

### Summary:

## Wellesley, Massachusetts; General Obligation

#### **Primary Credit Analyst:**

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

#### **Secondary Credit Analyst:**

Henry W Henderson, Boston (1) 617-530-8314; henry\_henderson@standardandpoors.com

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### Credit Profile

US\$35. mil GO mun purp loan bnds ser 2010 dtd 03/15/2010 due 03/15/2035

*Long Term Rating* AAA/Stable New

Wellesley GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Wellesley, Mass.' series 2010 general obligation (GO) municipal purpose loan bonds and affirmed its 'AAA' 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;
- Sound financial position; and
- Favorable debt position and above-average debt amortization.

Wellesley, with a population estimate 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. 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) and several Massachusetts Bay Transportation Authority commuter rail links provide access to Boston.

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 higher compared to years past, remain well below commonwealth and national rates. As of December 2009, unemployment was 5.4%. Moreover, median household income levels are among the highest in the commonwealth and nation at more than two times the national level.

Assessed value (AV) is primarily residential at 88% while commercial properties account for about 11%. The tax base is, in our view, sizable with total AV of \$9.4 billion and a state equalized valuation of \$10.0 billion. Full market value is, in our opinion, an extremely strong \$377,000 per capita, further indicating the strength of real estate values. The median home value is five times the national level.

Wellesley's financial operations and position are sound; and reserves have improved recently to, what we consider, strong levels. Following fiscal 2003, when its unreserved general fund closed the year with less than \$1 million, or less than 1% of 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 exceeded that goal with an unreserved general fund balance at \$12.4 million, or 10% of operating expenditures, at fiscal year-end 2009. The town also maintains a stabilization account that had a \$2.7 million balance, or an additional 2.3% of expenditures.

For fiscal 2010, 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 above 99%. Despite managing through local state aid cuts and decreased investment income, motor vehicle excise taxes, and other revenues tied to the economy, 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 well above its informal goal of 5% of expenditures for the near to intermediate future.

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 electorate has 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 (FMA) methodology, indicating 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. Including this issue, and net of state school construction aid, the town's overall debt burden is \$3,933 per capita, or a low 1.2% of total market value. The town's debt service carrying charge is a moderate 8% of total operating expenditures, which is favorable. Amortization of principal is front loaded with officials planning to retire about 65% of existing debt by fiscal 2019 and 100% by 2035.

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 Proposition 2 1/2 limitations and has received reimbursement from Massachusetts School Building Authority for approximately 57% of total project costs.

Officials plan to use this bond issue to finance the construction of the town's high school. The electorate has authorized the town to issue \$63.9 million of debt to cover its portion of construction costs, and Massachusetts School Building Authority has approved a grant of up to \$44 million. The town has voted to exclude debt service from this project from Proposition 2 1/2 limitations.

## Outlook

The stable outlook reflects Standard & Poor's view that management should 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 to provide stability to property tax revenues, which is by far the town's largest revenue source. While we expect additional debt issuance to push debt ratios higher, the town's debt plans are not a credit concern due to its current debt profile.

## **Related Criteria And Research**

USPF Criteria: GO Debt, Oct. 12, 2006

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