

# RatingsDirect®

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## Summary:

# Northampton, Massachusetts; General Obligation

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### Credit Profile

Northampton GO (AGM)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Northampton GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Northampton, Mass.' general obligation (GO) bonds to 'AA+' from 'A+', based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

The rating reflects our assessment of the following factors for the city:

- We consider Northampton's economy strong, with access to the broad and diverse Springfield metropolitan statistical area. The city is within Hampshire County in western Massachusetts, is primarily residential in nature, and serves as cultural and tourist center in the region. Unemployment for Hampshire County was 5.6% in 2012. The city has a projected per capita effective buying income of 107% of that of the U.S. Per capita market value was \$112,269 for fiscal 2014. The city's 10 leading taxpayers account for a diverse 5.3% of assessed value.
- In our opinion, the city's budgetary flexibility is very strong, with available reserves above 5% of expenditures and no plans to significantly spend them down. Northampton has built reserve levels in the past three fiscal years. Audited fiscal 2013 available reserves were \$8.7 million or 10.2% of expenditures. The city has budgeted for break-even operations at fiscal year-end 2014, thus reserves are remaining level with those in fiscal 2013. In fiscal 2014, the town got voters' approval for a general fund override that will be used in building the stabilization reserves and to fund certain capital projects.
- The city's budgetary performance has been good, in our view. Northampton ended fiscal 2013 with an operating surplus of 2.4% in the general fund and closed total governmental funds with a 1.8% deficit. However, it has budgeted break-even operations in fiscal 2014 without any use of the fund balance. Property taxes contribute about 54% of the 2013 general fund revenues followed by intergovernmental aid, which makes up about 28%.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash at 26.4% of total governmental fund expenditures and at 296% of debt service. We believe Northampton has strong access to external liquidity and invests its cash in highly liquid collateralized or insured bank deposits.
- We view the city's management conditions as strong with good financial practices. Highlights of the city's practices include monthly budget monitoring reports, formal debt management policy, and a formal five-year financial plan.
- In our opinion, the city's debt and contingent liability profile is very strong, with total governmental fund debt service at 8.9% of total governmental fund expenditures, and net direct debt at 44.1% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and about 75% of debt will be amortized over the next 10

years. Northampton is planning to permanently finance GO bond anticipation notes outstanding of \$2.1 million in the next 12 months.

- The city contributes to the pension plan administered by the Northampton Contributory Retirement Board. Northampton has contributed 100% of the annual required contribution (ARC) to the system in each of the past three years. However, the pension plan is currently funded at just 61%. The city also provides other postemployment benefits (OPEB) through various plans on a pay-as-you-go basis. However, the city's OPEB unfunded actuarial accrued liability is significantly large at \$118.7 million, which is 0% funded. Northampton contributed 35% of the ARC in fiscal 2013. The combined ARC and OPEB pay-as-you-go costs for fiscal 2013 were 8% of expenditures.
- We consider the Institutional Framework score for Massachusetts cities strong. (See the Institutional Framework score for Massachusetts, published Sept. 12, 2013.)

## Outlook

The stable outlook reflects our view of the city's strong local economy with access to nearby Springfield and Amherst employment markets and its maintenance of very strong budgetary flexibility. Northampton's very strong liquidity along with favorable debt profile further enhance the rating stability. Therefore, we do not expect to change the rating over the outlook's two-year horizon. We believe that there is no potential for an upgrade in near future; however, we might consider a downgrade if Northampton fails to maintain its strong budgetary flexibility and liquidity due to deteriorated budgetary performance following a significant rise in its pension and OPEB pay-as-you-go liabilities.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

### Related Research

- Institutional Framework Overview: Massachusetts Local Governments, Sept. 12, 2013

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