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Summary:

Wellesley, Massachusetts; General Obligation

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Credit Profile		
US\$25.531 mil GO mun purp loan of 2009 bnds dtd 06/01/2009 due 06/01/2010-2029		
<i>Long Term Rating</i>	AAA/Stable	New
Wellesley GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Wellesley, Mass.' 2009 general obligation (GO) municipal purpose bonds and affirmed its 'AAA' long-term rating on the town's previously issued GO parity debt. The outlook is stable.

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;
- Sound financial position; and
- Favorable debt position and above-average debt amortization;

Wellesley will use bond proceeds for various capital projects, primarily pertaining to the town's schools.

Wellesley (estimated population 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. Leading employers are stable and include Sun Life of Canada (1,900 employees), Wellesley College (1,500), Babson College (750), and Accenture Consulting (700). Interstate 90 (the Massachusetts Turnpike) provides access to Boston as well as by several Massachusetts Bay Transportation Authority commuter rail links.

Economic indicators remain extremely strong. The stable employment base and residents' direct access to the greater Boston area have resulted in unemployment rates that while rising remain well below both commonwealth and national averages. As of February 2009, the unemployment rate was 4.6%. In addition, median household effective buying incomes are among the highest in the state and nation, at 226% of the U.S. level.

The town's assessed value (AV) is primarily residential, at 88%, while commercial properties comprise about 11%. The tax base is in our view sizable, with a total AV of \$9.4 billion and state equalized valuation of \$10.0 billion. The town's full market value is in our opinion extremely strong at \$377,000 per capita, which is indicative of the strength of its real estate values. The median home value is 5x the U.S. level.

Wellesley's financial operations and position are sound, and reserves have improved in recent years to what we consider strong levels. Following fiscal 2003, when its unreserved general fund closed the year with less than \$1 million (less than 1% expenditures), the town adopted a five-year budget plan to build reserves back to above the

target of 5% of total operating expenditures. The town has achieved that goal, with an unreserved general fund balance of \$13.5 million at the close of fiscal 2008, or 12% of operating expenditures. The town also maintains a stabilization account that had a balance of \$3.5 million, an additional 3.2% of expenditures.

For fiscal 2009, the property tax levy, which we view as a stable revenue source, accounts for 75% of general fund revenues. Due to Wellesley's affluence, the town receives a relatively low 15% of general fund revenues from the commonwealth. Current-year property tax collections remain healthy and typically exceed a level above 99%. Despite local state aid cuts and budgeted decreases to investment income, motor vehicle excise taxes, and other revenues tied to economic conditions, management currently feels it has made the necessary adjustments needed to yield balanced results without significant declines in its reserve position. While the town does not have a formal fund balance policy, management expects available reserves to remain comparable to previous years, at the close of fiscal 2009.

For the long-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. The town's voters have consistently supported property tax overrides and capital exclusions, indicating a strong willingness and ability to pay for general services and capital improvements.

Standard & Poor's considers Wellesley's management practices "good" under its Financial Management Assessment, which indicates that financial management practices exist in most areas, though not all might be formalized or regularly monitored by governance officials.

The town places a strong emphasis on pay-as-you-go financing and aggressive debt repayment, and appropriates roughly \$2 million yearly for pay-as-you-go capital needs. Because of this, Wellesley's debt profile is favorable. Net of state school construction aid, the town's overall debt burden is a moderate \$2,800 per capita, or a low 0.7% of total market value. The town's debt service carrying charge is moderate to low at 7% of total operating expenditures, which is favorable, given that amortization of principal is very rapid, with about 77% of existing debt to be retired by fiscal 2019.

Over the years, Wellesley has expanded two of its elementary schools in addition to the reconstruction of its middle school. Each of these projects has been excluded from the limitations of Proposition 2 1/2 and has received reimbursement from the Massachusetts School Building Authority for approximately 57% of total project costs. Wellesley's main future capital need will be funding the estimated \$130 million expansion of its high school.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's view that management will continue to make the necessary adjustments to produce balanced operations as it has historically demonstrated despite budgetary challenges related to slower recurring revenue growth. The town currently maintains a strong reserve position, which, in our view, should provide near-term flexibility to manage through the economic recession. The town also has a favorable record of approving Proposition 2 1/2 operating overrides, which we believe indicates the electorate is willing to provide a permanent increase to the tax levy, when needed, to sustain town services. In our opinion, the town's diverse property tax base and strong economic fundamentals should continue and should provide stability to property tax revenues, resulting in additional long-term rating stability. While we expect additional debt issuance to push debt ratios higher, the town's debt plans are not a credit concern due to its low-to-moderate existing debt

burden.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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