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Ratings

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Summary:

Northampton, Massachusetts; General Obligation

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Credit Profile		
US$4.825 mil GO mun purp loan ser 2016 due 06/01/2026		
Long Term Rating	AAA/Stable	New
Northampton GO (AGM)		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Northampton GO (ASSURED GTY)		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Northampton GO		
Long Term Rating	AAA/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on Northampton, Mass.' general obligation(GO) bonds to 'AAA' from 'AA+'. The outlook is stable.

At the same time, S&P Global Ratings assigned its 'AAA' rating to the city's 2016 municipal purpose bonds.

The upgrade to 'AAA' reflects our view of the city's improved economic indicators and strong financial management assessment. The rating is further supported by the city's very strong budgetary flexibility and very strong debt and contingent liability position.

We rated the city above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base. In 2015, 74% of the city's revenue was derived from local sources, demonstrating a lack of dependence on central government revenues.

Northampton's full faith and credit GO pledge secures the bonds, which is subject to the limitations imposed by Chapter 59, Section 21C of the General Laws, also known as Proposition 2 1/2 . The city intends to use proceeds from the bonds for various municipal purposes.

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 (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2015 level of 17% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 62.1% of total governmental fund expenditures and

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10.5x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.9% of expenditures and net direct debt that is 28.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 87% 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 28,586, is located in Hampshire County in the Springfield MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 117% of the national level and per capita market value of $115,385. Overall, the city's market value grew by 1.2% over the past year to $3.3 billion in 2016. The county unemployment rate was 4.4% in 2015.

As one of the cities located within the Knowledge Corridor, Northampton is a leading city for economic and cultural development. The city is home to Smith College, and is in close proximity to four other universities and colleges. In addition to its academic base, the city also 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. The largest taxpayers for Northampton include Smith College, Massachusetts Electric, and Coca-Cola. Moreover, management reports several projects, either upcoming or under construction, which it believes will help strengthen the city's continually growing tax base.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. The city is conservative in its management and budgeting practices. Revenue and expenditure assumptions are developed using historic and recent trend analysis, and long-term financial planning. Management presents budget-to-actual reports quarterly to the city council, and posts daily expenditures to the city's website via its Open Checkbook. The city maintains a multiyear forecast and a five-year, rolling capital improvements plan (CIP); both are made available on the city's website. The long-term financial plan is updated annually and included in the city's budget. The city's financial policies include an investment 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 city's reserve policy calls for a stabilization fund balance of 10% of operating expenditures.

Strong budgetary performance

Northampton's budgetary performance is strong in our opinion. The city had operating surpluses of 3.7% of expenditures in the general fund and of 6.1% across all governmental funds in fiscal 2015. General fund operating results of the city have been stable over the last three years, with a result of 2.8% in 2014 and a result of 2.4% in 2013. The city's $3.2 million operating surplus in fiscal 2015 reflects approximately $1.1 million of revenues in excess of budget, and $1.7 million of unexpended appropriations. Increase in revenue from motor vehicle excise tax, hotel room occupancy tax, and meals tax, building permit issuance, as well as overall conservative budgeting, all contributed to the positive revenue performance.

Management reports performance in fiscal 2016 is better than budgeted expectations. The city is seeing increases in building permits issued due to continuous new developments and projects, as well as increases in hotel room occupancy tax, and meals tax. Management expects to end fiscal 2016 with a surplus similar to the previous year, and plans to allocate the funds towards the city's reserves.

Very strong budgetary flexibility

Northampton's budgetary flexibility is very strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2015 level of 17% of operating expenditures, or $14.8 million. In addition, the city has an ability and willingness to raise taxes when needed, which we view as a positive credit factor.

The city has traditionally maintained strong fund balance levels and has demonstrated a willingness and ability to raise taxes when necessary. The fiscal 2016 budget includes a 2.5% tax levy increase, and in fiscal 2014, the city approved a $2.5 million override of the levy limit. The city's available funds increased by 21.6% from $11.6 million in fiscal 2014, to $14.8 million in fiscal 2015. Going forward, Northampton plans to continue to allot funds to its reserves and surpass its current target minimum of 10% of the operating budget. Given Northampton's balanced budgets and historically positive fiscal performances, we do not expect the city's reserves to weaken within the next two years.

Very strong liquidity

In our opinion, Northampton's liquidity is very strong, with total government available cash at 62.1% of total governmental fund expenditures and 10.5x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary. We expect Northampton's liquidity profile to remain very strong as there is no anticipation of any significant deterioration of cash balances. The city also maintains strong access to external liquidity by frequently issuing debt for all capital project needs. Furthermore, we understand that the city does not have any variable rate debt or direct purchase debt, reducing Northampton's exposure to any contingent liquidity risks.

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 5.9% of total governmental fund expenditures, and net direct debt is 28.9% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 87% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

With the inclusion of the current issuance, Northampton will have approximately $58.6 million in total direct debt. Within the next two years, the city expects to issue an additional $2.25 million for various infrastructure projects and equipment. Management also reports that the city's wastewater treatment plant will be undergoing an upgrade over the next 10 years. The actual amount of debt to be issued for the project is still unknown; however, management reports all costs will be financed by revenue generated by the sewer fund.

Northampton's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.4% of total governmental fund expenditures in 2016. Of that amount, 5.1% represented required contributions to pension obligations, and 3.3% represented OPEB payments. The city made its full annual required pension contribution in 2016. Currently, we believe Northampton's pension and OPEB costs are manageable. The city contributes to the pension plan administered by the Northampton Contributory Retirement Board. It has contributed 100% of the annual required contribution to the system for each of the past three fiscal years. However, the pension plan is currently funded at just 63%.

The city also provides OPEB on a pay-as-you-go basis. The OPEB unfunded actuarial accrued liability is $113 million, and 0% funded. Northampton established a trust in 2015, and contributed $100,000 toward the fund. In fiscal 2016, the city added an additional $125,000 to the fund. For fiscal 2017, the city budgeted an amount of $165,000; keeping to its goal of increasing contributions to the trust by $25,000-$50,000 annually.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects our opinion that we do not expect any change to the rating within the next two years, based on our view of Northampton's very strong liquidity and debt profile, along with the city's healthy reserve levels. The city also continues to demonstrate strong budgetary performance. Those factors are further supported by the city's growing economy. However, if reserves were to significantly decline, resulting in a weaker budgetary performance, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

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

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.