

RatingsDirect®

Summary:

Athol, Massachusetts; General Obligation

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Credit Profile

US\$8.731 mil GO mun purp loan bnds ser 2016 dtd 03/15/2016 due 03/15/2036

Long Term Rating AA-/Stable New

Athol Twn GO sch bnds

Long Term Rating AA-/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to Athol, Mass.' series 2016 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AA-' rating on the town's existing GO debt. The outlook is stable.

The town's full-faith-and-credit pledge, subject to limitations of Proposition 2-1/2, secures the bonds. Despite limitations imposed by the commonwealth levy limit law, we did not make a rating distinction for the limited-tax GO pledge due to the town's flexibility under the levy limit. Officials plan to use bond proceeds to permanently finance the town's outstanding bond anticipation notes (BANs).

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

- Adequate economy, with projected per capita effective buying income (EBI) at 91.7% and market value per capita of \$53,144, that benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with slight operating deficits in the general fund and at the total governmental fund level in fiscal 2014;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 at 13.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 17.6% of total governmental fund expenditures and 2.5x governmental debt service, as well as access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 7.1% of expenditures, net direct debt at 98.2% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but rapid amortization, with 66.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Athol's economy adequate. The town, with an estimated population of 11,756, is primarily a residential community in Worcester County in north-central Massachusetts in the North Quabbin region. It is in the Worcester MSA, which we consider to be broad and diverse. The town has a projected per capita EBI of 91.7% of the national level and per capita market value of \$53,144. Overall, market value was stable over the past year at \$624.8 million in 2016. The county unemployment rate was 6.2% in 2014.

The economy is supported by its access to the Worcester MSA, into which many residents commute for employment. The largest employer in the town itself is L.S. Starrett Co, a toolmaking company that has been there for over 100 years and has over 500 employees. A new Market Basket and several other businesses have also opened at the North Quabbin Commons within the last year, providing further employment opportunities for town residents. According to officials, the town is also seeing some privately developed commercial expansion and has recently approved a five-year PILOT agreement with a solar energy producer. As such, the town's assessed value continues to see improvement, albeit modestly. It increased by 1.5% between fiscal years 2014 and 2016 to \$625 million. In addition, the town's unemployment rate, which has been above state and county levels over the past few years, has decreased from 7.9% in 2014 to about 6.2% in 2015

Adequate management

We view the town's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights include management's conservative assumptions when budgeting for revenue and expenditures, coupled with a ten-year historical trend analysis. Formalized budget-to-actual reports are provided monthly to the finance committee. Currently, the town does not perform formal long-term financial planning. It also does not have a formal capital improvement plan, although management is currently in the process of developing and implementing one. The town does adhere to a formalized debt management policy that limits debt service to 10% of general fund expenditures. It's also compliant with its formalized reserve policy that maintains free cash and the stabilization fund at 3%-7% of expenditures, which the town has historically exceeded.

Strong budgetary performance

Athol's budgetary performance is strong, in our opinion. The town had slight operating deficits at 0.7% of expenditures in the general fund and 0.7% across all governmental funds in fiscal 2014.

Fiscal 2014 results include adjustments for recurring transfers and one-time revenues and expenditures made up of grant and bond proceeds. The town posted balanced operations for fiscal 2014 despite higher-than-expected snow and ice removal costs and a slight decrease in ambulance revenues. For fiscal 2015, officials indicate the town ended with a \$300,000 surplus as a result of local receipts coming in better than anticipated and overall conservative budgeting.

The fiscal 2016 budget totals about \$18 million and includes a \$100,000 appropriation of fund balance. Officials indicate budget-to-actuals are tracking better than budgeted. The town is seeing an increase in revenues, including meals and hotel excise taxes which it implemented this year, and no major variances in expenditure items. As such, it expects to end fiscal 2016 with an increase in reserves. Property taxes accounted for 67% of general fund revenues in fiscal 2014, followed by intergovernmental at 16%.

Strong budgetary flexibility

Athol's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 at 13.6% of operating expenditures, or \$2.3 million.

Unaudited 2015 results show the town ended fiscal 2015 with a \$300,000 increase in unassigned fund balance, which also includes stabilization funds. The town also appropriated \$100,000 in fund balance for fiscal 2016, although

management does not expect to realize this since it is currently projecting an increase in fund balance by fiscal year-end 2016. The town also adheres to its policy of maintaining free cash balance between 3%-7% of expenditures and stabilization between 5%-7%. As such, we expect the town to maintain at least strong budgetary flexibility in the future.

Very strong liquidity

In our opinion, Athol's liquidity is very strong, with total government available cash at 17.6% of total governmental fund expenditures and 2.5x governmental debt service in 2014. In our view, the town has strong access to external liquidity if necessary.

Athol has issued GO bonds within the past 15 years, supporting its strong access to external liquidity. In addition, it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. In addition, we do not expect deterioration in the town's liquidity metrics over the next two fiscal years. Therefore, we expect it to maintain its very strong liquidity profile

Weak debt and contingent liability profile

In our view, Athol's debt and contingent liability profile is weak. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 98.2% of total governmental fund revenue. Approximately 66.3% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The town currently has about \$24 million in total direct debt. Management plans to issue between \$4.5 million and \$5 million in additional debt over the next two to three years for the a elementary school project.

In our opinion, a credit weakness is Athol's large pension and OPEB obligation. Its combined required pension and actual OPEB contributions totaled 11.5% of total governmental fund expenditures in 2014. Of that amount, 8.0% represented required contributions to pension obligations, and 3.5% represented OPEB payments. The town made its full annual required pension contribution in 2014.

As of January 2015, the town is now part of the Worcester Regional Retirement System, which is expected to produce some costs savings. The system was 44.9% funded as of Jan. 1, 2014. The town's OPEB liability, as of July 1, 2013 (the most recent actuarial valuation), showed an unfunded liability of \$17 million. The town has established an OPEB Trust fund and currently has a balance of \$20,000. Athol's policy is to contribute \$10,000 or 2% of free cash, whichever amount is greater, into the fund. It has also reached agreements with all employee groups to reduce its health insurance premium contribution rates by 5% for all current employees, and by 10% for any employees hired on or after July 1, 2015, which, management indicates, will help in reducing the town's cost and liability in the future.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Athol's strong budgetary flexibility and very strong liquidity profile supported by its strong budgetary performance. The town's stable and growing property tax base and its access

to the Worcester MSA also provide some rating stability.

Constraining the rating however, are its weak economic indicators and high pension and OPEB costs and liabilities, relative to its budget. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Upside scenario

If local economic indicators were to improve to stronger levels and the town maintains at least strong budgetary flexibility through consistent positive operations, while reducing its long-term retirement costs and liabilities, we could raise the rating.

Downside scenario

On the other hand, if budgetary performance were to deteriorate, resulting in lower reserves, we could lower the rating.

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
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. 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.

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