



Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa TO WELLESLEY'S (MA) \$35 MILLION G.O. SCHOOL BONDS

Global Credit Research - 17 Mar 2010

Aaa LONG-TERM RATING AFFECTS \$117 MILLION IN OUTSTANDING DEBT, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation School Bonds	Aaa
Sale Amount \$35,000,000	
Expected Sale Date 03/18/10	
Rating Description General Obligation	

Opinion

NEW YORK, Mar 17, 2010 -- Moody's Investors Service has assigned a Aaa rating to the Town of Wellesley's \$35 million General Obligation School Bonds. Concurrently, Moody's has affirmed the town's long-term Aaa rating, affecting approximately \$82 million in outstanding long-term debt. The bonds are issued to provide new money financing for a portion of the town's high school construction project and are secured by the town's unlimited general obligation tax pledge as debt service has been excluded by the voters from Proposition 2 1/2. The Aaa 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 a well-managed financial position with sound reserve levels.

SIZEABLE, AFFLUENT TAX BASE WITH FAVORABLE LOCATION AND REDEVELOPMENT POTENTIAL

Located in Norfolk County (rated A2/positive outlook), approximately 15 miles west of Boston (rated Aa1/stable outlook), Wellesley is home to both Wellesley College (rated Aaa/stable outlook) and Babson College (rated A3/stable outlook) which provide stability and vitality to the local economy. The town's substantial \$10 billion tax base is primarily residential (88.4% of 2010 assessed valuation) and benefits from its favorable location with ample access to commuter rail and major highways. While building permit activity remains reasonably healthy in the number of permits, total value has declined moderately in all sectors; Moody's believes that growth in the town's tax base may decline modestly in the near term due to the weak regional real estate market. Town officials report that stalled redevelopment activity has begun to resume in several significant commercial parcels. Vacancy rates in office and retail properties have increased slightly and ongoing expansion and replacement of smaller single-family homes continues. Since 2001, Wellesley has seen annual growth in assessed valuations averaging 3.2%, reflecting redevelopment of older housing stock and significant market value appreciation but the pace has slowed to less than one-third the 10.1% annual average growth recorded for the 5-year period ending in 2006. Wealth levels in Wellesley greatly exceed both state and national medians (with per capita income equal to 203.7% of the state medians), and equalized value per capita is a robust \$368,138.

SOUND FINANCIAL POSITION WITH PROGRESS TOWARD FUNDING OF LONG-TERM LIABILITIES

Moody's believes that Wellesley is favorably positioned to maintain its strong financial position despite pressure from reductions in state aid, losses in pension assets and sluggish local receipts. Revenues and expenditures are trending close to the fiscal 2010 budget, and operations are expected to produce a small surplus, adding modestly to available reserves. Operations in fiscal 2009 were positive, although the \$239,000 surplus was significantly smaller than the \$2.3 million average annual surplus for the previous five years, reflecting recessionary pressure on revenues, including state aid, and the appropriation of \$2.8 million in free cash for both operating and capital purposes. Available reserves (unreserved general fund and stabilization fund) totaled \$15.2 million in fiscal 2009, a sound 12.9% of general fund revenues. Although available reserves have dipped slightly relative to the peak of 14.1% of revenues in fiscal 2008, Wellesley's reserve position represents a significant improvement over the fiscal 2003 available reserve balance of 1.9 million, a slim 2.3% of revenues. The town maintains healthy water, sewer and electric light enterprises.

The fiscal 2011 budget, is under development and is expected to be balanced without additional property tax revenue from an override of Proposition 2 ½. The proposed budget includes a 4% expenditure increase over the fiscal 2010 budget and is balanced primarily by property tax levy increases for both operating and debt service for debt service related to the high school project and an appropriation of up to \$853,000 from free cash for one-time expenses. Favorably, the town has included funding in fiscal 2011 ahead of recognizing an anticipated unfunded pension liability in fiscal 2012, Wellesley maintained full pension system funding for many years, but negative investment performance in 2008 is anticipated to create a relatively small liability and annually required contribution (ARC) in the updated funding schedule. The town has budgeted \$1 million in fiscal 2010 and \$2 million in fiscal 2011 toward the expected liability.

Medium-range plans include a five-year phase-in of funding the town's unfunded liability of non-pension Post Employment Benefits (OPEB), which was supported by the town's voters in the 2006 operating override of Proposition 2 ½. The override authorized annual contributions of \$1.8 million for ten years, in addition to the \$1.2 million which had already been included in the budget under the Proposition 2 ½ limit, for full payment of Wellesley's \$3 million OPEB ARC. The town plans to fully fund this significant obligation, estimated at \$92 million, in 20 years. Wellesley's long-range financial plan projects significant pressure on operating budgets in the medium term; officials have begun benchmarking the town's performance against similar communities and a revenue allocation agreement between the town and school department may be proposed. While the town has historically managed expenditures conservatively, significant expenditure reductions could be necessary to balance future budgets in the absence of operating overrides of Proposition 2 1/2. Town officials do not plan to propose another override in the near term given the town's passage of a significant debt exclusion for the high school project. Given its 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 Undesignated General Fund and Stabilization Fund balances comfortably exceeding the town's targeted minimum of 5% of general fund revenues.

MODERATE DEBT PROFILE WITH SOLID VOTER SUPPORT FOR MAJOR PROJECTS

Moody's anticipates that the town's direct debt burden, currently a moderate 1.1% of equalized value, will rise moderately as additional high school debt is issued in the next two years. Incorporating the current sale, amortization of principal has slowed to a still-satisfactory 66.1% reflecting both the significant amount of debt and the long useful life of the high school. Wellesley's future capital needs are limited and are expected to be largely voter-supported. After adjusting for state school building aid and self-supporting enterprise debt, the town's debt burden falls to a reasonable 1.6%. Debt service payments accounted for a manageable 8% of fiscal 2009 expenditures. Wellesley's debt ratios are expected to rise as town officials expect to issue up to \$37 million in additional high school debt and \$11 million in debt for other projects, should voters approve exclusions of Proposition 2 ½. However, the high school project has been approved for a grant of approximately 40% of the projects estimated \$100 million construction cost from the Commonwealth's Massachusetts School Building Authority (MSBA rated Aa3/stable outlook) program and the town expects to continue to receive regular grant payments during construction ahead of the school's opening, which is tentatively scheduled for September 2014. Wellesley has no exposure to variable or auction rate debt or swap agreements.

KEY STATISTICS

2008 Population (US Census est): 27,244 (+2.4% since 2000)

2009 Equalized Value: \$10 billion

2009 Equalized Value per capita: \$368,138

Average Annual Equalized Value Growth (2003-2009): 5.8%

Median Family Income: \$134,769 (218.6% of commonwealth, 269.3% of nation)

Per Capita Income: \$52,866 (203.7% of commonwealth, 244.9% of nation)

Direct debt burden: 1.1%

Amortization of principal (within 10 years): 66.1%

FY09 General Fund balance: \$16.6 million (14.1% of General Fund revenues)

FY09 Available Reserves: \$15.2 million (12.9% of General Fund revenues)

Post-sale outstanding long-term rated general obligation debt: \$117 million

RECALIBRATION OF RATING TO THE GLOBAL RATING SCALE; PRINCIPAL METHODOLOGY

The rating assigned to the town of Wellesley, Massachusetts was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moody.com/gsr.

The principal methodology used in assigning the rating was Moody's "General Obligation Bonds Issued by U.S. Local Governments," published in October, 2009, and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on May 26, 2009 when the Aaa rating for the Town of Wellesley, Massachusetts was affirmed.

Analysts

Susan Kendall
Analyst
Public Finance Group
Moody's Investors Service

Conor McEachern
Backup Analyst
Public Finance Group
Moody's Investors Service

Patrick Mispagel
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653



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