

Summary:

Northampton, Massachusetts; General Obligation

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US\$3.85 mil GO mun purp loan of 2019 bnds due 05/15/2029

Long Term Rating AAA/Stable New

Northampton GO

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to Northampton, Mass.' series 2019 general obligation (GO) municipal-purpose bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding. The outlook is stable.

Northampton's full-faith-and-credit GO pledge, subject to Proposition 2-1/2 limitations, secures the bonds. Despite commonwealth levy limit laws, we did 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. We rate the limited-tax GO debt on par with our view of Northampton's general creditworthiness. Officials plan to use bond proceeds for roadway construction, facilities maintenance, and vehicle acquisition.

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 predominately locally derived revenue source, with roughly three-fourths of governmental activity revenue coming property taxes. It also has independent taxing authority and independent treasury management from the federal government.

The city's well-embedded financial management policies have led to consistent financial results. The local tax base continues to expand and diversify, and provides commercial services for residents in surrounding communities.

The long-term rating further reflects our opinion of the following factors, including the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA), although income and wealth indicators remain below those of 'AAA' rated peers in the commonwealth;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 23% of operating expenditures;

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- Very strong liquidity, with total government available cash at 39.5% of total governmental fund expenditures and 8.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 30.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 92.6% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider Northampton's economy very strong. The city, with an estimated population of 28,926, is in Hampshire County in the Springfield MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 111% of the national level and per capita market value of \$119,146. Overall, market value grew by 1.7% over the past year to \$3.4 billion in 2019. The county unemployment rate was 3.4% in 2017.

As one of the cities within the "Knowledge Corridor," Northampton is home to Smith College, and is near Amherst College, Mount Holyoke, UMass Amherst, and Hampshire College. In addition to its academic base, the city has a vibrant arts and culture community and a strong commercial presence. Numerous theaters and entertainment venues, along with various retailers and restaurants, can be found downtown.

The city's diverse tax base includes sectors ranging from manufacturing to health care. Nearly half of Northampton's residents find employment in the education and health services industries, with the trade, transportation, and utilities and leisure and hospitality industries employing the next-largest shares of city residents. Management reports that development downtown continues and that the local economy is benefiting from higher growth and consumer confidence in Northampton and the surrounding communities. Notable development in the city includes a new class A office building, two downtown residential projects totaling 125 apartments, and additional smaller residential developments. The city continues to field applications from marijuana manufacturing, processing, and retail businesses, and expects continued development in that sector. Given the growth in the tax base, we expect the city will maintain a very strong economic profile.

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.

Overall, in our opinion, 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. Both long-term plans are available to the public on the city's website.

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 of its policies.

Strong budgetary performance

Northampton's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 2.1% of expenditures, and balanced results across all governmental funds of negative 0.3% in fiscal 2018. General fund operating results of the city have been stable over the last three years, with results of 2.6% in 2017 and 3.6% in 2016.

We adjusted budgetary performance to account for recurring transfers into the general fund from the enterprise funds. In fiscal 2018, management notes several revenue line-items that outperformed the budget, particularly the motor vehicle excise tax, local option hotel and meals taxes, tax title, and ambulance receipts. Additionally, unspent budgetary appropriations, primarily due to vacancies, retirements, and medical insurance, helped generate the general fund surplus result.

There were no major changes in the fiscal 2019 budget. The city received its first payment from a new retail marijuana facility in the first quarter of 2019, which was wholly unbudgeted. Given this revenue and other estimates, we expect the city will produce another general fund operating result at the close of 2019. The 2020 budget does not make any major changes to revenue and expenditure assumptions, but management notes the incorporation of the new marijuana receipts into the budget, which should help ensure continued balance. Given the history of conservative budgeting practices, we expect the city will maintain strong performance over the two-year outlook period.

Very strong budgetary flexibility

Northampton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 23% of operating expenditures, or \$22.7 million.

Northampton has traditionally maintained strong fund balance levels and has previously been willing and able to raise taxes when necessary. In fiscal 2014, the city approved a \$2.5 million override of the levy limit, which, in our view, demonstrated a willingness to raise revenues to meet expenditures. Its financial plan includes the use of these reserves over time, at which point the city will likely seek another override.

Northampton has added to reserves over the past several fiscal years. Given its historically positive fiscal performance and underlying reserve policy, we do not expect the reserves will weaken within the next two years.

Very strong liquidity

In our opinion, Northampton's liquidity is very strong, with total government available cash at 39.5% of total governmental fund expenditures and 8.2x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

Northampton does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. The city maintains what we view as strong access to external liquidity, having issued GO bonds within the past 20 years. We expect that the city will maintain its current cash balances relative to expenditures and debt service, and that the liquidity profile will remain very strong.

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 4.8% of total governmental fund expenditures, and net direct debt is 30.2% of total governmental fund revenue.

Overall net debt is low at 1.1% of market value, and approximately 92.6% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Including this issue, Northampton will have approximately \$56 million in total direct debt. Over the next several years, management is currently forecasting the city will issue approximately \$9 million in general fund debt and \$22 million in water and sewer enterprise debt. As both enterprise funds have recently been fully self-supporting, in our view, we expect that water and sewer user charges will likely support the entirety of the upcoming issuances, particularly given the current amortization schedule. We do not expect these plans to have a material effect on the city's debt profile.

In our opinion, a credit weakness is Northampton's large pension and OPEB obligation. Northampton's combined required pension and actual OPEB contributions totaled 8.2% of total governmental fund expenditures in 2018. Of that amount, 4.5% represented required contributions to pension obligations, and 3.7% represented OPEB payments. The city made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 73.0%.

Northampton participates in the Northampton Contributory Retirement System, a multiple-employer defined-benefit pension plan. As of June 30, 2018, the city reported a liability of \$44.4 million for its proportionate share of the net pension liability. As of Dec. 31, 2017, the plan's funded ratio was 73%, an increase from 63.7% as of Dec. 31, 2016. The plan used a 7.5% discount rate, since lowered to 7.375%, both of which we consider slightly higher than average. Northampton is also a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple-employer defined-benefit plan with a special funding situation. The city does not make an annual contribution as the commonwealth is responsible for the contributions and future benefits payments and recognizes the full liability for MTRS.

Northampton also provides postemployment health care and life insurance benefits for qualifying retirees. For fiscal 2018, the city implemented GASB Statement No. 75. It reports a net OPEB liability of \$159.8 million, with an OPEB funded ratio of .52%. The balance of the trust as of June 30, 2018 is \$837,000.

While the city is managing its retirement costs and expects to continue to do so, should these costs continue to rise as a percentage of expenditures, particularly if we do not view Northampton as having a plan in place to sufficiently address these liabilities, it could weaken our view of the city's overall debt and contingent liability profile.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Northampton's strong management team will maintain strong performance and strong reserves. While the city's underlying wealth and income metrics are weaker than those of peers, it maintains access to a broad and diverse MSA and the local tax base continues to grow. We do not expect to lower the rating within our two-year outlook horizon.

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However, if declining budgetary performance led to a material reserve reduction over several years, we could lower the rating.

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

Ratings Detail (As Of May 9, 2019)

Northampton GO (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Northampton GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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