

RatingsDirect®

Summary:

Athol, Massachusetts; General Obligation

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Credit Profile

US\$4.0 mil GO sch bnds ser 2014 due 11/15/2034

Long Term Rating

AA-/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to Athol, Mass.' series 2014 general obligation (GO) bonds, based on Standard & Poor's local GO criteria, published Sept. 12, 2013 on RatingsDirect. The outlook is stable.

The 'AA-' rating reflects our opinion of the following factors for the town, including its:

- Adequate economy supported by participation in the broad and diverse Worcester metropolitan statistical area (MSA);
- Adequate management environment with "standard" financial practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary flexibility with fiscal 2013 audited reserves in excess of 15% of general fund expenditures but expected to decline in fiscal 2014;
- Adequate budgetary performance that will likely remain stable;
- Very strong liquidity, providing very strong cash to cover debt service and operating expenditures; and
- Weak debt and liabilities position reflecting sizable pension and other postemployment benefit (OPEB) liabilities.

The town's full-faith-and-credit pledge secures the bonds, which have been exempt from Massachusetts Proposition 2 1/2. Officials intend to use the series 2014 bond proceeds to begin construction on the Riverbend Elementary School project.

Adequate economy

We consider Athol's economy adequate. Athol is primarily a residential community in Worcester County in north-central Massachusetts in the North Quabbin region. Wealth and income indicators are weak, in our opinion, with per capita effective buying income at 88.7% of the national level and a market value per capita of \$53,000. However, the town's economy is bolstered by access to the broad and diverse Worcester MSA, which lends stability to the local employment base.

Historically, Athol has been supported by an industrial economy, and the L.S. Starrett Co. remains the leading employer with over 500 employees. The region has faced economic challenges stemming from a decline in manufacturing, which has contributed to higher unemployment. County unemployment in 2013 averaged 7.9% in 2013, although Athol's numbers have historically been above county and commonwealth levels, with 2013 unemployment averaging 9.9% but improving to 9.0% as of July 2014.

Assessed value (AV) has declined in recent years by an average of 4% from 2011 to 2014. However, 2015 values

increased by approximately 1.1%, to \$622.2 million, which is consistent with our forecast for the region which suggests median home prices will continue to improve and housing starts to remain positive. The tax base is very diverse, in our opinion, with the top 10 taxpayers comprising just 6.2% of AV. We expect the tax and employment base will continue to grow with the completion of a Market Basket supermarket slated to open in early 2015, in addition to other planned developments in the town.

Adequate management

We consider Athol's management conditions adequate with "standard" financial practices under our FMA methodology, indicating that the town maintains adequate policies in some, but not all, key areas. The town adheres to a formalized debt management policy that limits debt service to 10% of general fund expenditures. Athol also adheres to a formalized reserve policy that maintains free cash and the stabilization fund at 3%-7% of expenditures, which the town has historically been in excess of. The town performs some long-term capital planning which identifies current-year projects, but the plan is not updated annually and does not identify funding sources for out-year projects. Formalized budget-to-actual reports are given to the finance committee. Currently, the town does not perform formal long-term financial planning.

Strong budgetary flexibility

In our opinion, Athol's budgetary flexibility is strong, with audited 2013 available reserves in excess of 15% of adjusted general fund expenditures. Available reserves for 2013 include \$448,975 in assigned and \$1.9 million in unassigned funds. Despite a challenging budgetary environment, the town has maintained available reserves in excess of 15% in the last three audited years. However, officials are projecting a drawdown in 2014 in unassigned fund balance due to some capital and operational spending, which will bring available levels below 15%.

Adequate budgetary performance

Athol's budgetary performance is adequate, in our opinion, with a small surplus in the general fund and a slight deficit in total governmental funds after adjusting for recurring transfers and one-time revenues--0.6% and negative 1.4%, respectively. We expect the town's performance to remain stable, as credit conditions in New England are stable based on our macroeconomic forecasts for the region. Management has also been proactive in creating additional revenue sources, including a solar-farm payment-in-lieu-of-taxes (PILOT) agreement. Property taxes are the towns primary revenue source, totaling 62% of general fund revenues in 2013.

Very strong liquidity

Supporting Athol's finances is liquidity we consider very strong. Adjusted available cash is 22.4% of total governmental funds expenditures and over 10x debt service coverage. The town's strong access to external liquidity as a regular market participant lends additional stability to its liquidity position.

Weak debt and contingent liabilities

We consider Athol's debt and contingent liabilities profile weak. Following this issue, the town will have roughly \$16 million in debt outstanding and approximately \$2.4 million in bond anticipation notes (BANs) outstanding; of that amount, we calculate approximately \$4 million to be partially self-supported through user charges from the town's water and sewer funds. Audited total governmental funds debt service is low, in our opinion, at just 2% in 2013, but moderate at 77% of total governmental funds revenue. Amortization is rapid, in our opinion, with 70.8% of debt to be retired in 10 years.

Athol's pension and OPEB liabilities will remain a long-term budgetary pressure. Combined pension and OPEB costs totaled 10.4% of expenditures in fiscal 2013. Currently, the town is transitioning into the Worcester Regional Retirement system from its own plan, which is likely to provide some costs savings. The transition is expected to be completed in early 2015. The town's OPEB liability, as of July 1, 2012 (the most recent actuarial valuation), showed an unfunded liability of \$26.8 million, which was 0% funded. Athol recently created an OPEB trust with an initial deposit of \$10,000 to address the liability. However, while these actions represent some progress, the town does not have a sufficient plan to keep these costs from accelerating further.

Outlook

The stable outlook reflects Standard & Poor's opinion that Athol will maintain at least adequate reserves and very strong liquidity over the two-year outlook period. In addition, we expect the town to maintain adequate financial performance.

Although unlikely, if budgetary performance and flexibility deteriorate, we could lower the rating. In our view, constraining the rating are weak socioeconomic indicators and high pension and OPEB costs. For these reasons, we do not expect to change the rating over the next two years.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014
- 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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