

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating to Wellesley Town's (MA) \$12.2 million G.O. Bonds, 2013

Global Credit Research - 10 Apr 2013

Maintains Aaa rating on \$111.2 million in outstanding debt. The Stable outlook is unchanged.

WELLESLEY (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2013 Bonds	Aaa
Sale Amount	\$12,200,000
Expected Sale Date	04/10/13
Rating Description	General Obligation

Moody's Outlook

Opinion

NEW YORK, April 10, 2013 --Moody's Investors Service has assigned a Aaa rating to the Town of Wellesley's (MA) \$12.2 million General Obligation Municipal Purpose Loan of 2013. Concurrently, Moody's maintains the town's Aaa long-term General Obligation rating, on approximately \$111.2 million in outstanding long-term debt. The bonds are general obligations of the town, \$6 million will provide new money to fund various town-wide capital projects, \$3 million will permanently finance BANs coming due on June 21, 2013 and \$5.8 million will refund series 2001 and 2005 bonds for an estimated 4.5% NPV savings. \$5.05 million of the bonds are secured by the town's unlimited property tax pledge, excluded by voters from Proposition 2 ½.

SUMMARY RATINGS RATIONALE:

The long-term Aaa G.O. rating is based on the town's sizeable and wealthy suburban tax base, favorable debt position with manageable future borrowing plans, solid history of voter approvals for tax levy increases and well-managed financial position with sound reserve levels and solid funding of long-term liabilities.

The stable outlook reflects the town's conservative budgeting approach, backed by sound financial policies, financial flexibility from regular overrides of Proposition 2 ½, and the benefit of the strong metropolitan Boston regional economy.

STRENGTHS:

- Wealthy and diverse tax base with favorable location and institutional presence
- Conservative approach to budgeting supported by sound financial management policies
- Strong track record of voter support for property tax increases

CHALLENGES:

- Substantial liabilities for pension and OPEB with increasing annual expenditures

DETAILED CREDIT DISCUSSION

SIZEABLE, AFFLUENT TAX BASE DEMONSTRATING RESILIENCE THROUGH DOWNTURN

Located in Norfolk County (G.O. rated Aa2/stable outlook), approximately 15 miles west of Boston (G.O. rated Aaa/stable outlook), Wellesley is home to both Wellesley College (rated Aa1/stable outlook) and Babson College (rated A3/stable outlook). Although most of the colleges' property is tax-exempt, the town's institutional presence, which includes Massachusetts Bay Community College, Harvard Pilgrim Health Care and the Dana Hall School, provides stability and vitality to the local economy. Wellesley continues to demonstrate resilience as reflected by low unemployment (4.1% in January 2013) stable taxable values, new growth revenue and ongoing economic activity. The town's substantial \$9.8 billion tax base is primarily residential (88.8% of 2012 assessed valuation) and benefits from its desirable location with favorable access to commuter rail and major highways. Building permit activity remains reasonably healthy and the town's property tax revenue from new growth has been fairly stable at \$1.5 million, comfortably above the 10-year average of \$1.19 million. Contrary to regional housing trends, town officials report ongoing development of up to 50 new homes annually with market values of roughly \$2 million. After several years of declines, assessed value rebounded with a 4.4% increase in fiscal 2012, and a 2.3% increase in 2013. The town continues to tax to the limit under Proposition 2 ½ and regularly adjusts its property tax rates to accommodate the maximum 2 ½% levy increase.

After several years of delays during the national recession, redevelopment activity is now underway in several significant mixed-use parcels and several smaller new commercial developments. Vacancy rates in office and retail properties are relatively low and ongoing expansion and replacement of smaller single-family homes continues. Wealth levels in Wellesley greatly exceed both state and national medians, with median family income equal to 289% of the national median and equalized value per capita at a robust \$349,289.

FAVORABLE FINANCIAL POSITION WITH STEADY PROGRESS TOWARD FUNDING PENSION AND OPEB LIABILITIES

Wellesley is favorably positioned to maintain its strong financial position, which has historically benefited from voter support for operations and capital projects. The town maintained General Fund reserves at \$21.7 million or 16% of revenues in fiscal 2012, up from \$16.6 million or 14.1% of revenues in fiscal 2009.

Operating performance was strong in fiscal 2011, with favorable revenue and expenditure variances increasing total General Fund balance to \$21.7 million, a solid 16.5% of General Fund revenues. The unassigned portion increased, primarily due to the addition of the Stabilization Fund under GASB 54 classification, to \$15.9 million, a sound 12.1% of revenues.

Fiscal 2012 ended with a modest \$37,000 deficit as the town was able to maintain satisfactory reserve levels at 16% of revenues. The town's free cash position, not including the \$3 million Stabilization Fund, increased by \$2 million to \$10.5 million, maintaining undesignated funds within the town's formalized policy between 8% and 12% of revenues.

The adopted fiscal 2013 budget included a 4.4% expenditure increase and is balanced with a \$3 million appropriation of free cash and additional property tax revenue as allowed under Proposition 2 ½. Management does not expect a material change in total fund balance at year end. The town maintains financially healthy water, sewer and electric light enterprises.

Wellesley's pension system was overfunded until 2008, when, along with most other public pension systems, negative investment performance created a substantial unfunded liability; Wellesley's unfunded liability is nearly \$40 million as of its January 1, 2012 actuarial study. The system is funded at 75.8%, and the town plans to amortize the UAAL by 2030, 10 years ahead of the state's full funding deadline of 2040. Wellesley has implemented a ten-year plan to begin funding its unfunded liability for non-pension Post Employment Benefits (OPEB), which was supported by the town's voters in a 2007 capital exclusion of Proposition 2 ½. The override authorized annual contributions of \$1.8 million for 10 years, in addition to the \$1.2 million which had already been included in the budget under the Proposition 2 ½ limit. This added contribution, along with the pay-as-you-go contribution, amounts to full payment of Wellesley's OPEB ARC (\$9.3 million in fiscal 2012). After four years of funding OPEB, funding stands at a modest 20% of the \$106.3 million actuarial accrued liability (AAL). Wellesley's long-range financial plan projects significant pressure on operating budgets in the medium term and a possible operating override vote for fiscal 2014. Given Wellesley's strong history of effective management and successful override and exclusion votes, Moody's expects that the town will maintain adequate financial flexibility and reserve levels, with Unassigned General Fund balance comfortably exceeding the town's targeted minimum of 8% of General Fund revenues.

MANAGEABLE FUTURE CAPITAL NEEDS; MAJORITY OF DEBT EXCLUDED FROM PROP 2 1/2

The town's direct debt burden, currently a moderate 1.0% of equalized value, will remain manageable since the vast majority of the town's debt has been excluded from Proposition 2 ½ levy limits. The exclusions, which reflect 83.6% of outstanding long-term debt, greatly reduce pressure on the operating budget by allowing the town to levy sufficient property taxes to fund excluded debt service on top of the annual operating tax levy. Reflecting the addition of debt for the town's recently-completed high school, amortization of principal has slowed to a still-satisfactory 64.9% within 10 years. Wellesley's future borrowing plans include proposals for a senior center (\$6.5 million) and recreation complex (\$2 million). The town is also evaluating its elementary and middle schools for ongoing capital needs. Debt service payments accounted for a manageable 10.3% of fiscal 2012 expenditures. Together, Pension, OPEB and Debt Service account for 18.5% of expenditures. Wellesley has no exposure to variable rate debt or swap agreements.

OUTLOOK

Wellesley's outlook is stable, incorporating the town's superior ability to manage its financial position and long-term liabilities, as well as its diverse local economy and the town's prominent position in the strong regional Boston economy.

WHAT COULD MAKE THE RATING GO DOWN:

- Significant decline in available reserves
- Failure to adhere to plan to fund long-term liabilities
- Deterioration of tax base or demographic profile

KEY STATISTICS

2010 Population (US Census): 27,982 (+5% since 2000)

2012 Equalized Value: \$9.8 billion

2012 Equalized Value per capita: \$349,289

Average Annual Equalized Value Growth (2007-2013): 0.4%

2010 Median Family Income: 224.5% of MA, 289.4% of US

Unemployment, January 2013: 4.1% (7.4% MA, 8.5% US)

Direct debt burden: 1.0%

Amortization of principal (within 10 years): 64.9%

FY 2012 General Fund balance: \$21.7 million (16% of General Fund revenues)

FY 2012 Unassigned General Fund Balance: \$15.8 million (11.6% of General Fund revenues)

Post-sale outstanding long-term rated general obligation debt: \$111.2 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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