

RatingsDirect®

Summary:

Westfield, Massachusetts; General Obligation

Primary Credit Analyst:

Ruth S Ducret, New York (1) 212-438-1410; ruth.ducret@standardandpoors.com

Secondary Contact:

Victor M Medeiros, Boston (1) 617-530-8305; victor.medeiros@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

Westfield GO

Unenhanced Rating

AA(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Westfield, Mass.' general obligation (GO) bonds two notches to 'AA' from 'A+' based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

A pledge of the city's full faith credit and resources secure the bonds.

The rating reflects our assessment of the following factors for the city.

- We consider Westfield's economy to be adequate with access to the broad and diverse economy of Springfield just 10 miles to the east. Unemployment for Hampden County in 2012 was 8.5%. The city has a projected per capita effective buying income of 91.2% of the U.S. Per capita market value was \$77,297 for fiscal 2013. The city's 10 leading taxpayers account for a very diverse 3.5% of assessed value. Management projects an expansion of the city's taxable base given a number of recent developments, including a 100,000-square-foot hanger expansion of Gulfstream Aerospace at the Westfield-Barnes Airport, the completion of a \$16 million state-of-the-art runway, and a new \$1 million restaurant, which is currently under construction, at the airport.
- The city's budgetary flexibility is adequate. Audited fiscal 2012 available fund balance of the general fund was \$12.9 million, or 10.2% of expenditures. However, management expects the draw on reserves in 2013 will result in a drop to \$9.4 million, or 7.4% of expenditures. The 2014 budget includes a \$1.25 million appropriation of fund balance.
- The city's budgetary performance has been adequate with general fund operating deficits in 2012 (audited), 2013 (estimated), and 2014 (budgeted). Audited 2012 ended with a deficit of negative 1.2% for the general fund and a negative 0.5% for total governmental funds operating results. The 2013 budget included a \$1.32 million appropriation from the city's stabilization fund, and management expects to end the year with a smaller-than-budgeted deficit of \$856,000. Positive variances included an increase in miscellaneous revenues, an unbudgeted Federal Emergency Management Agency reimbursement, and various cost-saving measures. The fiscal 2014 budget includes a \$1.25 million appropriation of fund balance, and with less than four months remaining in the current fiscal year, management projects it will likely use the full appropriated amount. Property taxes remain the city's primary revenue source, accounting for 81% of general fund revenues, followed by intergovernmental receipts.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash at 27.6% of total governmental fund expenditures and above 600% of debt service. We believe the city has strong access to external liquidity and invests its cash in highly liquid collateralized or insured bank deposits.
- We view the city's management conditions as strong with good financial practices, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. In formulating the budget, management uses historical data when making assumptions. It reviews budget-to-actual results at least

monthly with the selectmen. Westfield maintains a formal three-year capital improvement plan that it updates annually and that includes project funding sources. The city lacks formal debt management policies, but has a reserve goal in its stabilization fund of at least 5% of expenditures.

- In our opinion, the city's debt and contingent liability profile is very strong, with total governmental fund debt service at 4.3% of total governmental fund expenditures, and net direct debt at 35.6% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, and over 95% of debt is amortized within the next 10 years. In April, the city plans to refinance bond anticipation notes for the construction of a new senior center and a new elementary school. It has no plans for additional debt in the next two to three years.
- The city contributes to a cost-sharing, multiple-employer defined-benefit plan administered by the Westfield Contributory Retirement Board. As of Jan. 1, 2011, the county system was funded at 68.9%. Westfield has contributed 100% of the annual required contribution (ARC) to the system in each of the past three years. Westfield's other postemployment benefit (OPEB) plan had a liability of \$162.7 million as of Jan. 1, 2012, which was fully unfunded. The combined ARC and OPEB pay-as-you-go costs for fiscal 2012 were 8.5% of expenditures, an increase from 7.4% in 2009. The growing fixed pension and OPEB liability remains a credit weakness. Management has taken a number of steps to reduce this liability, including increasing pension contributions by 5% annually, reducing leave and disability benefits for staff, and a plan to form an OPEB working group to focus on future reductions.
- We consider the Institutional Framework score for Massachusetts cities strong.

Outlook

The stable outlook reflects our view of the city's strong management and access to the broad and diverse Springfield employment base. The city's very strong liquidity and debt and liability profile further enhance stability. Despite the pressure of growing pension and OPEB liabilities, we do not anticipate changing the rating in our two-year horizon as we expect the city to maintain at least adequate budgetary flexibility and performance.

Related Criteria And Research

Related Criteria

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

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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