

Primary Credit Analysts:

Victor Medeiros
Boston
617.530.8305.
victor_medeiros@
standardandpoors.com

Secondary Credit Analysts:

Karl Jacob
New York
(1) 212-438-2111
karl_jacob@
standardandpoors.com
Colin A MacNaught
Boston
(1) 617-530-8312
colin_macnaught@
standardandpoors.com

**RatingsDirect
Publication Date**

June 9, 2006

Wellesley, Massachusetts

Credit Profile

| | |
|--|-------|
| US\$10.47 mil BANs dtd 06/21/2006 due 06/21/2007 | SP-1+ |
| Sale date: 13-JUN-2006 | |
| US\$11.466 mil GO bnds dtd 06/15/2006 due 06/15/2026 | AAA |
| Sale date: 13-JUN-2006 | |

AFFIRMED

| | |
|---------------------------|--------|
| \$6.500 mil. Wellesley GO | AAA |
| OUTLOOK: | STABLE |

Rationale

Wellesley, Mass.' GO bonds have been rated 'AAA'. The town's BANs have been rated 'SP-1+'.

The ratings reflect the town's:

- Location in the deep and diverse Boston MSA;
- Large and affluent property tax base, supported by a small, but stable, commercial presence, contributing to a steady trend of low unemployment rates;
- Very high wealth levels and housing values;
- Improving financial position in addition to the electorate's demonstrated support for local services through operating overrides and capital exemptions;
- Moderate debt position, with aggressive debt amortization and limited future capital needs; and
- Fully funded pension system.

The 'AAA' rating on the town's previously issued GO debt has been affirmed.

The town's full faith and credit pledge secures the bonds and notes. Bond proceeds will be used to finance a portion of the middle school construction project in addition to funding other municipal projects. Officials will use the note proceeds to finance the final portion of the middle school construction project.

Wellesley (estimated population, 26,600) is a primarily residential suburb located 15 miles west of Boston, Mass. in one of the wealthiest regions of the nation. Located on the Route 128 Technology Belt, the local economy is diverse, with representation from the higher education, insurance, and consulting sectors. Leading employers include Wellesley College (1,250 employees), Sun Life of Canada (1,100), Babson College (623), and Accenture Consulting (600). Access to Boston is provided by Interstate 90 (the Massachusetts Turnpike) as well as by several Massachusetts Bay Transportation Authority commuter rail links. The stable employment base, in addition to residents' direct access to the greater Boston MSA and other major regional employment centers, has resulted in unemployment rates that have historically been well below both commonwealth and national averages. The town's 36-month average was a low 2.7% compared with the commonwealth's average of 5.1% and the nation's average of 5.5%. Median household and per capita income levels were both very high at 219% and 218%, respectively.

The town's \$8.6 billion property tax base is overwhelmingly residential at 89% in fiscal 2006. Wellesley's assessed valuation has increased 54% since fiscal 2001 and has averaged close to 12% growth annually. Market value is very high at \$325,395 per capita, and town officials have indicated that the average single-family home selling price in Wellesley is roughly \$799,000. Future tax base growth is expected as a number of sizable commercial and residential projects are in the planning/permitting stages. One such project, the Linden Square redevelopment, calls for an 18.4-acre site to be commercially developed in the coming years.

Wellesley's overall financial position is satisfactory, although reserve levels have improved in the past two years. Following fiscal 2003, when its unreserved general fund closed the year with less than \$1 million (less than 1% expenditures), the town adopted a five-year budget plan to build reserves back to above the target of 5% of total operating expenditures. In fiscals 2004 and 2005, the town generated two consecutive surpluses of \$662,000 (0.8% of budget) and \$2 million (2.4% of budget), respectively. At fiscal year-end 2005, Wellesley posted its highest fund balances in the past five years. The general fund closed with a balance of \$7.2 million, or 8.2% of expenditures, and the undesignated fund closed with a balance of \$4.3 million, reaching management's target of 5% of expenditures. Despite this improvement in financial position, the town's reserve levels are still moderate, especially if compared with other Standard & Poor's Ratings Services' 'AAA' rated municipalities. Management, however, has intentionally managed lower balances because of the town's strong emphasis on pay-as-you-go financing and aggressive debt repayment. Additional flexibility for the town is afforded through the stabilization fund, which may be appropriated for any municipal purpose with two-thirds of the town meeting vote. As of March 31, 2006, the stabilization fund carried a balance of \$1.6 million dollars, or an amount equal to 2% of expenditures.

For 2006, the town has indicated another positive year with no major budgetary deviations. The fiscal 2006 budget included the use of additional revenues that followed a successful \$2.6 million operating override passed by the Wellesley voters in 2005. The willingness of the town's electorate to authorize revenue flexibility beyond Proposition 2 1/2 constraints is a credit-strength. The town's

voters have consistently supported property tax overrides and capital exclusions, indicating a strong willingness and ability to pay for general services and needed capital improvements. The outlook for 2007 is also positive. The 2007 budget was passed and did not require the use of the fund balance for the first time in several years. Property taxes remain the town's primary revenue source, accounting for 75% of total revenues. Property tax collections have been strong, with collection rates at 100% of the total levy, providing the town with a stable and predictable revenue source.

Wellesley follows a debt policy that maintains general fund appropriations for capital needs equal to 7%-8% of current revenues within the levy limit, including long-term debt amortization. The town continually appropriates more than \$2 million for pay-as-you-go capital needs. Because of this, Wellesley's debt profile is positive. Net of state school construction aid and offsetting water revenue debt, the town's overall debt burden is a moderate \$2,030 per capita, or a low 0.6% of total market value. Amortization of principal is very rapid, with about 85% of existing debt retired in 10 years. The town's carrying charge is moderate at 6% of total operating expenditures in fiscal 2005. Over the years, Wellesley has undergone expansion on two of its elementary schools in addition to reconstruction of its middle school. Each of these projects has been excluded from the limitations of Proposition 2 1/2 and has received reimbursement from the Massachusetts School Building Authority (MSBA) for approximately 57% of total project costs. Wellesley's largest future capital need is an expansion at the high school, which is estimated to cost about \$69 million. The town expects to apply for an MBSA reimbursement grant for this project as well.

Another credit strength is the town's overfunded pension system, one of only two systems in the entire state that is fully funded. Although the funded ratio has come down from 133% in fiscal 2001 to its current level of 103%, its overfunded nature has relieved the town of making annual pension contributions since 1998. According to Wellesley officials, the town does not anticipate the need to make another pension contribution through 2010. Officials are also taking steps to begin to prefund certain other postemployment benefits.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's expectation that the town will manage operations with growing, but still moderate, reserves. A key strength has been demonstrated by voter support for operating overrides and debt exclusions of Proposition 2 1/2 tax limitations.

Additional stability is afforded through the town's location and proximity to regional employment centers, which contribute to local economic activity. Economic indicators for the region remain stable and should sustain continued growth in the tax base, which should contribute to revenue stability in the future.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2006 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions.

Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by e-mail to: research_request@standardandpoors.com.