

# RatingsDirect®

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## Summary:

# Northampton, Massachusetts; General Obligation

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### Credit Profile

US\$2.075 mil GO mun purp loan of 2023 bnds ser 2023 due 10/15/2033		
<i>Long Term Rating</i>	AAA/Stable	New
Northampton GO mun purp loan		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Northampton GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Northampton, Mass.' approximately \$2.075 million series 2023 general obligation (GO) municipal-purpose loan bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding.
- The outlook is stable.

### Security

Northampton's full-faith-and-credit GO pledge, subject to Proposition 2 1/2 limitations, secures the bonds. Despite commonwealth levy limit laws, we do not make a rating distinction between Northampton's limited-tax bonds and its general creditworthiness because our analysis of its financial and economic conditions already includes the statutory limitation imposed on its revenue-raising ability.

The 2023 GO bond proceeds will finance Department of Public Works (DPW) vehicles and road paving projects.

### Credit overview

Northampton consistently maintains reserves higher than the median for comparably rated state peers. Its financial results are directly attributable to an active financial management team and well-embedded policies and practices. The town's financial performance has stayed strong over several years, which has allowed for the maintenance of very strong reserves, well above the medians for the state. The town saw a sizable surplus in fiscal 2022, driven by strong revenue performance vis-à-vis budget estimates and the use of American Rescue Plan Act (ARPA) funds for revenue replacement. For fiscal years 2023 and 2024, we believe performance will remain strong, despite the town identifying a budget shortfall of \$2.3 million in the school department. Management is budgeting to use \$1.2 million in stabilization reserves, and has initiated expenditure cuts to bring budgetary alignment in 2024. The town maintains a strong record of conservative revenue estimating, and we believe positive revenue variances throughout the year will likely offset the use of reserves, resulting in minimal change to its financial position. The town's debt profile is favorable overall, although we believe pension and other postemployment benefits (OPEB) liabilities will remain a long-term credit pressure, given the size of the liability and low OPEB funded ratios.

The long-term rating reflects our opinion of the city's:

- Growing tax base and participation in a broad and diverse metropolitan statistical area (MSA) and expectation of continued improvement in local employment conditions;
- Very strong financial management environment that we expect will continue through recent personnel changes, and a strong institutional framework;
- Consistent financial results, supported by a generally stable revenue and expenditure profile, leading to high cash and reserve balances; and
- Low debt service carrying charges and debt relative to revenue, but with a large pension and OPEB obligation.

### **Environmental, social, and governance**

We analyzed the city's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are neutral in our analysis.

## **Outlook**

The stable outlook reflects our view that the city will maintain a stable financial profile, supported by its very strong financial management policies. We do not expect to revise the rating during the two-year outlook period.

### **Downside scenario**

We could lower the rating if budgetary performance weakens, leading to reduced reserves and constrained liquidity.

## **Credit Opinion**

### **Stable economic profile with a growing economic base and participation in a broad and diverse MSA**

Located within the "Knowledge Corridor," Northampton is home to Smith College and is near Amherst College, Mount Holyoke, UMass Amherst, and Hampshire College. The town is the hub for the county participating in the Springfield MSA. The city has a vibrant arts and culture community, which helps it draw additional residential and commercial development. Nearly half of Northampton's residents find employment in the education and health services industries, with the trade, transportation, utilities, and leisure and hospitality industries employing the next-largest shares of city residents.

Notable recent and ongoing developments include Smith College's redesign and expansion of its Nielsen Library, which consists of a \$100 million project to attract further interest in the college. The Village Hill Campus redevelopment project, at the site of a former state hospital, is under multistage conversion into a mixed residential and commercial site. Management reports residential infill, as well as continued investment in solar arrays and the cannabis industry. Given the demonstrated growth in the tax base over the past several years, and with significant projects underway, we expect continued growth in the tax base and underlying wealth and income metrics.

### **Very strong and well-embedded financial policies and practices**

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).

Northampton's financial policies include investment management, debt management, and reserve policies. 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 its policies.

The city is taking steps to insulate itself from cyber security risks.

The institutional framework score for Massachusetts municipalities is strong.

### **Consistently strong budgetary performance, leading to maintenance of high reserves, cash balances**

The town's financial position is among the strongest in the state. Fiscal 2022 realized a strong surplus, increasing reserves to its highest levels ever. Given the revenue recovery and management's demonstrated willingness to adjust the budget to maintain balance, we expect continued strong budgetary performance and maintenance of very strong budgetary flexibility and liquidity profiles. This is despite the town identifying a \$2.3 million budgetary shortfall in the school department for 2024. The city is using \$1.2 million in stabilization reserves and initiating budget cuts to bring budgetary alignment. The 2024 budget totals \$132.3 million in total and includes a 4.77% increase from the previous fiscal year. While still early in the year, outside of the school department budget gap, revenues and expenditures are trending favorably, as in years past.

### **Low debt profile with no major debt plans in the near term**

Northampton has approximately \$34.5 million in net direct debt, after accounting for self-supported enterprise debt. The city expects to issue additional debt for various capital projects as part of its CIP over the next two years; however, we do not expect a material change in its debt ratios.

### **Slightly elevated retirement costs that will continue to rise as a share of budget**

We view pension and OPEB liabilities as a potential source of credit pressure for Northampton, given that costs represent approximately 9% of the budget, and we expect they will increase.

The city's pension actuarially determined contribution uses a 6.9% (previously 7.125%) discount rate, and the plan's payroll growth assumption of 4% could result in unexpected contribution increases if the target is not consistently achieved. Currently, we believe contributions remain affordable in the short term, but will increase as a share of budget over the long term.

As of the fiscal year 2022 audit, the city participated in the following plans and liabilities:

- Northampton Contributory Retirement System (NCRS): 80% funded, \$38.6 million net pension liability, measured with a 7.125% discount rate; and
- A defined-benefit health care plan that provides both explicit subsidies: 2% funded, \$156 million net OPEB liability.

## Rating above the sovereign

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," published Nov. 19, 2013, on RatingsDirect, Northampton has a predominantly locally derived revenue source, with property taxes accounting for roughly 60% of general fund revenues. It also has independent taxing authority and independent treasury management from the federal government.

### Northampton--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	123			
Market value per capita (\$)	155,672			
Population		29,338	28,668	28,908
County unemployment rate (%)	3.4			
Market value (\$000)	4,567,099	3,918,773	3,733,722	3,680,795
Ten largest taxpayers % of taxable value	4.9			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		12.2	4.1	2.5
Total governmental fund result % of expenditures		19.4	3.1	1.9
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		43.0	31.3	27.3
Total available reserves (\$000)		47,950	34,337	29,785
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		70	59	48
Total government cash % of governmental fund debt service		1812	1580	927
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Very strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		3.9	3.8	5.2
Net direct debt % of governmental fund revenue	18			
Overall net debt % of market value	0.6			
Direct debt 10-year amortization (%)	100			
Required pension contribution % of governmental fund expenditures		5.0		
OPEB actual contribution % of governmental fund expenditures		3.9		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits.  
Data points and ratios may reflect analytical adjustments.

## Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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