

RatingsDirect®

Summary:

Amherst, Massachusetts; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$6.882 mil GO mun purp loan bnds ser 2013 dtd 03/14/2013 due 10/01/2032

Long Term Rating AA/Stable New

Amherst GO

Long Term Rating AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to Amherst, Mass.' general obligation (GO) municipal purpose loan series 2013.

At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the town's existing GO debt. The outlook is stable.

Rating factors include what we consider Amherst's:

- Strong and stable economic base, anchored by the flagship campus of the University of Massachusetts (A+/Stable), as well as Amherst College (AAA/Stable) and Hampshire College (BBB/Stable);
- Good income and wealth indicators, which are particularly significant given the high student population;
- Good financial management and good reserves; and
- Low overall debt burden and rapid debt amortization.

These strengths are somewhat offset by Amherst's large unfunded other postemployment benefits (OPEB) liabilities.

The town's full faith and credit pledge secures the bonds. We understand that Amherst will use proceeds to fund capital improvements and to refund a portion of debt outstanding to achieve present value savings.

Amherst (estimated population: 37,800) is in Hampshire County in western Massachusetts approximately 100 miles west of Boston. The town is the economic center for the region with more than 15,000 jobs, most in higher education and health services. The local economy is underpinned by the presence of the University of Massachusetts, Amherst College, and Hampshire College. The schools provide a level of stability to the economy and in many ways insulate the town from economic recession. The December 2012 unemployment rate of 4.1% compares favorably with that of the commonwealth and the nation. Moreover, the median household effective buying income is 101% of the national level. This is particularly good in light of the large student population, which typically has a discounting effect on income measures.

Although the town's assessed value (AV) has decreased due to softer real estate values, Amherst has seen good growth in the tax base in the past decade driven, in part, by new construction and development. The town's AV has shown signs of stabilization followed by an accumulative 7% decline since fiscal 2009 to \$2.05 billion in fiscal 2013. Per capita

market value is what we consider adequate at \$54,000, but we believe these figures are understated given the tax-exempt status of the higher education facilities and the large student population. The 2011 median home value in Amherst was about \$340,000, which is roughly double the national median and on par with the state.

The town's financial position is good, in our view, and financial reserves have been consistent despite the slow national economy. For fiscal 2013, management adopted a balanced budget. Year-to-date results showed Amherst will end fiscal 2013 with at least a break-even operation after transferring about \$585,000 to its OPEB trust. For fiscal 2012, unaudited results showed a general fund balance increased by about \$911,000 to \$7.5 million, or what we consider a strong 11.6% of expenditures.

In fiscal 2011, the town implemented Governmental Accounting Standards Board Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. Amherst reported a 996,000 general fund operating surplus in fiscal 2011, driven mainly by favorable revenue variances and lower costs expended in the general government and public safety departments. The surplus was also aided by a \$1.68 million Proposition 2 1/2 override that helped cure a structural imbalance. The override increased the tax levy by 4.5% from the previous year. Audited results reported a total available fund balance of \$6.6 million or 10.6% of expenditures. While \$1.5 million of the total fund balance is committed, it can be assigned to any municipal purpose with a supermajority vote of the town's Board of Selectmen. Property taxes are Amherst's leading revenue source (62% of general fund revenues), and tax collections remain stable, with current-year collections at about 98% of the tax levy. Intergovernmental aid accounts for 24% of the revenues.

Based on a review of several key financial practices, Amherst's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment. The town is thorough in its budget preparation and forecasting processes and conservative in nature, with assumptions borne out by variance analyses. Along with the budget, management creates a five-year capital improvement plan that identifies funding sources and is linked to the town's multiyear forecast. Amherst's debt management policies limit general fund debt service to 10% of general fund revenues and establish minimum debt amortization targets. State statutes guide the town's investment policy, and its reserve and liquidity policies call for the undesignated-unreserved fund balance and stabilization fund to be maintained at 5% to 15% of general fund revenues, respectively.

Factoring in the self-support of the town's enterprise debt, we view Amherst's overall debt burden to be very low at \$460 per capita, or 1% of market value. These figures include the town's proportionate share of overlapping debt from the regional school district. The town's debt service carrying charge averaged 1% for the most recent three years. Amortization of principal debt is very rapid, with 76% of principal outstanding retired in 10 years. Future capital needs are modest, we believe, so we expect fixed debt ratios to remain low for the medium term.

A long-term credit consideration is Amherst's pension and OPEB liability. The town's OPEB unfunded actuarial accrued liability was \$94 million, or 125% of total governmental expenditures, as of June 30, 2012. The OPEB annual required contribution (ARC) was \$8.2 million (about 11% of total governmental expenditures), and Amherst's actual pay-as-you-go contribution was \$2.5 million, or 27% of the ARC. The town had established an OPEB trust and management had recently voted to transfer about \$585,000 to the trust in the current fiscal year. It is estimated that about 15% of the OPEB liabilities is related to the enterprise fund. While the enterprise fund will be meeting the full

ARC in the current and future fiscal years, management has yet to formulate a plan to meet its ARC for the rest of the liabilities. For its pension liabilities, Amherst contributes to the Hampshire County retirement system. The town's fiscal 2012 pension contribution was \$3.6 million, about 5% of total governmental expenditures. The county system is funded at 56%.

Outlook

The stable outlook reflects our expectation that Amherst's continued good fiscal management will allow the town to maintain strong general fund reserves commensurate with its formal policy throughout the economic cycle. Moreover, the town's stable economy and diverse property tax base should allow for revenues to remain strong and consistent. A consideration of a positive rating action over time would require further actions to mitigate the effects of Amherst's long-term liabilities in addition to the town continuing to maintain balanced operations and strong reserves. With these reasons, we do not expect to change the rating within the two-year outlook time frame.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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