

# MOODY'S INVESTORS SERVICE

## New Issue: MOODY'S ASSIGNS Aaa TO WELLESLEY'S (MA) \$22.61 MILLION G.O. SCHOOL BONDS

Global Credit Research - 25 Mar 2011

### Aaa LONG-TERM RATING AFFECTS \$131 MILLION IN OUTSTANDING DEBT, INCLUDING CURRENT ISSUE

Wellesley (Town of) MA  
Municipality  
MA

#### Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2011 Bonds	Aaa
<b>Sale Amount</b>	\$22,610,000
<b>Expected Sale Date</b>	03/30/11
<b>Rating Description</b>	general Obligation

#### Opinion

NEW YORK, Mar 25, 2011 – Moody's Investors Service has assigned a Aaa rating to the Town of Wellesley's \$22.61 million General Obligation School Bonds. Concurrently, Moody's has affirmed the town's long-term Aaa rating, affecting approximately \$109 million in outstanding long-term debt.

#### SUMMARY RATINGS RATIONALE:

The majority of the bond issue provides \$22 million in new money financing for a portion of the town's high school construction project and is secured by the town's unlimited general obligation tax pledge as debt service has been excluded by the voters from the Proposition 2 ½ property tax limit. The \$610,000 remainder will finance stormwater improvements and is secured by the town's limited general obligation tax pledge, as debt service has not been excluded from Proposition 2 ½. 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 well-managed financial position with sound reserve levels and solid funding of long-term liabilities.

#### 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

#### DETAILED CREDIT DISCUSSION

##### SIZEABLE, AFFLUENT TAX BASE DEMONSTRATING RESILIENCE THROUGH DOWNTURN

Located in Norfolk County (G.O. rated A2/positive outlook), approximately 15 miles west of Boston (G.O. rated Aaa/stable outlook), Wellesley is home to both Wellesley College (rated Aaa/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 will continue to demonstrate resilience as reflected by low unemployment (6.7% in December, 2010) stable taxable values, new growth revenue and economic activity. The town's substantial \$8.6 billion tax base is primarily residential (88.5% of 2011 assessed valuation) and benefits from its favorable 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 \$1.4 million 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. Assessed value has declined moderately by 9.3% since the \$9.3 billion peak in fiscal 2009; however the town continues to tax to the limit under Proposition 2 ½ and has adjusted its property tax rates to accommodate the maximum 2 ½% levy increase.

Despite Wellesley's strong recent performance, Moody's believes that the town's tax base may experience additional modest declines 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 mixed-use parcels and several smaller new commercial developments are nearing completion, including a Whole Foods (Ba2/positive outlook) grocery store as well as a CVS (Baa2/stable outlook). 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 1.7%, reflecting redevelopment of older housing stock and significant market value appreciation but the pace has slowed to a fraction of 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 245% of the national median and equalized value per capita at a robust \$368,260.

#### SOUND FINANCIAL POSITION ENHANCED BY VOTER SUPPORT FOR 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 2011 budget, and operations are expected to be balanced, maintaining satisfactory reserve levels. General fund balance is projected to decline by up to \$1.7 million,

reflecting the one-time appropriation of \$1.75 million for the purchase or lease of temporary classroom units to accommodate an enrollment bubble at Wellesley's middle school. Operations in fiscal 2010 produced a slight drawdown of general fund balance, reversing a long trend of consecutive operating surpluses. Available reserves (unreserved general fund and stabilization fund) totaled \$15.3 million in fiscal 2010, a sound 12.5% 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 2012 budget is under development and is expected to be balanced without additional property tax revenue from an override of Proposition 2 1/2. The proposed budget includes a 3.89% expenditure increase over the fiscal 2011 budget and is balanced primarily by property tax levy increases for both operating and debt service (related to the high school project) as well as an appropriation of up to \$1 million from free cash. 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 \$20 million as of its January 1, 2010 actuarial study. The system is funded at a still-strong 86.7%, and the town plans to amortize the UAAL by 2030, 10 years ahead of the state's full funding deadline of 2040.

Wellesley has adopted a multi-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 operating override of Proposition 2 1/2. 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 1/2 limit, which along with the pay-as-you-go contribution amounts to full payment of Wellesley's OPEB ARC (\$9.5 million in fiscal 2010). 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 for fiscal 2012 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 1.3% of equalized value, will rise slightly as additional high school debt is issued in the next year. Incorporating the current sale, amortization of principal has slowed to a still-satisfactory 63.9% within 10 years, 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. Debt service payments accounted for a manageable 9.4% of fiscal 2010 expenditures. Wellesley's debt ratios are expected to rise as town officials expect to issue up to \$10 million in additional excluded high school debt and \$3.5 million in debt for other projects, should voters approve exclusions of Proposition 2 1/2. The high school project has been approved for a grant of approximately 40% of the project's estimated \$110 million construction cost from the Commonwealth's Massachusetts School Building Authority (MSBA rated Aa2/stable outlook) program and the town will receive regular grant payments during construction ahead of the school's opening, which is tentatively scheduled for early 2012. Wellesley has no exposure to variable or auction rate debt or swap agreements.

#### WHAT COULD MOVE THE RATING-DOWN:

- Significant decline in available reserves
- Failure to adhere to plan to fund long-term liabilities

#### KEY STATISTICS

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

2011 Equalized Value: \$10 billion

2011 Equalized Value per capita: \$368,260

Average Annual Equalized Value Growth (2005-2011): 3.4%

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: 1.3%

Amortization of principal (within 10 years): 63.9%

FY10 General Fund balance: \$17.3 million (14.1% of General Fund revenues)

FY10 Available Reserves: \$15.3 million (12.5% of General Fund revenues)

Post-sale outstanding long-term rated general obligation debt: \$131 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

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