

Summary:

Montague, Massachusetts; General Obligation

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Credit Profile		
US\$5.095 mil GO mun purp loan of 2009 bnds dtd 11/15/2009 due 11/15/2027		
Long Term Rating	A+/Stable	New
Montague Twn GO		
Long Term Rating	A+/Stable	Upgraded
Montague Twn GO		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its rating on the town of Montague, Mass.' general obligation (GO) debt to 'A+' from 'A-', reflecting continued growth in the town's economy as well as the maintenance of strong reserve and debt positions. The town's GO municipal purpose loan of 2009 bonds have been rated 'A+'.

In our opinion, the rating reflects the town's:

- Access to employment opportunities in nearby Amherst, Mass. and Springfield, Mass.;
- Very strong market value per capita and diverse tax base;
- Low debt burden;
- Adequate income levels and rising unemployment; and
- Declining, yet still strong, reserve position.

The full faith and credit pledge of the town secures the bonds. The town will use bond proceeds to retire outstanding bond anticipation notes (BANs) originally authorized for a public safety building and a school roofing project.

Montague, with a 2008 population of approximately 8,351, is located in Franklin County in western Massachusetts, about 12 miles north of Amherst and 35 miles north of Springfield. The town is predominantly residential with some industrial presence. The town has a 115-acre industrial park that is nearly full and contains at least four employers with more than 100 employees. The town is also currently investigating the viability of a second industrial park. The town reports that this prospective industrial park is in the planning stages. The town has also undergone a downtown revitalization program, which, according to management, has supported the formation of a few small businesses in the area. In addition, residents have access to employment opportunities in both the Amherst and Springfield areas. However, the town's unemployment, which has historically been roughly on par with national and commonwealth rates, has risen to 10.4% as of August 2009, above state (8.9%) and national (9.6%) rates.

We consider the town's income levels adequate, with median household income at 80% of national and 69% of state levels and per capita income at 84% of national and 70% of state levels. The town's assessed value (AV) has continued to grow appreciably in the past five years and totaled \$710 million in fiscal 2009, or a very strong

\$85,123 per capita. Although building activity has slowed in fiscal 2010, the town's AV is expected to remain stable. We consider the town's tax base diverse, with the 10 leading taxpayers accounting for 15% of AV. The largest taxpayer, Northeast Generation, is the owner of a power plant and accounts for 7.5% of AV. The second-largest taxpayer is also a power plant property and accounts for 1.7% of AV. Overall, the tax base is primarily residential (78%), with industrial and commercial properties accounting for another 11% and 5% of AV, respectively. Property tax collections, which comprise 77% of the town's revenue, were strong in fiscal 2009 at about 98% and are not expected to decrease in fiscal 2010.

In fiscals 2004 and 2005, Montague's reserve position improved to a very strong \$4.3 million (\$5.6 million including stabilization funds), primarily due to the release of a \$2.1 million liability held for a pending tax refund to a bankrupt taxpayer. Following a favorable ruling for the town in that matter, management planned to draw down about \$2 million of the fund balance in fiscals 2007 through 2009. In that time, however, the town used an additional \$1.7 million in unreserved and stabilization funds beyond that which was originally planned to fill a recurring gap between revenues and operating and capital project expenditures.

At the close of fiscal 2009, the town's unreserved fund balance was about \$1 million, or 6.8% of operating expenditures, which we still view as good. When including stabilization funds, available reserves were \$1.95 million, or a very strong 13% of expenditures. In fiscal 2010, the town is expecting to use reserve funds to fill a budgetary gap. The town has appropriated \$540,000 of reserve funds for operating expenses and capital projects in 2010 and may have to use an additional \$185,000 in reserves to fund the regional school district's budget. However, the town expects to regenerate between \$150,000 and \$200,000 in free cash by the close of 2010. Furthermore, the town finance committee and board of selectman have expressed a preliminary goal of ending reserve fund appropriation in the 2011 budget.

The town's management practices are still considered to be "standard" under Standard & Poor's Financial Management Assessment, indicating that the finance department maintains adequate policies in most but not all key areas.

After accounting for self-support for some water and sewer GO debt, the town's overall net debt burden is low at \$1,307 per capita, or 1.5% of market value. The town's debt service carrying charge is also low at 2% of expenditures. The town's debt amortization is average, with 49% of debt retired in 10 years and 88% in 20 years.

Outlook

The stable outlook reflects the town's stable property tax base and strong tax collections, the town's primary revenue source. Moreover, despite decreases over the past few years, we believe that the town's reserves remain at strong levels. The town, however, faces several budgeting challenges and needs to make adjustments to better align recurring revenues and recurring expenditures. The town's inability to do so may further limit operating flexibility and could potentially have a negative effect on the rating.

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality," April 2, 2008
- USPF Criteria: "Does Bigger Always Mean Better? Sizing Up The Impact Of Size On Municipal Ratings," April

22, 2008

- USPF Criteria: "Location, Location, Location: What Does It Mean For My Community's Rating?," April 22, 2008

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