

# RatingsDirect®

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## Summary:

# Northampton, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$3.625 mil GO mun purp loan bnds ser 2018 due 05/01/2028

*Long Term Rating* AAA/Stable New

Northampton GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Northampton, Mass.' series 2018 general obligation (GO) municipal-purpose bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding. The outlook is stable.

Northampton's full-faith-and-credit GO pledge, subject to Proposition 2-1/2 limitations, secures the bonds. We rate the limited-tax GO debt on par with our view of Northampton's general creditworthiness. Officials plan to use bond proceeds for various capital improvement projects, the largest relating to street paving and vehicle replacements.

Northampton's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," Northampton has a predominately locally derived revenue source, with roughly three-fourths of governmental activity revenue coming property taxes. It also has independent taxing authority and independent treasury management from the federal government.

The rating reflects our view of Northampton'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 an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.4% of total governmental fund expenditures and 8.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 30.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 91.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Northampton's economy very strong. The city, with an estimated population of 28,836, is in western Massachusetts, about 93 miles from Boston and 20 miles north of Springfield in Hampshire County. It is in the Springfield MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 119% of the national level and per capita market value of \$117,524. Overall, market value grew by 1.9% over the past year to \$3.4 billion in 2018. The county unemployment rate was 3.3% in 2016.

As one of the cities within the "Knowledge Corridor," Northampton is home to Smith College, and is near Amherst College, Mount Holyoke, UMass Amherst, and Hampshire College. In addition to its academic base, the city has a vibrant arts and culture community and strong commercial presence. Numerous theaters and entertainment venues, along with various retailers and restaurants, can be found downtown.

The city's diverse tax base includes sectors ranging from manufacturing to health care. Nearly half of Northampton's residents find employment in the education and health services industries, with the trade, transportation, and utilities and leisure and hospitality industries employing the next-largest shares of city residents. Management reports that development downtown continues and that the local economy is benefiting from higher growth and consumer confidence in Northampton and the surrounding communities.

### **Very strong management**

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Overall, in our opinion, Northampton is conservative in its management and budgeting practices. Officials develop revenue and expenditure assumptions using up to 10 years of historical trends in combination with forward-looking, long-term financial planning. Management presents budget-to-actual reports quarterly to the city council, and posts daily expenditures to the city website via its "Open Checkbook." The city maintains a five-year forecast that it updates annually and uses to project expenditure and revenues issues, along with ways to address them. Northampton also has a five-year, rolling capital improvement plan (CIP). Both long-term plans are available to the public on the city's website.

Northampton's financial policies include an investment management policy, a debt management policy, and a reserve policy. The investment management policy requires annual reporting, and the debt management policy includes thresholds on debt issuance. The reserve policy calls for a stabilization fund balance of 10% of operating expenditures. Northampton complies with all of its policies.

### **Strong budgetary performance**

Northampton's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 2.6% of expenditures, but a slight deficit result across all governmental funds of negative 0.7% in fiscal 2017. General fund operating results of the city have been stable over the last three years, with results of 3.6% in 2016 and 3.7% in 2015.

After accounting for recurring transfers from enterprise funds, Northampton continues to realize strong performance, with a general fund operating surplus as well as positive results across all governmental funds. Management attributes

the surplus to conservative budgeting practices and increased tax collections from better collection practices. As fiscal 2018 nears its close, the city is anticipating at least break-even results in its general fund.

As Northampton plans for the fiscal 2019 budget, it noted that health and pension costs are the main source of projected expenditure increases. Given the history of conservative budgeting practices, we expect the city will manage these costs and maintain strong performance.

### **Very strong budgetary flexibility**

Northampton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 22% of operating expenditures, or \$20.6 million.

Northampton has traditionally maintained strong fund balance levels and has previously been willing and able to raise taxes when necessary. The fiscal 2018 budget includes a 2.5% tax levy increase plus debt exclusions, as allowed under statute. In fiscal 2014, the city approved a \$2.5 million override of the levy limit, which, in our view, demonstrated a willingness to raise revenues to meet expenditures.

Northampton has continued to add to reserves for the several fiscal years and does not anticipate balances materially changing at fiscal year-end 2018. A formally adopted reserve policy sets a goal of generating free cash at a rate of 3% of the general fund operating budget annually, with a portion allocated to strengthening reserves. The policy aims to maintain reserves at levels of at least 10% of the general fund operating budget. Given Northampton's balanced budgets and historically positive fiscal performance and underlying reserve policy, we do not expect the reserves will weaken within the next two years.

### **Very strong liquidity**

In our opinion, Northampton's liquidity is very strong, with total government available cash at 42.4% of total governmental fund expenditures and 8.7x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Northampton does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. The city maintains what we view as strong access to external liquidity, with long-term GO bond issuances within the past 15 years.

### **Very strong debt and contingent liability profile**

In our view, Northampton's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.8% of total governmental fund expenditures, and net direct debt is 30.6% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, and approximately 91.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Including this issue, Northampton will have approximately \$59 million in total direct debt. Over the next several years, it could issue up to \$15.6 million in additional debt for various infrastructure projects, a portion of which we expect will be self-supporting. We do not expect these plans to have a material effect on the city's debt profile.

Northampton's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 7.6% of total governmental fund expenditures in 2017. Of that amount, 4.6% represented required contributions to

pension obligations, and 3.0% represented OPEB payments. The city made its full annual required pension contribution in 2017.

Northampton participates in the Northampton Contributory Retirement System, a multiemployer defined-benefit pension plan. As of June 30, 2017, the city reported a liability of \$57.7 million for its proportionate share of the net pension liability. As of the most recent valuation on Dec. 31, 2016, the plan fiduciary net position as a percentage of the total pension liability, as defined in GASB 67, was 63.7%, down from 68.2% the previous year. Northampton is also a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiemployer defined-benefit plan. The city does not make an annual contribution as the commonwealth is responsible for the contributions and future benefits payments for MTRS.

Northampton also provides postemployment health care and life insurance benefits for qualifying retirees. Benefits are paid on a pay-as-you-go basis. As of its most recent valuation of July 1, 2015, the city had an unfunded actuarial accrued liability of \$113.2 million, with the OPEB plan 0.1% funded. Northampton established an OPEB trust in 2015. It has made annual contributions since, bringing the trust's balance as of June 30, 2017 to \$433,770.

While the city is managing these costs and expects to continue to do so, should these costs continue to rise as a percentage of expenditures, particularly if we do not view Northampton as having a plan in place to sufficiently address these liabilities, it could weaken our view of the city's overall debt and contingent liability profile.

**Strong institutional framework**

The institutional framework score for Massachusetts municipalities is strong.

**Outlook**

The stable outlook reflects S&P Global Ratings' opinion that Northampton's strong management team will maintain strong performance and reserves. The city's strong economy and access to local universities provide additional stability. Therefore, we do not expect to lower the rating within out two-year outlook horizon.

However, if pension and OPEB costs continue to rise, pressuring budgetary performance and leading to reductions in reserves, we could lower the rating.

Ratings Detail (As Of April 17, 2018)		
Northampton GO (AGM) <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Northampton GO (ASSURED GTY) <i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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