

Summary:

Amherst, Massachusetts; General Obligation

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Credit Profile		
US\$5. mil GO mun purp loan bnds ser 2011 dtd 03/15/2011 due 11/01/2011-2020		
<i>Long Term Rating</i>	AA/Stable	New
Amherst GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

The 'AA' long-term rating assigned to the town of Amherst, Mass.' series 2011 general obligation municipal purpose bonds reflects Standard & Poor's Ratings Services' opinion of the town's:

- Strong and stable economic base, anchored by the flagship campus of the University of Massachusetts, as well as Amherst College and Hampshire College;
- Good income and wealth indicators, which are particularly significant given the high student population;
- Good financial management and good reserve levels; and
- Low overall debt burden and rapid debt amortization.

The town's full faith and credit pledge secures the bonds. The town will use proceeds to fund road improvements and purchase a parcel of land for conservation purposes.

Amherst (estimated population: 33,748) is located 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 bolstered mainly by the presence of the University of Massachusetts (rated A+/Stable), Amherst College (rated AAA/Stable), and Hampshire College (rated BBB/Stable). The schools provide a level of stability to the economy and, in many ways, insulate the town from economic recession. The December 2010 unemployment average of 5.3% compared favorably with those of the commonwealth and the nation. Moreover, the median household effective buying income is 107% of the national level. This is particularly good in light of the large student population, which typically has a discounting effect on income measures.

In 2010, the town's assessed value (AV) totaled \$2.1 billion, a decrease of 3.9% from 2009's AV. Although AV has decreased due to softer real-estate values, the town has seen good growth in the tax base over the past decade driven, in part, by new construction and development. Per capita market ratios are a strong \$57,873, but we believe these figures are understated given the tax-exempt status of the higher education facilities and the large student population.

The town's financial position is, in our view, good. At the close of audited fiscal 2009, the town reported an unreserved general fund balance \$3.0 million and a stabilization fund balance of \$1.3 million. These reserve balances combined for \$4.4 million, or 7.3% of expenditures. For fiscal 2010, while financial results are not audited, management projects a \$442,000 increase to the town's available reserves, closing the year with an available reserve position of \$4.8 million, or 8.1% of expenditures.

In the current fiscal year 2011, to remedy what was initially projected to be a \$4 million shortfall in the general fund, management reduced expenditures in 2010 that carried over into 2011 and also got a \$1.6 million Proposition 2 1/2 operating override. These efforts, coupled with better-than-expected local revenue collections, effectively closed the budget gap and put the town in better financial standing heading into 2012. The town manager has presented a balanced budget for municipal operations in 2012, without the use of reserves.

Fundamentally, the town's main revenues are consistent and strong. Property taxes are the town's leading revenue source (55% of general fund revenues), and tax collections remain stable, with current-year collections at roughly 98% of the tax levy. State aid accounts for 34% of revenues, and recent projections by the state indicate that intergovernmental aid should be relatively stable in 2012.

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. The town's debt management policies limit general fund debt service to 10% of general fund revenues and establishes 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.

Including this bond issue, we view the town's overall debt burden to be a very low \$569 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 of 2% is well below its stated policy targets, and amortization of principal debt is very aggressive, with 100% of outstanding principal retired in 10 years. Future capital needs are modest, so fixed debt ratios are expected to remain low for the intermediate term.

The town's other postemployment benefits (OPEB) unfunded actuarial accrued liability was \$74.8 million as of June 30, 2010. The OPEB annual required contribution (ARC), assuming an investment rate return of 4.25%, was \$6.1 million (roughly 9.5% of general fund expenditures), and the town's actual pay-as-you-go contribution was \$2.07 million, or 33% of the ARC.

For its pension liabilities, the town contributes to the Hampshire County retirement system. The town's fiscal 2011 pension contribution was \$3.5 million, roughly 5.4% of budgetary expenditures.

Outlook

We do not expect that the rating will change within the two-year parameter of the outlook based on our view that the town's financial position should remain at a level we consider good, particularly given the town's track record of making midyear adjustments and keeping reserves near their policy targets. Moreover, the town's stable economy and diverse property tax base should allow for revenues to remain strong and consistent.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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