

RatingsDirect®

Summary:

Amherst, Massachusetts; General Obligation

Primary Credit Analyst:

Timothy J Daley, Boston (1) 617-530-8121; timothy.daley@standardandpoors.com

Secondary Contact:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Amherst, Massachusetts; General Obligation

Credit Profile

US\$3.301 mil GO mun purp loan bnds ser 2014 due 03/01/2034

Long Term Rating AA+/Stable New

Amherst GO

Long Term Rating AA+/Stable Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Amherst, Mass.' general obligation (GO) bonds to 'AA+' from 'AA' based on the town's strong budgetary performance and strong budgetary flexibility, further bolstered by its strong management conditions. The outlook is stable.

At the same time, Standard & Poor's assigned its 'AA+' rating, and stable outlook, to the town's series 2014 GO bonds.

Amherst's GO pledge secures the bonds. We understand that proceeds will be used to finance sewer system improvements within the town, as well as to finance other capital projects and capital equipment purchases.

In our view, the rating is based on our assessment of the following factors for the town:

- An adequate economy, with access to the broad and diverse Springfield metropolitan statistical area (MSA), and anchored by the University of Massachusetts-Amherst;
- Very strong budgetary flexibility, with 2013 audited available reserves at 13.4% of general fund expenditures and a demonstrated willingness to raise property taxes;
- 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.

Adequate economy

Amherst (estimated population: 37,800) 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 69.47% of the national level. Hampshire County's unemployment rate was 5.6% in 2012, 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, we are seeing signs that values are stabilizing. Based on our regional forecasts, recent data indicate that median home prices are improving and that housing starts are trending upward. The town's assessed value (AV) decreased by an average of less than 1% from fiscal years 2008 to 2014 to \$2.06 billion. According to management, however, current values will be stable and could possibly grow modestly in the future. The corresponding per capita market value for 2014 is \$54,355; 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 6.5% of the total AV.

Very strong budget flexibility

Amherst's financial position remains very strong, in our opinion, with audited fiscal 2013 at \$8.8 million or 13.4% of expenditures. For fiscal 2012, available reserves closed with a balance of \$7.5 million, equivalent to 11.7% of expenditures. While Amherst maintains little unused levy capacity in fiscal 2014, we believe the town has shown a willingness and ability to raise taxes by achieving an electorate approved Proposition 2 1/2 override of \$1.7 million in fiscal 2011.

Management indicates fiscal 2014 results are positive, so available reserves should remain in line with current levels. 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.

Strong budgetary performance

The town's budgetary performance has been strong, in our view, with Amherst posting three consecutive general fund operating surpluses. It closed fiscal 2013 with a general fund operating surplus of \$1.3 million (about 2% of budget) and a governmental funds operating surplus of \$1.6 million (2.2% of budget). The favorable budgetary performance stems from conservative budgeting and a modest recovery in local fees and taxes due to the improving economy.

Currently, we anticipate Amherst's operating performance to remain stable. Based on our macroeconomic forecasts (See "U.S. State And Local Government Credit Conditions Forecast," published Dec. 17, 2013, on RatingsDirect), credit conditions in New England are improving. Amherst's 2014 budget totals \$69 million, a 4% increase over the adopted 2013 budget. Management is projecting surplus operations on a budgetary basis for 2014.

Very strong liquidity

Supporting the town's finances is what we consider very strong liquidity, with total available cash at 38% of total governmental fund expenditures and 2,014% 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 1.9% of governmental fund expenditures and net direct debt at 13.8% of current revenue. As of June 30, 2013, Amherst has about \$14.2 million overall net debt, which is net of self-supporting water and sewer debt paid for by user charges and includes overlapping debt for its participation the Amherst-Pelham Regional School District. Enhancing the town's debt profile is its plan to retire 74% 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, 2012 (the most recent data available), its share of the system's estimated unfunded actuarial liability was \$42 million, and the pension system was about 56% funded overall. The town pays the full annual required contribution (ARC), which was \$3.9 million in fiscal 2013. Amherst's OPEB liability as of Jan. 1, 2012, was valued at \$93.7 million, assuming a 3.5% investment return, with a \$8.7 million ARC in fiscal 2013, or 13.3% of general fund expenditures. The actual payment in fiscal 2013 was \$4.2 million, or 48% of the ARC. The town has established an OPEB trust, and management has budgeted a current balance of \$1 million and management has budgeted a \$400,000 contribution in fiscal 2014, of which \$100,000 covers the town's general fund OPEB liabilities. It is estimated that about 4% 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. Combined pension and OPEB contributions for fiscal 2013 were equivalent to 10.8% of expenditures a level we consider elevated.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts towns as strong. (See the Institutional Framework score for Massachusetts, published Sept. 12, 2013.)

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. We believe management will continue to mitigate the effects of Amherst's long-term liabilities in addition to the town continuing to maintain balanced operations and strong reserves. As a result, we do not expect to change the rating within the two-year outlook time frame. While 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.

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, Sept. 12, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.