

## ISSUER COMMENT

4 May 2021

### RATING

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

Aa2 No Outlook

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## Town of Durham, NH

### Annual Comment on Durham

#### Issuer Profile

The Town of Durham is located in Strafford County in southeastern New Hampshire, approximately 28 miles northeast of Manchester. The county has a population of 129,124 and a moderate population density of 350 people per square mile. The county's median family income is \$91,077 (1st quartile) and the March 2021 unemployment rate was 3% (1st quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are retail trade, health services, and state government.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Durham. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Durham changes, we will update our opinion at that time.

#### Credit Overview

The credit position for Durham is very high quality. Its Aa2 rating is a little stronger than the US cities median of Aa3. Notable credit factors include a robust financial position, a very strong wealth and income profile and an adequate tax base. It also reflects a small debt burden and a somewhat inflated pension liability.

**Finances:** The financial position of the town is robust and is relatively favorable in comparison to the Aa2 rating assigned. The cash balance as a percent of operating revenues (95.3%) is far above the US median, and stayed the same between 2015 and 2019. Moreover, the fund balance as a percent of operating revenues (31.2%) is consistent with other Moody's-rated cities nationwide.

**Economy and Tax Base:** The town has a very strong economy and tax base overall, which are comparable to its Aa2 rating. The median family income equals a robust 185.3% of the US level. Yet, Durham's full value per capita (\$74,319) is slightly weaker than the US median. Yet, this number increased from 2015 to 2019. Additionally, the total full value (\$1.2 billion) is below other Moody's-rated cities nationwide. The local economy benefits from the institutional presence of The University of New Hampshire with an estimated student enrolment of 16,000.

The coronavirus caused an unprecedented economic slowdown. We currently forecast US GDP to gradually recover in 2021. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could have a much slower recovery.

**Debt and Pensions:** The debt and pension liabilities of Durham are moderate overall. The town's net direct debt to full value (1.6%) is slightly higher than the US median. Furthermore, the Moody's-adjusted net pension liability to operating revenues (2.1x) unfavorably is slightly above the US median.

**Management and Governance:** New Hampshire cities have an institutional framework score <sup>3</sup> of "Aa", which is strong. The sector's major revenue source, property tax, is not subject to any caps. Some cities have adopted local tax caps tied to a three-year average of the CPI-U index. These caps 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. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations also tend to be minor, under 5% annually.

### Sector Trends - New Hampshire Cities

New Hampshire's economic expansion will continue, but the pace will moderate as the labor force tightens. The economy is largely driven by the state's southeastern region which benefits from the strong 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.

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.com](http://www.moody.com) for the most updated credit rating action information and rating history.

## EXHIBIT 1

## Key Indicators 4.5 Durham

	2015	2016	2017	2018	2019	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$956M	\$1,030M	\$1,077M	\$1,142M	\$1,221M	\$2,024M	Improved
Full Value Per Capita	\$61,036	\$64,697	\$66,749	\$69,473	\$74,319	\$97,657	Improved
Median Family Income (% of US Median)	182%	183%	187%	185%	185%	114%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	19.5%	24.6%	27.6%	30.3%	31.2%	35.5%	Improved
Net Cash Balance as % of Operating Revenues	92.9%	100.2%	88.7%	88.4%	95.3%	40.0%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	2.2%	1.9%	1.8%	1.8%	1.6%	1.1%	Improved
Net Direct Debt / Operating Revenues	1.46x	1.36x	1.27x	1.37x	1.21x	0.82x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	4.0%	3.0%	3.0%	3.0%	2.8%	1.9%	Improved
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.59x	2.19x	2.16x	2.22x	2.07x	1.57x	Improved

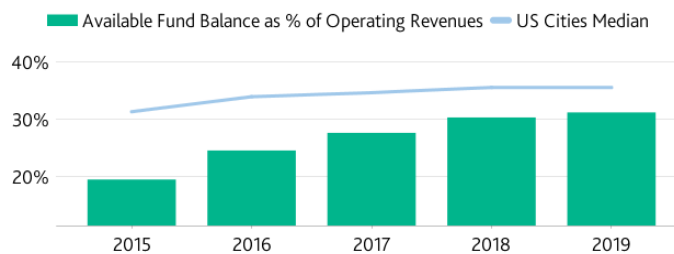
  

	2015	2016	2017	2018	2019	US Median
<b>Debt and Financial Data</b>						
Population	15,669	15,934	16,148	16,440	16,440	N/A
Available Fund Balance (\$000s)	\$2,878	\$3,528	\$4,173	\$4,649	\$5,111	\$8,489
Net Cash Balance (\$000s)	\$13,688	\$14,391	\$13,392	\$13,561	\$15,619	\$9,759
Operating Revenues (\$000s)	\$14,729	\$14,357	\$15,103	\$15,341	\$16,395	\$36,135
Net Direct Debt (\$000s)	\$21,508	\$19,460	\$19,164	\$20,986	\$19,898	\$19,137
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$38,201	\$31,392	\$32,690	\$34,078	\$33,878	\$38,399

Source: Moody's Investors Service

## EXHIBIT 2

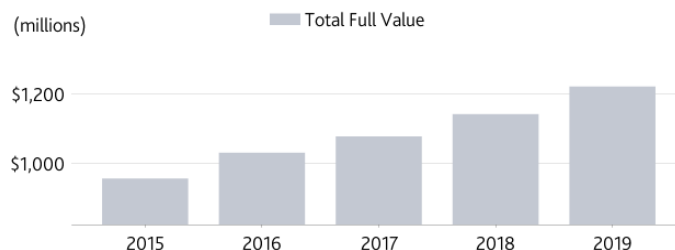
## Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

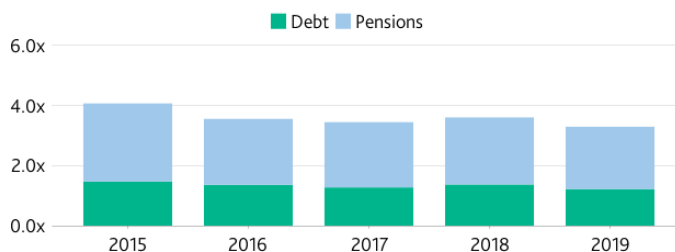
## Full value of the property tax base increased from 2015 to 2019



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

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues decreased from 2015 to 2019



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

## Endnotes

- 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.
  - 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.
- 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 \(July 2020\)](#) methodology report for more details.
  - 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.
  - The medians come from our most recently published local government medians report, [Medians - Tax base expansion bolsters revenue, but pensions remain a hurdle \(May 2020\)](#), which is available on [Moody's.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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