

# RatingsDirect®

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## Summary:

# Amherst, Massachusetts; General Obligation

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## Summary:

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### Credit Profile

US\$1.95 mil GO mun purp loan bnds ser 2015 dtd 02/17/2015 due 02/15/2025

*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 the Town of Amherst, Mass.' series 2015 general obligation (GO) municipal purpose loan. At the same time, Standard & Poor's affirmed its 'AA+' rating, with a stable outlook, on the town's debt outstanding.

Amherst's GO pledge secures the bonds. We understand that proceeds will be used to finance various capital improvements.

We base the rating on our assessment of the following factors for the town:

- A strong economy, with access to the broad and diverse Springfield metropolitan statistical area (MSA), and anchored by the University of Massachusetts-Amherst;
- Strong budgetary flexibility, with available reserves above 10% of general fund expenditures for the most recent three audited years;
- Strong budgetary performance on a total governmental funds and general fund basis;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions led by good financial policies; and
- A very strong debt and contingent liability position characterized by low debt service as a percent of total governmental funds expenditures.

### Strong economy

Amherst (estimated population: 36,000) is in Hampshire County in western Massachusetts, approximately 100 miles west of Boston and 25 miles north of Springfield. In addition to its access to Springfield, the town is a local economic center for the region with more than 15,000 jobs in higher education and health services. The local economy is underpinned by the presence of the University of Massachusetts, Amherst College, and Hampshire College. Due to the presence of these institutions, we believe the town's income and wealth measures are tempered, with projected median household effective buying income at 71% of the national level. Hampshire County's unemployment rate was 6.1% in 2013, below both state and national levels as it has historically reflected the employment opportunities within Amherst and the Springfield MSA.

As for the real estate market, assessed value has improved by about 6% to \$2.2 billion in fiscal 2015. Market value per capita for 2015 is \$57,000; we believe the tax-exempt nature of the higher education institutions understates the level

of wealth within the town. In addition, Amherst's tax base is very diverse in our view, with the top 10 taxpayers representing about 7% of the total AV.

### **Strong budgetary performance**

The town's budgetary performance has been strong, in our view, with Amherst posting three consecutive general fund operating surpluses. The town had appropriated only \$120,000 in free cash in fiscal 2015. Management projects to end fiscal 2014 with an operating surplus in both the general fund and total governmental funds. Amherst closed fiscal 2013 with a 2% general fund operating surplus and a 4% total governmental funds operating surplus. The favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes due to the improving economy.

### **Strong budget flexibility**

Amherst's budgetary flexibility remains strong, in our opinion, with fiscal 2014's ending fund balance at \$10 million or 14.5% of expenditures. Audited fiscal 2013's fund balance was \$8.8 million or 13.0% of expenditures. Looking ahead, we expect the town to maintain strong budget flexibility. Amherst's available reserves are guided by a formalized fund balance policy of maintaining reserves between 5% and 15% of operating expenditures, levels we consider adequate to strong.

### **Very strong liquidity**

Supporting the town's finances is what we consider very strong liquidity, with total available cash at 13% of total governmental fund expenditures and 6x of debt service. We believe Amherst has access to external liquidity and typically issues GO debt to finance significant capital-related activities.

### **Very strong management conditions**

We currently view Amherst's management conditions as very strong. Based on a review of several key financial practices, the town's financial management practices are considered "strong" under Standard & Poor's Financial Management Assessment methodology. 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 the 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 Amherst's 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.

### **Very strong debt and contingent liability profile**

In our opinion, the town's debt and contingent liability profile is very strong, with debt service at 2% of governmental fund expenditures and net direct debt at 14% of current revenue. Enhancing the town's debt profile is its plan to retire 76% of principal debt in the next 10 years. Management indicates Amherst has no significant debt plans in the medium term.

A long-term credit consideration is the town's pension and other postemployment benefit (OPEB) obligation liabilities. Amherst participates in the Hampshire County Retirement System and, as of Jan. 1, 2014 (the most recent data available), its share of the system's estimated unfunded actuarial liability was \$48 million, and the pension system was

about 57% funded overall. Amherst's OPEB liability as of June 30, 2014, was valued at \$96 million. The combined pension and OPEB pay-as-you-go costs are about 9% of total governmental funds expenditures. We consider the liability large and will rise over time.

The town has established an OPEB trust, with \$2 million appropriation since 2012. Management represented that the town will be fully funding the enterprise's (water, sewer, transportation) ARC in fiscal 2016. Amherst is also committed to gradually increase its contribution to the OPEB trust for its general fund. However, management has not formalize a plan to fund the trust at a level we consider adequate to address the growing liabilities.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Massachusetts towns as strong.

## **Outlook**

The stable outlook reflects our view of Amherst's very strong liquidity and debt profiles. We believe that Amherst's continued strong management will allow the town to maintain strong budgetary flexibility commensurate with its formal policies and practices throughout the economic cycle. Moreover, the town's strong economy and diverse property tax base should allow for revenues to remain strong and consistent. Precluding higher rating is Amherst's large pension and OPEB liabilities, which we believe management will continue to mitigate the effects of rising costs to maintain balanced operations and strong reserves. Although not likely, if management is unable adjust revenues and expenditures accordingly to maintain a balanced budgetary performance, and budgetary flexibility declines significantly as a result, the rating could be pressured. As a result, we do not expect to change the rating within the two-year outlook time frame.

## **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

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Massachusetts Local Governments

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