, a low 1.4% of market value, bolstering our view of the town's debt. We consider principal amortization average with officials planning to retire 64.6% over 10 years.

We believe additional long-term liabilities are manageable because pension and other postemployment benefits (OPEB) costs account for 8.2% of expenditures. Derry participates in the New Hampshire Retirement System, a cost-sharing, multiemployer, contributory pension plan. The town's contribution for fiscal 2013 was $2.7 million, or roughly 7.7% of expenditures. As for its OPEB liability, Derry offers some retiree health care. We, however, understand the town's actuarial valuation is largely computed as an implicit rate subsidy. As of June 30, 2013, the unfunded actuarial accrued liability was $13.7 million.

Strong Infrastructure Framework

We consider the Institutional Framework score for New Hampshire municipalities strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that Derry's strong underlying economy, strong management, and predictable operating profile will likely translate into strong budgetary performance and operating flexibility over the outlook's two-year period. In addition, we expect Derry to maintain its strong debt and liability profile. We believe debt service costs and pension and OPEB costs will likely remain manageable within Derry's current operating environment. For these reasons, we do not expect to change the rating over the next two years.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Dec. 17, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Hampshire Local Governments

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