



**New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF NORTHAMPTON'S (MA) \$19.75 MILLION G.O.MUNICIPAL PURPOSE LOAN OF 2012 BONDS AND MIG 1 RATING TO \$800,000 G.O. BANS**

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Global Credit Research - 26 Jan 2012

**LONG-TERM Aa2 RATING APPLIES TO \$63.8 MILLION IN RATED G.O. DEBT, INCLUDING CURRENT OFFERING**

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

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Bond Anticipation Notes, 2012	MIG 1
<b>Sale Amount</b>	\$800,000
<b>Expected Sale Date</b>	01/27/12
<b>Rating Description</b>	Note: Bond Anticipation
General Obligation Municipal Purpose Loan of 2012 Bonds	Aa2
<b>Sale Amount</b>	\$19,750,000
<b>Expected Sale Date</b>	01/24/12
<b>Rating Description</b>	General Obligation

**Moody's Outlook** NOO

**Opinion**

NEW YORK, January 26, 2012 --Moody's Investors Service has assigned a rating of Aa2 to the City of Northampton's (MA) \$19.75 million General Obligation Municipal Purpose Loan of 2012 Bonds. A MIG 1 rating has also been assigned to the city's \$800,000 G.O. Bond Anticipation Notes, dated February 10, 2012 and payable February 8, 2013. Moody's has affirmed the long-term Aa2 rating assigned to \$44.1 million of outstanding general obligation bonds.

The bonds and notes are secured by the city's general obligation limited tax pledge as debt service is subject to levy limits of Proposition 2 ½. Bond proceeds will retire \$12.2 million of maturing BANS originally issued to finance the police station project (\$10 million of which has been voted exempt from Proposition 2 ½ mentioned previously). The remaining portion of bond proceeds will go towards various governmental capital projects. The new \$800,000 2012 BANS will renew \$750,000 of 2011 BANS and provide \$50,000 in new money toward ongoing engineering and planning of municipal projects. The notes are expected to be retired with future bond proceeds for the related projects.

**SUMMARY RATING RATIONALE**

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
- Stable tax base
- Recent appropriations to stabilization fund

#### 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 for note sales over \$1 million, having received 9 bids on its note sale dated April 13, 2011, and nine and six bids on its note sales dated June 23, 2010 and June 23, 2009. In addition, the city sold \$979,924 in BANs on November 30, 2011 and December 1, 2010 in which only 2 bids were received. All bids were received from major regional and national financial institutions. Moody's believes that 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 2013 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. 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, 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 budget increased 3.3% and includes revenue from new tax base growth of \$653,000 and is balanced without the use of free cash or stabilization fund appropriations. The state's final budget provided an additional \$268,000 in previously cut state aid which the city has allocated to the stabilization fund. In addition, the city has increased parking rates and fees which is estimated to provide \$200,000 in additional revenue. Going forward, review of the city's credit strength will heavily weigh its progress towards maintaining balanced operations and replenishing reserves to levels equivalent to similarly-rated communities.

The city has identified is unfunded liability (as of July 1, 2009) for other post employment benefits (OPEB) at \$84 million on a pay-as-you-go basis. The city has not yet determined how it will fund its annual

required contribution (ARC) of \$6.4 million. The Northampton Retirement System covers the city's non-teacher employees and as of January 1, 2010 had an Unfunded Actuarial Accrued Liability (UAAL) of approximately \$41 million and a funding status of 65%. The city continues to fully fund the pension ARC as required by the commonwealth, at approximately 4.9% of expenditures (\$4 million) in 2011.

#### TAX BASE REMAINS STABLE

Moody's expects the city's \$3.3 billion tax base to remain stable with slow growth reflecting continued weakness in the regional real estate market and current economic conditions. 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 1.2% of assessed valuation. The city's resident student population depresses its socioeconomic indices, with per capita income (\$24,022) and median family income (\$56,844) at 93% and 92% of state average, but still above average for the U.S. at 111% and 114%, respectively. Overall, five-year annual growth in the 80% residential tax base averaged 2.6% for 2007-2012, reflecting additional benefit from continued development for the Village Hill project and the King street commercial corridor. In addition, the Cooley Dickinson Hospital recently expanded its surgical center and continues to search for a regional medical partner. The city's unemployment rate of 4.9% as of November 2011 was well below the state and nation at 6.4% and 8.2%, respectively.

#### DEBT POSITION BENEFITS FROM COMMONWEALTH SCHOOL BUILDING GRANTS

Moody's anticipates the city's 2.3% overall debt burden will remain affordable, given significant state school building aid and expected continued self-support of enterprise funds. Once adjusted for 70% state school construction grants, the city's debt burden drops to 1.8% with fiscal 2011 debt service representing a moderate 6.2% of expenditures. Future borrowing plans of around \$5 million is contemplated based on the five-year capital improvement plan for various municipal projects. Amortization of existing principal is average with 79.1% retired within ten years. The city's debt profile consists entirely of fixed-rate borrowing and the city has not entered into any derivative agreements.

#### WHAT COULD MAKE THE RATING GO UP

- 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

- Prolonged structural imbalance and draw down of reserves
- Decrease in tax base

#### KEY FACTS:

Equalized Valuation 2012: \$3.3 billion

2010 Population (US Census): 28,549

Average Annual Increase in Equalized Valuation (2007-2012): 5.9%

Average Annual Increase in Assessed Valuation (2007-2012): 2.6%

Per Capita Income: \$24,022 (93% of state, 111% of US median)

Median Family Income: \$56,844 (92% of state, 114% of US median)

Unemployment (November 2011): 4.9% (6.4% of state, 8.2% of US median)

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

FY11 Unassigned Fund Balance (includes stabilization fund): \$2.1 million (2.6% of general fund revenues)

Direct Debt as % of Full Value: 2.3%

Adjusted Direct Debt as % of Full Value: 1.8%

Amortization of Principal (10 years): 79.1%

Post-sale General Obligation Debt Outstanding: \$63.8 million

The methodologies used in this rating were Bond Anticipation Notes and Other Short-Term Capital Financings published in June 2007, and General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

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