

RatingsDirect®

Summary:

Northampton, Massachusetts; General Obligation

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Credit Profile

US\$3.595 mil GO mun purp loan bnds ser 2017 due 06/01/2027

<i>Long Term Rating</i>	AAA/Stable	New
Northampton GO (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Northampton GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Northampton GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned it 'AAA' rating to Northampton, Mass.' series 2017 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. Despite the limitations imposed by the state levy limit law, we do not make a rating distinction for the limited-tax GO pledge given the city's reserves and budgetary flexibility under the levy cap. Bond proceeds will fund capital projects.

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 opinion of the following factors for the city:

- 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 methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 20% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 44.5% of total governmental fund expenditures and 7.5x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 6.0% of expenditures and

net direct debt that is 32.2% of total governmental fund revenue; low overall net debt at less than 3% of market value; and rapid amortization, with 87.7% 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 located in Hampshire County in the Springfield, Mass., MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 116% of the national level and per capita market value of \$115,372. Overall, the city's market value grew by 1.0% over the past year to \$3.3 billion in 2017. The county unemployment rate was 3.3% in 2016.

Northampton is in western Massachusetts, about 93 miles from Boston and 20 miles north of Springfield. 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 in downtown Northampton.

The city's diverse tax base includes sectors ranging from manufacturing companies to health care industries. 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 Financial Management Assessment 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 Northampton 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 improvements 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 3.6% of expenditures, and slight surplus results across all governmental funds of 1.3% in fiscal 2016. General

fund operating results have been stable over the past three years, with a result of 3.7% in 2015 and 2.8% in 2014.

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 2017 nears its close, the city is anticipating at least break-even results in its general fund. The 2017 general fund budget did not include any use of free cash or other reserves.

As Northampton plans for the fiscal 2018 budget, it noted that health costs are the main driver 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 2016 of 20% of operating expenditures, or \$18.1 million.

Northampton has traditionally maintained strong fund balance levels and has previously been willing and able to raise taxes when necessary. The fiscal 2017 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 past three fiscal years and does not anticipate balances materially changing at fiscal year-end 2017. 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 general fund operating budget. Given Northampton's balanced budgets and historically positive fiscal performances and underlying reserve policy, we do not expect the city's 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 44.5% of total governmental fund expenditures and 7.5x governmental debt service in 2016. 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 6.0% of total governmental fund expenditures, and net direct debt is 32.2% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 87.7% 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 \$62.2 million in total direct debt. Within the next two years,

it could issue up to \$8.3 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 benefits (OPEB) contributions totaled 7.9% of total governmental fund expenditures in 2016. Of that amount, 4.7% represented required contributions to pension obligations, and 3.2% represented OPEB payments. The city made its full actuarially determined contribution for the past three audited fiscal years.

Northampton participates in the Northampton Contributory Retirement System, a multiple-employer defined-benefit pension plan. It made its full actuarially determined contribution in fiscal 2016. As of June 30, 2016, the city reported a liability of \$48.9 million for its proportionate share of the net pension liability. As of the most recent valuation on Dec. 31, 2015, the plan fiduciary net position as a percentage of the total pension liability, as defined in GASB 67, was 68.2%, down from 72.3% the previous year. Northampton is also a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple employer 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 post-employment 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, 2016 to \$236,700.

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 strong reserves. The city's strong economy and access to local universities provide additional stability. As such, we do not expect to lower the rating within our two-year outlook horizon.

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

Related Research

- 2016 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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