

RESEARCH

Summary:

Wellesley, Massachusetts; General Obligation; Note

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Credit Profile

US\$11.267 mil BANs dtd 06/21/2007 due 06/21/2008

<i>Short Term Rating</i>	SP-1+	New
Wellesley GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Wellesley, Mass.' BANs.

At the same time, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

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;
- Improving financial position, coupled with 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 town's full faith and credit pledge secures the bonds and notes. Bond proceeds will be used to renew the town's existing BANs, which were issued to finance the middle school construction project. These proceeds will be retired by reimbursement money received by the Massachusetts School Building Authority.

Wellesley (estimated population 26,600) is a primarily residential suburb located 15 miles west of Boston, Mass., 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 include Sun Life of Canada (1,900 employees), Wellesley College (1,500), Babson College (750), and Accenture Consulting (700). 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 and residents' direct access to the greater Boston MSA and other major regional employment centers have resulted in unemployment rates that have historically been well below both commonwealth and national averages; unemployment in 2006 was a low 3.2% compared with the commonwealth (4.9%) and nation (4.6%). Furthermore, wealth and income levels are high; median household and per capita income levels are 219% and 218% of the national average, respectively.

The town's \$8.9 billion property tax base is primarily residential, at 89% in fiscal 2007. Wellesley's assessed valuation has increased 34% since fiscal 2002, growing at an average rate of 6% annually. Market value is a very high \$353,012 per capita. Future tax base growth is expected, as a number of sizable commercial and residential projects remain ongoing.

Wellesley's financial operations and position are sound. 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. Over the past three fiscal years (2004, 2005, and 2006), the town has generated three consecutive surpluses of \$662,000 (0.8% of budget), \$2.0 million (2.4% of budget) and \$1.2 million (1.3% of budget), respectively. During this time, financial operations have been aided by the willingness of the town's electorate to authorize revenue flexibility beyond Proposition 2 1/2 constraints. 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. At fiscal year-end 2006, Wellesley posted its highest fund balances in the past five fiscal years. In 2006, the general fund closed with a balance of \$8.4 million, or 9.0% of expenditures; of that, \$6.4 million (6.9% of expenditures) was classified as unreserved, above management's target of 5.0% of expenditures. Reserve levels, while improved, remain slightly below average, especially compared with other 'AAA' rated communities. This is intentional, because of the strong emphasis placed on pay-as-you-go financing and aggressive debt repayment. The town also maintains a stabilization account, which may be used for any municipal purpose with two-thirds of the town meeting vote. At fiscal year-end 2006, the stabilization fund carried a balance of \$1.5 million, an additional 1.6% of expenditures. The outlook for 2007 is positive; town officials have indicated positive variances within the budget and are projecting its fourth consecutive operating surplus. Property taxes are the town's primary revenue source, accounting for 75% of total revenues; property tax collections remain strong, with collection rates at 100% of the total levy, providing the town with a stable and predictable revenue source.

Wellesley's management practices are considered good under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that financial management practices exist in most areas, though not all might be formalized or regularly monitored by governance officials. Highlights include good capital and financial planning as seen through the town's five-year capital plan (which outlines funding and is updated annually), as well as the town's debt policy. Budget performance is reviewed regularly and investments are monitored and communicated monthly to elected officials. The town also adheres to its informal goal of maintaining unreserved fund balance to no less than 5% of budget. 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 \$1,819 per capita, or a low 0.5% of total market value. Amortization of principal is very rapid, with about 87% of existing debt to be retired by fiscal 2017. The town's debt service carrying charge is a moderate 7% of total operating expenditures. 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 leading future capital need is an expansion at its high school, which is estimated to cost about \$69 million. This project remains in the preliminary stages; management does, however, expect to apply for an MBSA reimbursement grant for this project as well.

Outlook

The stable outlook on the 'AAA' rating reflects Standard & Poor's expectation that the town will manage to maintain structurally balanced operations, with growing and adequate reserve levels. A key strength has been demonstrated by voter support for operating overrides and debt exclusions of Proposition 2 1/2 tax limitations, which relieves certain revenue constraints. Additional stability is given by the town's wealth and income, in addition to its location and proximity to regional employment centers contributing to local economic activity. Economic indicators for the region remain strong and should contribute to sustained growth within the tax base, contributing to revenue stability.

Pensions And Other Postemployment Benefits

The town's fully funded pension system is a credit strength. Wellesley is one of just 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. Furthermore, town officials have taken the lead in planning to meet the town's other postemployment benefits (OPEB) obligation by establishing a trust fund (the group insurance liability fund), and also securing a special state law allowing for a funding exclusion to be allowed within the limits of Proposition 2 1/2. The town has identified roughly \$93 million in OPEB obligations and will appropriate \$3 million annually to fund the liability. Town officials will appropriate \$1.2 million annually in the operating budget to the OPEB trust fund, within the levy limit. The remaining \$1.8 million over the next 10 years will come from a voted-upon exclusion of Proposition 2 1/2, which won by a 68%-to-32% margin in a special town meeting in May.

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Ratings Detail (As Of 11-Jun-2007)

Wellesley BANs dtd 06/21/2007 due 06/21/2008

Short Term Rating

SP-1+

New Rating

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