MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 rating to the City of Northampton's (MA) $2.1 million G.O. Bond Anticipation Notes

Global Credit Research - 25 Jan 2013

Long-term Aa2 rating is affirmed

NORTHAMPTON (CITY OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE	RATING
General Obligation Bond Anticipation Notes	MIG 1

Sale Amount	$2,125,000
Expected Sale Date	01/29/13
Rating Description	Note: Bond Anticipation

Moody's Outlook NOO

Opinion

NEW YORK, January 25, 2013 --Moody's Investors Service has assigned a MIG 1 rating to the City of Northampton's (MA) $2.1 million General Obligation Bond Anticipation Notes (BANs, dated February 8, 2013 and due February 7, 2014). Concurrently, Moody's has affirmed the long-term Aa2 rating assigned to $58.1 million of outstanding general obligation bonds.

SUMMARY RATING RATIONALE

The notes are secured by the city's general obligation limited tax pledge as debt service is subject to levy limits of Proposition 2 ½. Note proceeds in the amount of $800,000 will renew a like amount of notes due February 8, 2013 issued to finance a DPW facility planning. The remaining proceeds in the amount of $1.2 million will finance the Fields Recreational Development Project and the remaining $125,000 will finance a school parking lot resurface project.

The MIG 1 rating incorporates the city's demonstrated history of access to the capital markets as well as its satisfactory long-term credit characteristics. The Aa2 long-term rating reflects the city's sizeable and diverse tax base stabilized by institutional presence, narrow financial position with limited flexibility, average wealth levels and manageable debt position.

STRENGTHS

- Demonstrated market access for BANs

- Diverse tax base

- Recent increases to stabilization fund balance

CHALLENGES

- Slim financial position

- Limited financial flexibility

- State aid declines

DETAILED CREDIT DISCUSSION

HISTORY OF SATISFACTORY MARKET ACCESS

Northampton has demonstrated adequate access to the capital markets. The city's most recent BAN sale dated February 10, 2012 received five bids. In addition the bond sale dated February 9, 2012 received nine bids and previously other BAN sales dated April 21, 2011 and December 9, 2011 received nine and two bids, respectively. All bids were received from major regional and national financial institutions. Moody's believes the city's history of satisfactory market access and long-term credit strength will permit adequate market access to refund the notes, if necessary, at the February 2014 maturity.

FINANCIAL POSITION MARKED BY SLIM RESERVES

Moody's believes that Northampton's financial strength will remain challenged in the medium term. In fiscal 2010, in response to state aid declines, the city passed an override of Proposition 2 ½ which produced an additional $2 million in revenue. In addition, the city established a local option hotel and meals tax which added an additional $390,000 in annual revenue. As a result, the city ended fiscal 2010 with its first operating surplus of $1.3 million in four years. However, in fiscal 2011 budget pressures reverted operations back into a slight deficit of $150,000. The increased revenues from hotel and meal taxes (up 41% and 18%, respectively) as well as additional tax title collections of $155,000, were offset by increased expenditures, primarily from snow and ice, $216,000; converting payroll to full accrual basis, $200,000; and an increase in public safety cost due to new full-time ambulance service. The city's free cash certification increased to $1.1 million and the total fund balance fell only slightly to $4.1 million (5% of revenues). In addition, the unassigned fund balance at the end of fiscal 2011 was $2.1 million which includes the stabilization fund balance of $687,000.

The 2012 unaudited draft financials reflect a larger operating surplus of $2.9 million attributed to an increase in local revenue receipts, $268,000 of additional unplanned state aid and $275,000 in tax title collections, as well as continued efforts to conservatively manage the city's expenditures. The total General Fund balance increased to $6.99 million (8.1% of revenues) and the unassigned fund balance increased to $4.45 million (5.2% of revenues). The increase marks and improvement but still well below the median reserve levels for the current rating category.

The 2013 budget increased by 3% and is balanced with a 5% tax levy increase including debt exclusions and a $896,000 free cash appropriation for capital expenditures. The city has also appropriated $500,000 of free cash into its capital stabilization fund. The year-to-date budget to actual is trending positive with revenues from building permits, motor vehicles and licenses and permits all ahead of projections. The city's primary revenue source is property taxes (49.9% of 2011 revenues) and intergovernmental (18.4%) with collection rates during the 2011 fiscal year improving to 96%. Revenue flexibility will continue to pressure annual budget growth as the city has relatively no unused levy capacity.

The city contributes to the Northampton Contributory Retirement System, a multi-employer defined benefit pension plan. The plan was 61% funded as of January 1, 2012. The city is required to fully fund its Annual Required Contribution (ARC), which was $3.9 million in 2011, representing 4.8% of expenditures. The plan assumes a 7.75% rate of return on investments and should the rate be adjusted downward in the next actuarial valuation, the city's annual contribution and its Unfunded Actuarial Accrued Liability (UAAL) of $51.8 million could increase significantly. Also, the city currently contributes to its OPEB liability on a pay-as-you-go basis. The city contributed 51% of its annual OPEB cost in fiscal 2011, representing $3.3 million. The total UAAL for OPEB is $84.1 million as of July 1, 2009. The city's total fixed costs for 2011, including pension, OPEB and debt service, represented $12.4 million or 15% of expenditures.

Going forward, review of the city's credit strength will heavily weigh its progress towards improving and maintaining balanced operations and replenishing reserves to levels equivalent to similarly-rated communities.

DIVERSE TAX BASE REMAINS STABLE

Moody's expects the city's $3.3 billion tax base to remain stable with slow growth reflecting continued economic weakness and despite modest improvement in the residential real estate market. Positively, the city continues to represent the region as a cultural and academic center given the presence of Smith College (rated Aa1/Stable), a private liberal arts college for women and the city's largest taxpayer, comprising 1.1% of 2012 assessed valuation. The 2013 equalized value declined by 1.6% bringing the five-year average annual growth to 2% (2008-2013). Commercial property (14% of 2013 assessed value) development continues to improve, benefiting from the Village Hill project and the King street commercial corridor. In addition, the Cooley Dickinson Hospital recently expanded its surgical center and is finalizing its affiliation agreement with Massachusetts General Hospital (rated Aa2/stable outlook). Also, the city's resident student population depresses its socioeconomic indices, with per capita income ($58,311) and median family income ($72,355) at 92.6% and 89.1% of state average, but still above average for the U.S. at 115% and 114.9%, respectively. The city's unemployment rate of 4.6% as of October 2012 was well below the state and nation at 6.2% and 7.5%, respectively.

DEBT POSITION BENEFITS FROM DEBT EXCLUSIONS AND COMMONWEALTH SCHOOL BUILDING GRANTS

Moody's anticipates the city's net direct debt burden (1.6% of equalized value) will remain affordable, given significant state school building aid and expected continued support of debt exclusions and self-support of enterprise funds. Once adjusted for 70% state school construction grants, the city's adjusted debt burden drops to 1.1% with fiscal 2011 debt service representing a moderate 6.2% of expenditures. In addition, approximately 43% of the outstanding G.O. bonds have been excluded from the levy limitations of Proposition 2 ½. The amortization of existing principal is average with 74.7% retired within ten years. Future borrowing plans include $4 million in authorized but unissued debt plus a DPW facility project with an estimated project cost of $10 to $16 million to be funded by an equal split between the General Fund and the self-supporting enterprise funds. The city's debt profile consists entirely of fixed-rate borrowing and is not subject to any derivative agreements.

WHAT COULD MAKE THE RATING GO UP

- Significantly improved financial position with a trend of structurally balanced operations

- Improvement in the city's demographic profile

- Sizeable fund balance growth

WHAT COULD MAKE THE RATING GO DOWN

- A decline in reserves or liquidity position during fiscal 2013

- Failure to grow reserves consistent with the current rating category

- Decrease in tax base

KEY FACTS:

Equalized Valuation 2013: $3.3 billion

2010 Population (US Census): 28,549 (-1.5% since 2000)

Average Annual Increase in Equalized Valuation (2008-2013): 2.0%

Per Capita Income: $58,311 (92.6% of state, 115% of US median)

Median Family Income: $72,355 (89.1% of state, 114.9% of US median)

Unemployment (October 2012): 4.6% (6.2% of state, 7.5% of US median)

FY11 Total General Fund Balance: $4.1 million (5% of General Fund revenues)

FY11 Unassigned Fund Balance: $2.1 million (2.6% of General Fund revenues)

FY12 unaudited Total General Fund Balance: $6.99 million (8.1% of General Fund revenues)

FY12 unaudited Unassigned Fund Balance: $4.45 million (5.2% of General Fund revenues)

Net Direct Debt as % of Equalized Value: 1.6%

Adjusted Direct Debt as % of Equalized Value: 1.1%

Amortization of Principal (10 years): 74.7%

Post-sale General Obligation Debt Outstanding: $83.3 million

The principal methodology used in rating the long term bonds was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. The principal methodology used in rating the short term notes was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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