

Summary:

Amherst, Massachusetts; General Obligation

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Summary:

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Credit Profile		
US\$4.832 mil GO mun purp loan bnds ser 2012 dtd 03/15/2012 due 03/15/2032		
<i>Long Term Rating</i>	AA/Stable	New
Amherst GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Amherst, Mass.' general obligation (GO) municipal purpose loan series 2012 and affirmed its 'AA' long-term rating on the town's existing GO debt. The outlook on all the ratings is stable.

In our view, rating factors include 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 reserves; 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 repairs and improvements to its water treatment facility.

Amherst (estimated population: 36,000) 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 underpinned 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 2011 unemployment average of 3.9% compares 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 2012, the town's assessed value (AV) totaled \$2 billion, a decrease of 7.3% 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. In addition, based on recent trends, home values are beginning to stabilize and, in some cases, improve. Per capita market ratios are strong at \$56,505, 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 roughly \$304,000, which is roughly double the national median.

The town's financial position is good, in our view, and financial reserves have been consistent despite the tepid

revenue environment. In fiscal 2011, the town implemented Governmental Accounting Standards Board (GASB) Statement No. 54, which is intended to make fund balance reporting more consistent and transparent. The town reported a 996,000 general fund operating surplus in fiscal 2011, equivalent to 1.6% of budget. The surplus was 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 \$1.6 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.

Draft audit results report that general fund cash and short-term investments were \$9.2 million, providing the town with significant liquidity. Amherst is reporting an overall total fund balance of \$6.5 million, or roughly 10.7% of expenditures. The total fund balance is made up of \$1.4 million of committed funds (2.2% of expenditures), which are the town's stabilization reserves that can be assigned to any municipal purpose with a supermajority vote of the town's Board of Selectmen, and the town is also reporting \$4.5 million in unassigned fund balance, equivalent to 7.4% of expenditures.

In the current fiscal year, 2012, the town's municipal budget does not project any use of reserves. At the moment, management is projecting balanced operating results. Based on these projections, reserves are anticipated to remain strong heading into the 2013 budget year. Fundamentally, the town's main revenues are consistent and strong. Property taxes are the town's leading revenue source (62% of general fund revenues), and tax collections remain stable, with current-year collections at roughly 98% of the tax levy. State aid accounts for 25% of 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. 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.

The town will use proceeds to fund repairs and improvements to its water treatment facility. Debt service on these bonds is projected to be self-supporting through user charges and fees of the enterprise system. Factoring in the self-support of the town's enterprise debt, we view the town's overall debt burden to be very low at \$531 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 1% 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.

A long-term credit consideration is the town's pension and other postemployment benefit (OPEB) liability. The town's 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 \$6.5 million (roughly 9.5% of general fund expenditures), and the town's actual pay-as-you-go contribution was \$2.07 million, or 34% 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

The outlook is stable. 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 its policy targets. 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 its long-term liabilities in addition to the town continuing to maintain balanced operations and strong reserves.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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