MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Wellesley MA's $66M GO bonds and MIG 1 to $4.1M GO BANs; outlook stable

Global Credit Research - 20 May 2015

Affirms Aaa on $86.9M GO bonds outstanding

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

Moody's Rating

ISSUE		RATING
General Obligation Taxable Municipal Purpose Loan of 2015 Bonds		Aaa
Sale Amount	$14,005,000	
Expected Sale Date	05/27/15	
Rating Description	General Obligation	
General Obligation Municipal Purpose Loan of 2015 Bonds		Aaa
Sale Amount	$52,267,000	
Expected Sale Date	05/27/15	
Rating Description	General Obligation	
General Obligation Bond Anticipation Notes		MIG 1
Sale Amount	$4,053,000	
Expected Sale Date	05/27/15	
Rating Description	Note: Bond Anticipation	

Moody's Outlook STA

NEW YORK, May 20, 2015 --Moody's Investors Service has assigned a Aaa rating to the Town of Wellesley's (MA) $52 million General Obligation Municipal Purpose Loan of 2015 Bonds and $14 million General Obligation Taxable Municipal Purpose Loan of 2015 Bonds as well as a MIG 1 rating to $4.1 million General Obligation Bond Anticipation Notes (dated June 15, 2015 and payable December 11, 2015). Concurrently, Moody's has affirmed the Aaa rating on $86.9 million of outstanding general obligation bonds. The outlook is stable.

SUMMARY RATING RATIONALE

The Aaa rating reflects the town's sizeable and wealthy suburban tax base, well-managed financial position with sound reserve levels and history of voter approved overrides to the tax levy limitations of Proposition 2 ½. The rating also incorporates an above average but manageable debt burden and focus on funding of long-term liabilities.

The MIG 1 rating reflects the town's strong long-term credit characteristics, ample liquidity and sufficient management of takeout financing given demonstrated history of accessing the short-term market for multiple note and bond sales over the past five years.

OUTLOOK

The stable outlook reflects the town's conservative budgeting approach supported by formalized financial policies. The outlook also incorporates the additional financial flexibility provided by voter approved debt exclusions and general overrides to Proposition 2 ½.

WHAT COULD MAKE THE RATING GO DOWN

-Trend of operating deficits resulting in a material decline in available reserves

-Trend of increasing financial pressure due to unsuccessful votes for tax levy overrides or debt exclusions

-Material increase in the debt burden or pension liability

STRENGTHS

-Wealthy and diverse tax base with favorable location and institutional presence

-Conservative fiscal management aided by formalized policies

-Strong voter support for property tax increases

-Aggressive funding of OPEB liability

CHALLENGES

-Rising costs of education and employee benefits

-Reliance on voter approved general overrides and debt exclusions

RECENT DEVELOPMENTS

The fiscal 2014 audited financial statements reflect a small operating surplus of $574,000 due to conservative budgeting which maintains the town's available fund balance at just above 15% of revenues. In addition, including the current issuance, the debt burden has increased to 1.5% of equalized value from 1.0%. While this level is above average for the rating category, the town's debt position remains manageable given the debt exclusions passed by voters for a large portion of the debt. Please see the Detailed Rating Rationale for further information.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIZEABLE AND AFFLUENT WITH INSTITUTIONAL PRESENCE

The town is favorably located 15 miles west of Boston (Aaa stable), and is home to both Wellesley College (Aa1 stable) and Babson College (A3 positive). The presence of the colleges along with Harvard Pilgrim Health Care (Baa3 stable) and Sun Life Assurance Company of Canada (Aa3 stable) provide stability to the diverse local economy. The sizeable $10.2 billion tax base is expected to remain stable over the medium term given its very strong housing stock and primarily residential composition. The 2015 assessed value increased 6.5% from the prior year, bringing the five year average annual growth to 1.6%. New growth continues to average $1.5 million per year due primarily to residential tear downs and renovations with some commercial development and redevelopment. Of note, part of the current bond issuance will go towards the purchase of 47 acres (North 40 property) of undeveloped land being sold by Wellesley College. Given the built-out nature of the town the future development plans for this land could be substantial. Wealth levels are strong with median family income of over 2.5 times the national median and $364,984 equalized value per capita. Also, unemployment remains very low at 3.1% (March 2015) compared to both the commonwealth (5%) and US (5.6%).

FINANCIAL OPERATIONS, RESERVES AND LIQUIDITY: STABLE FINANCIAL POSITION BOLSTERED BY SOUND MANAGEMENT AND TAXPAYER SUPPORT

The town will continue to maintain a stable financial position due to conservative fiscal management and continued taxpayer support from general overrides of Proposition 2 ½. The fiscal 2014 audited financials reflect a slight operating surplus of $574,000 due to positive variances compared to budget at year-end including an increase in building permits well above budget. The surplus helped to maintain an available fund balance of $22.3 million or 15.4% of revenues. Available reserves have been kept at the 15-16% of revenues mark for the last four years and are expected to remain stable with little fluctuation. The town's primary revenue source is property taxes (78% of 2014 revenues) with a strong collection rate of 99.9%.

The fiscal 2015 budget increased by 3.6% driven by a 6% increase in education costs. The budget was balanced with 6.4% tax levy increase that included a town voter approved, $3.3 million override to the tax levy limit to provide additional revenue flexibility. The budget also appropriated 2.3 million of free cash for operating and capital needs. In addition, supplemental appropriations totaling $1.7 million, including $1 million in snow and ice costs over budget. Year-to-date operations are trending on budget and it is expected the town will see enough positive variance in revenues and expenditures to offset the free cash appropriations for the year, ending with a minimal change to available reserves.

The fiscal 2016 budget will increase by 5% from 2015 again driven by education and employee benefit costs. The budget is balanced with a 4% tax increase and $2.6 million free cash appropriation. The town's three-year budget projections for fiscal 2017 through 2019 reflect conservative growth assumptions, driven mostly by 5% annual increase in the school budget, that project deficits ranging from $5 million to $7 million or roughly 3.6% to 5% of 2014 revenues. The town historically has closed these moderate budget gaps as the fiscal year budgets are refined, although, we expect the town will need to continue to rely on taxpayer support of general overrides and debt exclusions to maintain its stable financial position.

Liquidity

Wellesley's net cash position at the end of fiscal 2014 was $28.9 million or 19.9% of revenues. The liquidity level provides strong coverage of over 5 times the total amount of bond anticipation notes outstanding including the current issue which provides assurance should accessing the capital markets become difficult.

DEBT AND OTHER LIABILITIES: INCREASED DEBT BURDEN REMAINS MANAGEABLE; SOUND FUNDING OF PENSION AND OPEB

The town's direct debt burden has increased to an above average, 1.5% of equalized value but is expected to remain manageable given that half of the town's debt has been excluded from Proposition 2 ½ levy limits. Additionally, the debt burden includes $74 million towards school projects which is comparable for municipalities that issue on behalf of schools. The town's 2016 five-year capital budget program (2016-2020) totals $166 million. The program averages $5.8 million spent annually with available cash towards capital needs and $129 million funded with debt, most of which is projected to be excluded. The town expects a debt issuance of around $10 to $12 million in fiscal 2016.

Debt Structure

All of the town's debt is fixed rate including just below average amortization with 58% of principal retired within ten years. Fiscal 2014 debt service represented 8.7% of expenditures.

Debt-Related Derivatives

Wellesley has no derivatives.

Pensions and OPEB

The town participates in the Wellesley Contributory Retirement System, a multi-employer, defined benefit retirement plan. The town's annual required contribution (ARC) for the plan was $5.9 million in fiscal 2014, or 4.1% of General Fund expenditures. The town's 2013 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $167 million, or a moderate 1.19 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the plan in proportion to its contributions to the plan.

In addition, beginning in 2007 the town has aggressively contributed to its liability for other post-employment benefits (OPEB) by making at least the full ARC payment and additional contributions to an established OPEB trust. In fiscal 2014, the town contributed $10.6 million or 111% of the ARC plus additional contributions to the OPEB trust. Based on the June 30, 2014 valuation report, the funded ratio has reached 29.5%, well above most local government funding levels for OPEB.

MANAGEMENT AND GOVERNANCE

Massachusetts cities and towns have an institutional framework score of 'Aa' or strong. The primary revenue source for Massachusetts municipalities is property taxes which are highly predictable and can be increased annually as allowed under the Proposition 2 ½ levy limit. Expenditures are largely predictable and towns have the ability to reduce expenditures.

The town's management team has shown a long term trend of consistent and conservative fiscal management with multi-year capital planning and budgeting. In addition, the town has developed a long-term plan to address pension and OPEB liabilities.

KEY STATISTICS

-2015 Equalized Valuation: $10.2 billion

-2015 Equalized Value Per Capita: $364,984

-Median Family Income as % of US Median: 287.03%

-Fiscal 2014 operating fund balance as a % of revenues: 15.40%

-5-Year Dollar Change in Fund Balance as % of Revenues (2010-2014): 4.90%

-Fiscal 2014 Cash Balance as % of Revenues: 19.91%

-5-Year Dollar Change in Cash Balance as % of Revenues (2010-2014): 5.36%

-Institutional Framework: "Aa"

-5-Year Average Operating Revenues / Operating Expenditures (2010-2014): 1.00x

-Net Direct Debt as % of Full Value: 1.45%

-Net Direct Debt / Operating Revenues: 1.0x

-3-Year Average of Moody's ANPL as % of Full Value: 1.41%

-3-Year Average of Moody's ANPL / Operating Revenues: 1.0x

OBLIGOR PROFILE

Wellesley is located about 15 miles west of Boston with a population of 27,982. Primarily residential in composition and is home to Wellesley College and Babson College.

LEGAL SECURITY

The tax-exempt bonds in the amount of $37.925 million are secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limitations of Proposition 2 ½. The remaining $14.342 million bonds are secured by the town's general obligation limited tax pledge as debt service has not been excluded from Proposition 2 ½.

The taxable bonds in the amount of $11.5 million are secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limitations of Proposition 2 ½. The remaining $2.5 million in bonds are secured by the town's general obligation limited tax pledge as debt service has not been excluded from Proposition 2 ½.

The notes in the amount of $3.8 million are secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limitations of Proposition 2 ½. The remaining balance is secured by the town's general obligation limited tax pledge as debt service has not been excluded from Proposition 2 ½.

USE OF PROCEEDS

The tax exempt bonds will be used for various town capital projects and to advance refund $3.785 million of Series 2006 bonds for an estimated net present value savings of $290,000 or 7.2% of refunded principal with no extension of maturity. The notes will be used for various town capital projects. The taxable bonds will be used for the acquisition and purchase of land.

PRINCIPAL METHODOLOGY

The principal methodology used in this general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in this bond anticipation rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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