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RATINGS SERVICES

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Summary:
DRAFT: Northampton, Massachusetts

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Northampton GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Northampton GO (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services revised its outlook on Northampton, Mass.' general obligation (GO) bonds to stable from negative, and affirmed the 'A+' underlying rating (SPUR).The revision is due to indications of improvement in the city's financial performance and position.

The 'A+' rating also reflects our view of the city's:

- Recent actions that appear to have enhanced budgetary performance;
- Diverse economy that is buoyed by stable large employers;
- Good income levels and extremely strong per capita market value; and
- Low bonded debt burden but somewhat sizable long-term pension and OPEB liabilities.

Northampton, with a population of about 28,500, is located in western Massachusetts, roughly 90 miles west of Boston. As home to Smith College (1,350 employees) and located close to four other colleges and universities, the city is a cultural and tourist center in the region. Its economy is also buoyed by the presence of large, stable employers such as the Cooley Dickinson Hospital (1,700 employees), the city itself (1,290), the VA Medical Center (600), and ServiceNet, a human services provider (600).

In our view, income levels for city residents are good, with median household and per capita effective buying income equal to 99% and 107% of national levels, respectively. The city's unemployment rate has historically been below commonwealth and national levels and measured 5.3% (preliminary, seasonally unadjusted) as of July 2012, compared with the state's 6.6% and the nation's 8.2%.

The city's assessed value (AV) grew slightly in both fiscal 2011 (0.6%) and fiscal 2012 (0.8%) to $3.3 billion; officials note ongoing development projects have contributed to modest tax base growth for fiscal 2013 and should continue to bolster the tax base in the next few years. Value per capita is nearly $115,000, which we consider strong. The tax base is very diverse, with the 10 leading taxpayers accounting for approximately 5% of total AV. The city's tax base is about 80% residential and 17% commercial and industrial.

Northampton financial position has improved. The city indicates that it ended fiscal 2012 with a surplus, which officials attribute to favorable budget-to-actual expenditure variances combined with higher revenues due to the improved economy and increases in certain fees. As a result, management expects the 2012 financial performance to lead to an addition to reserves at year-end. Officials also report that general fund balance should increase an additional $850,000 due the collapse of the ambulance reserve into the general fund.

The fiscal 2013 general fund budget of $79.4 million is a 3% increase over 2012 and includes no appropriation of reserves. Highlights include higher appropriations for its historically overexpended items, which we believe better reflects actual spending patterns from previous years, as well as cost savings from a reorganization and consolidation of some departments.

From fiscal 2007 to 2011, the city's financial position weakened due to recessionary pressure on local and state aid revenues, coupled with overexpenditures on firefighter overtime, snow and ice removal, legal services, and veterans' benefits. With the introduction of Governmental Accounting Standards Board statement 54 for fiscal 2011, the city's stabilization funds were collapsed into the general fund. At year-end, the town's general fund balance (assigned and unassigned) totaled $4.1 million, or a good 5% of expenditures. However, the unassigned portion, which includes the stabilization funds, totaled $2.1 million, which is equal to a merely adequate 2.6% of expenditures. General fund cash at year-end totaled $7.9 million, which equates to a relatively low 35 days' expenses.

Standard & Poor's still considers the city's financial management practices "good" under its Financial Management Assessment, indicating that financial practices exist in most areas, but that governance officials may not formalize or regularly monitor all of them.

Net of self-supporting utility debt, Northampton's overall debt burden is, in our opinion, low at about $1,900 per capita, or 1.8% of market value. These figures do not net out state school building subsidies. Tax-supported debt service carrying charges have been low, averaging slightly over 6% of governmental funds' expenditures in the past three fiscal years. Due to new debt issuance, carrying charges are budgeted higher for fiscal 2013 due to new debt issuance, but we still consider this manageable. Roughly 30% of the city's debt has been voted excluded from the levy limitations of Proposition 2 ½.

Northampton's long-term liabilities are somewhat sizable. The city's pension plan is funded at 65% (7.75% discount rate), a funding level we consider somewhat weak. Fiscal 2011 contributions to the pension system totaled $4 million, or 4.9% of expenditures. The city's funds other postemployment benefits (OPEB) on a pay-as-you-go basis with the 2011 contribution of $2.7 million equal to 3.2% of expenditures. The combined unfunded pension and OPEB liabilities represent $4,400 per capita and 4% of market value.

Outlook

The stable outlook reflects our expectation that the city's financial position will improve over a two-year horizon, though not significantly enough to warrant a higher rating. Upward rating potential would be strengthened by maintenance of a structurally balanced budget with higher reserves and liquidity, continued tax base development, and a low debt burden. Conversely, an unfavorable budget-to-actual performance yielding operating deficits and lower reserves and liquidity would weigh on the rating. While not a near-term issue, the city's unfunded pension and OPEB liabilities could begin to pressure its operating budget if significant action is not taken to address them.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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