

Summary:

Wellesley, Massachusetts; General Obligation

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Credit Profile		
US\$22.61 mil GO mun purp loan of 2011 bnds due 04/01/2031		
<i>Long Term Rating</i>	AAA/Stable	New
Wellesley GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating, and stable outlook, to Wellesley, Mass.' series 2011 general obligation (GO) municipal purpose loan bonds and affirmed its 'AAA' long-term rating, with a stable outlook, on the town's existing GO parity debt.

The rating reflects Wellesley's:

- Location within the deep and diverse Boston metropolitan area;
- Large and affluent property tax base with a small, but stable, commercial base;
- Very strong wealth and income levels;
- Strong financial position; and
- Favorable debt position and above-average debt amortization.

The town's full faith and credit pledge secures the bonds. The town will use the vast majority of the proceeds (\$22 million) for the high school construction project. It must be noted that debt service on these bonds is excluded from Proposition 2 1/2 limitations. The town will use the balance of the bond proceeds for storm water drainage and management of Morses Pond.

Wellesley, with an estimated population of 26,600, is a primarily residential suburb 15 miles west of Boston in one of the nation's wealthiest regions. Located on the Route 128 technology belt, the local economy is diverse, with representation from the higher education, insurance, financial, and consulting sectors. Interstate 90 (the Massachusetts Turnpike) and several Massachusetts Bay Transportation Authority commuter rail links also provide convenient access to employers in and around Boston.

Economic indicators remain extremely strong. The stable employment base and residents' direct access to the greater Boston area have resulted in considerably lower unemployment averages compared with the commonwealth and national rates. The January 2011 unemployment was 5.1%. In addition, household income levels in the community are among the highest in the commonwealth and nation; the 2009 median household effective buying income was 234% of the U.S. level.

The town has seen a decrease in its property tax base over the past few years due to the effects of the nationwide housing market downturn, but the tax base is diverse, and market values remain extremely strong. Assessed value (AV) is primarily residential, at 88%, with commercial properties accounting for about 11%. AV has decreased by 7% to \$8.7 billion in fiscal 2011. Nonetheless, market value remains extremely strong at \$316,258 per capita,

which is indicative of the already strong real estate values of the town. The median home value is estimated to be roughly five times the national level.

Wellesley's financial operations and position are sound, and reserves have improved recently to, what we consider, strong levels. In audited fiscal 2010, the town reported an unreserved general fund balance of 12.3 million (10.2% of general fund expenditures), and the town's stabilization account reported a \$3.0 million balance, or an additional 2.4% of expenditures. Both funds combined for \$15.3 million, or 12.5% of operating expenditures--levels we consider strong.

For fiscal 2011, management expects the fund balance to likely decrease by roughly \$1.7 million as reserves were used to augment the budget. The town will not, however, draw on stabilization reserves. Currently, we believe the town's financial position will remain strong heading into fiscal 2012.

The property tax levy, which we view as a stable revenue source, accounts for 76% of general fund revenues; current-year property tax collections remain healthy at more than 99%. While we believe budgeting challenges will persist for the near term, Wellesley's financial operations are aided by the willingness of the town's electorate to authorize revenue flexibility beyond Proposition 2 1/2 constraints to aid budget growth. Traditionally, the town's electorate has consistently supported property tax overrides and capital exclusions, indicating a strong willingness and ability to pay for general services and capital improvements. The town anticipates making the necessary budgetary adjustments to remain in budgetary balance without depleting reserves over the next two years, but management has indicated that an operating override maybe a possibility to accommodate future budget growth. While the town does not have a formal fund balance policy, management expects available reserves to remain well above its informal goal of 5% of expenditures.

Standard & Poor's considers Wellesley's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Wellesley's debt profile remains moderate on a per capita basis, but low as a percent of market value. Including this issue, and net of state school construction aid, the town's overall debt burden is \$4,670 per capita, or 1.2% of total market value. The town's debt service carrying charge was a moderate 11% of general fund expenditures in 2011 and forecasted to be a similar amount through 2012 before debt service begins slowly amortizing. Moreover, amortization of principal is front loaded, with officials planning to retire about 67% of principal by fiscal 2021 and 100% by 2035.

As of June 30, 2008, Wellesley's other postemployment benefits (OPEB) unfunded actuarial accrued liability was \$105.1 million, on a prefunded basis assuming an interest rate of 8%. In fiscal 2010, the OPEB annual required contribution (ARC) was estimated at \$8.5 million. Over the past three years, the town has been contributing amounts in excess of the OPEB ARC.

As of Jan. 1, 2011, the town's pension liabilities were 87% funded, which is down from the Jan. 1, 2008, valuation, they were 106% funded. The town was not required to make a pension contribution for fiscal 2010. Despite not needing to make a pension contribution for fiscals 2010 and 2011, the town did appropriate \$1 million in fiscal 2010 and \$2 million in fiscal 2011. According to the actuarial report completed in January 2011, the town is scheduled for a \$3.1 million contribution for fiscal 2012.

Outlook

We do not expect that the rating will change within the two-year parameter of the stable outlook because we expect the town to continue to maintain a good financial position. We believe the town's diverse tax base and economic fundamentals lend strength to property tax collections, which are the town's primary revenue source. Moreover, we believe management will continue to make timely budgetary adjustments, as has been demonstrated, in order to maintain structural balance. An additional stabilizing factor is the town's favorable record of approving Proposition 2 1/2 operating overrides, which we believe indicates that the electorate is willing to provide a permanent increase to the tax levy, when needed, to sustain town services.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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