

Summary:

Amherst, Massachusetts; General Obligation

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Credit Profile

US\$3.095 mil GO bnds ser 2009 dtd 12/15/2009 due 08/01/2019

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and a stable outlook to the town of Amherst, Mass.' general obligation municipal purpose bonds, series 2009.

In our opinion, the rating reflects 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 heading into 2010; and
- Low overall debt burden, and rapid debt amortization.

Roughly \$1.1 million of the proceeds will be used to fund various capital projects. The remaining balance will be used to refund the town's outstanding series 1999 bonds.

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 over 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+'), Amherst College (rated 'AAA/negative'), 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 September 2009 unemployment average of 5.8% compares favorably against that of the commonwealth and the nation. Moreover, the median household effective buying income is 100% of the national level. This is particularly good in light of the large student population, which typically has a discounting effect on income statistics.

The town has seen good growth in the tax base over the past decade driven, in part, by new construction and development. The town's assessed value (AV) totaled \$2.3 billion, an increase of 28% over 2005 values. Per capita market ratios are a strong \$68,531; however, we believe these figures are understated given the tax exempt status of the higher education facilities, as well as the large student population. Although the rate of AV growth is projected to be modest compared to years past, there are several ongoing projects that will contribute to a near-term boost in AV that at the very least will offset any declines stemming from the economic downturn.

The town is in a good financial position heading into 2010, but budgetary challenges remain through 2011. The town closed audited fiscal year-ending 2008 operations with a \$3.8 million unreserved fund balance or what we view as a good 6% of expenditures. In addition, the town's stabilization fund closed fiscal 2008 with an \$894,000 balance. Both the unreserved fund balance and the stabilization fund combined for a balance of \$4.7 million or 8%

of expenditures. In fiscal 2009, the town faced a challenging budget year as state aid was cut nearly \$1 million. Despite the mid-year state cut, the town closed the year with a positive budgetary variance of \$720,000. Management did increase the stabilization fund balance to \$1.3 million.

For fiscal 2010, state aid was reduced by \$2.8 million, which led management to reduce expenditures to balance the budget. 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. The town voted to use roughly \$700,000 in reserves to manage a school closure in fiscal 2010, but that amount will be paid for following the full year implementation of the local option meals and lodging tax. Overall, we believe reserves should remain relatively stable in fiscal year 2010, particularly given the town's track record of making mid-year adjustments and keeping reserves near their policy targets. The town does face a \$4 million shortfall for fiscal 2011 when assuming level services. To remedy the deficit without cuts to services, the town is likely to propose a Proposition 2 ½ tax levy override. At the moment, the amount is not yet determined, with the vote likely to occur sometime in 2010.

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, 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 establish minimum debt amortization targets. State statutes guide the town's investment policy, and its reserve and liquidity policies call for 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 low \$478 per capita, 0.7% 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 fairly rapid, with 83% of outstanding principal retired in ten years. Future capital needs are modest, so debt ratios are anticipated to remain low for the near and intermediate term.

Outlook

The stable outlook reflects the town's good financial management practices and Standard & Poor's view that the town will continue to make the necessary adjustments to keep expenditures in-line with revenues. We believe the town is well positioned, with good reserves, to address any unexpected revenue declines due to the recession. For the long-term, the town's stable economy and diverse property tax base should ensure revenues remain strong and consistent. Moreover, we expect the town will maintain its low debt levels as a percent of market value, given limited near-term capital requirements, and its rapid principal amortization schedule.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality," April 2, 2008

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