



New Issue: **Moody's assigns A1 rating to the Town of Athol's (MA) \$5.6 million G.O. bonds**

Global Credit Research - 07 Aug 2012

A1 rating applies to \$8.7 million in rated G.O. debt, including current issue

ATHOL (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2012 Bonds	A1
Sale Amount	\$5,608,259
Expected Sale Date	08/16/12
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, August 07, 2012 --Moody's Investors Service has assigned a rating of A1 to the Town of Athol's (MA) \$5.6 million General Obligation Municipal Purpose Loan of 2012 Bonds. Concurrently, Moody's has affirmed the A1 rating on the town's \$3.1 million of outstanding general obligation debt. A portion of the current bond issue, \$3.7 million, is secured by the town's general obligation, unlimited tax pledge as debt service has been exempt from the levy limitations of Proposition 2 ½. The proceeds will permanently finance a library renovation. The remaining \$1.9 million is secured by the town's limited property tax pledge and debt service has not been exempted from Proposition 2 ½. Approximately \$1.9 million in proceeds will be used to redeem a like amount of bond anticipation notes scheduled to mature on September 5, 2012. The notes were originally issued to fund improvements for a sewer transfer and recycling station and upgrades for water meters.

SUMMARY RATING RATIONALE

The A1 rating reflects the town's stable financial position with sufficient reserve levels, limited tax base with below-average wealth levels and manageable debt profile.

STRENGTHS

- Stable financial position with sufficient reserve levels
- Manageable debt profile

CHALLENGES

- Limited tax base with trend of assessed value declines and below-average demographics
- Addressing rising expenditures with limited revenue flexibility

DETAILED CREDIT DISCUSSION

STABLE FINANCIAL POSITION WITH SUFFICIENT RESERVE LEVELS

The Town of Athol is expected to maintain a stable financial position due to conservative budget practices with

limited appropriations of free cash towards capital projects. Over the past five years the town has ended each fiscal year with minimal variance in operations from budget to actual which has helped maintain sufficient reserve levels. The 2011 audited financials reflect an operating surplus for the second year in a row, in the amount of \$448,000. The surplus is attributed to a positive variance in revenues primarily from excise tax and conservative expenditure budgeting for general government, public safety and employee benefits. The 2011 General Fund balance increased by \$1.08 million to \$3.5 million (22.6% of General Fund revenues) due to the operating surplus and the transfer of the town's stabilization fund balance of \$626,000 into the General Fund due to GASB 54 changes. The stabilization funds have been transferred into the General Fund as committed fund balance, which leaves an unassigned fund balance of \$956,000 (6.1% of revenues). The town appropriated \$199,000 of the total \$464,941 in certified free cash to cover various capital expenditures, no appropriation was needed to offset operational costs.

Athol derives the majority of its revenues from property taxes (61.5% of fiscal 2011 revenues) and collection rates remained strong at 96% during fiscal 2011. The fiscal 2012 budget increased by 1.75% (\$322,000) and includes an appropriation of free cash in the amount of \$750,000 towards capital expenditures. No material variance is expected for year-end budget to actual results with no material change in reserves and only a slight dip in the unassigned fund balance by \$33,000 due to encumbrances. The approved fiscal 2013 budget increased by 1.14% (\$213,000) and includes a free cash appropriation of \$465,000 for capital projects.

The town contributes to the Athol Contributory Retirement System, a multi-employer cost-sharing plan. The plan is 48% funded as of January 1, 2011. The town is required to fully fund its Annual Required Contribution (ARC), which was \$1.2 million in 2011, representing 8.1% of General Fund expenditures. The plan assumes a fairly aggressive 8% rate of return, and should the rate of return be adjusted downward in the next actuarial valuation, the town's annual contribution could be increased significantly. Also, the town contributes to its OPEB liability on a pay-as-you-go basis and contributed 29% of its annual OPEB cost in fiscal 2011, representing \$581,129. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is \$21.2 million, as of July 1, 2010. The town's total fixed costs for 2011 including pension, OPEB, and debt service, represented \$2.4 million or 15.8% of expenditures.

LIMITED TAX BASE WITH BELOW AVERAGE WEALTH LEVELS

Athol's limited \$775 million tax base has experienced recent declines in valuation but is expected to stabilize with limited growth over the near term. The town, with a population of 11,584, is located in the north-central part of Massachusetts (G.O. rated Aa1/stable outlook) and is approximately 25 miles west of the city of Fitchburg (G.O. rated A1). The 2012 assessed value declined by 5.6% and marks the fifth consecutive annual decline, bringing the five year average annual growth to -2.0%. However the town has adjusted its tax rate annually to increase the property tax levy as allowed under Proposition 2 ½. In addition, the town's five year average annual growth for equalized value remains positive at 4.4%. New development in the town is limited and reflected in the full value per capita of \$66,866. Positively, the Athol Memorial Hospital, with an estimated \$5.5 million in net assets, is in negotiations to sell to the for-profit Vanguard Health Systems Inc. (rated B2/stable outlook) which will add the top employer to the town's tax roll once the sale is finalized. The town's wealth levels with a median family income of \$49,043 are below average for the commonwealth and US (60% and 78%, respectively) and the unemployment rate of 7.7% (May 2012) remains above the commonwealth (5.8%) but below the US (7.9%).

MANAGEABLE DEBT PROFILE WITH NO FUTURE DEBT PLANS

Athol's debt position is expected to remain manageable given its low direct debt burden of 0.9% of equalized value. In addition, when factoring in the overlapping debt from the Athol-Royalston Regional School District (G.O. rated A1), the overall debt burden remains favorable at 1.3%. In addition to the \$8.7 million in rated bond issuance, the town has \$7 million in principal outstanding on state loans from the Massachusetts Water Pollution Abatement Trust (rated Aaa/stable outlook). The town has no future debt plans at this time and outstanding principal amortization of 75% within ten years is only slightly below average. Annual debt service for fiscal 2011 represented 3.9% of expenditures and the town's debt portfolio is composed of entirely fixed rate bonds and no derivative agreements.

WHAT COULD MAKE THE RATING GO UP

- Increase in tax base size and wealth levels
- Increased budget capacity and revenue flexibility

WHAT COULD MAKE THE RATING GO DOWN

- Prolonged structural imbalance
- Significant reduction in general fund balance
- Decrease in tax base or demographic profile

KEY FACTS:

Equalized Valuation 2013 (proposed): \$718 million

2010 Population (US Census): 11,584

Average Annual Increase in Equalized Valuation (2006-2012): 4.4%

Average Annual Increase in Assessed Valuation (2007-2012): -2.0%

Median Family Income: \$49,043 (60% of state, 78% of US median)

Equalized Value per Capita: \$61,956

Unemployment rate (May 2012): 7.7% (5.8% for MA and 7.9% for US)

FY11 Total General Fund Balance: \$3.5 million (22.6% of General Fund revenues)

FY11 Unassigned Fund Balance: \$956,000 (6.1% of General Fund revenues)

Direct Debt as % of Full Value: 0.9%

Overall Direct Debt as % of Full Value: 1.3%

Amortization of Principal (10 years): 74.7%

Post-sale General Obligation Debt Outstanding (includes SRF loans): \$15.8 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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