New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE CITY OF WOBURN'S (MA) $10 MILLION G.O. BONDS SERIES 2011

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Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2011	Aa2

Sale Amount	$10,000,000
Expected Sale Date	09/14/11
Rating Description	General Obligation

Opinion

NEW YORK, Sep 14, 2011 -- Moody's Investors Service has assigned a Aa2 rating to the City of Woburn's (MA) $10 million General Obligation Municipal Purpose Loan of 2011 Bonds. Moody's maintains a Aa2 rating on approximately $62.5 million of outstanding general obligation parity debt. The current issue carries the city's general obligation limited tax pledge as the projects are not exempted from the levy limitations of Proposition 2 ½. The proceeds will be used to retire $10M in bond anticipation notes maturing on September 23, 2011.

RATINGS RATIONALE

The Aa2 rating reflects the city's strong financial position reinforced by healthy stabilization fund reserves, a sizeable and diverse tax base, and a manageable debt burden.

STRENGTHS

-Sizeable and diverse tax base

-Strong financial position with healthy reserves

CHALLENGES

- Above average long-term OPEB liabilities

DETAILED CREDIT DISCUSSION

FAVORABLE FINANCIAL POSITION WITH HEALTHY RESERVE LEVELS

Woburn is expected to maintain its strong financial position due to conservative budgeting practices and healthy reserve levels, including substantial balances outside of the General Fund. The city ended fiscal 2010 with minimal use of free cash and stabilization funds and at year's end available funds as a percentage of revenues were a solid $16.9 million or 14% of general fund revenue. Fiscal 2010 audited results indicated a $753,638 operating deficit resulting in a total General Fund balance decrease of just $763,638 rather than the budgeted $4.5 million draw (the amount of the reserve) initially projected. The city had projected a large draw from the designated debt service reserve within the general fund to call $3.8 million in school debt. Nonetheless, facing a $2.8 million reduction in state aid, lower new growth and another weak year for local receipts, management decreased the 2010 budget slightly from 2009 levels by increasing employee health insurance contributions and copayments, eliminating $495,000 in debt service due to bond retirement, and renegotiating a solid waste removal contract to achieve savings of $250,000.

In fiscal 2011, management restrained expenditure growth with level education expenditures and the implementation of cost saving initiatives including the re-bidding of existing vendor contracts and bringing their payroll operation in-house. The budgeted $230,000 reduction in state aid was offset by increases in other revenue sources, including a room occupancy tax increase from 4% to 6% and the adoption of the local meals excise tax on July 1, 2010. Unaudited fiscal 2011 results indicate a large $7 million operating surplus driven by expenditure reductions and $3M in surplus revenues including $2.3 million positive variance as a result of an increase in the hotel tax from 4% to 6% and implementation of the meals tax on July 1, 2010. Projections show fiscal 2011 ended with a $3.3 million increase in undesignated General Fund balance bringing the total balance to an ample $13 million undesignated fund balance and $7.6 million in certified free to cash. The city's OPEB liability was valued at $227.9 million as of June 30, 2011 and Woburn has approximately $937,086 in reserve for this liability, however this represents a fraction of the $13.8 million OPEB ARC payment in fiscal 2011. Going forward, continued conservative budgeting practices and a commitment to maintaining adequate financial cushion should continue to support a solid financial position. The fiscal 2012 adopted budget assumes 2.5% in budgetary growth over the fiscal 2011 adopted budget and balances the budget without appropriating reserves.

FAVORABLE LOCATION AND COMMERCIAL PRESENCE LENDS STABILITY

The city's sizeable $6.2 billion tax base is expected to remain stable due to the city's favorable location and notable commercial presence. Located 12 miles northwest of Boston (G.O. rated Aaa/stable outlook) with immediate access to major regional highways and commuter rail, Woburn's economy is diverse, with commercial and industrial presence that comprise over one-quarter of the tax base. In fiscal 2011, the city's unused levy capacity grew to $4.6 million as a result of an unexpectedly strong $2 million in new growth revenue. Management projects continued healthy new growth and development, given changes in the city's zoning codes to create more mixed use areas. Further, officials have been granted seven new liquor licenses to encourage new commercial developments. The city's resident income levels approximate commonwealth medians, and the $163,293 equalized value per capita is significantly higher than the commonwealth and national medians, reflecting the large commercial and industrial presence. Unemployment levels at 6.8% in June 2011 remain below state and national measures of 7.8% and 9.3%, respectively.

DEBT POSITION TO REMAIN MANAGEABLE

Moody's believes that the city's average 1.2% direct debt burden is manageable given an average rate of principal retirement (61.6% within 10 years) however the direct debt burden is expected to increase but remain manageable. The city has $43.9 million of authorized but unissued long-term debt which will be used primarily for a new school project ($25.3 million) which the city anticipates will receive 53% of its funding through state grants; $17.8 million of the authorized and unissued debt will fund self-supporting water and sewer projects. The city's overall debt burden rises to a slightly above average 2.6% after including overlapping obligations of the Massachusetts Water Resource Authority (senior lien revenue bonds rated Aa1/stable outlook), MWPAT (revenue bonds rated Aaa/stable outlook), Massachusetts Bay Transportation Authority (revenue bonds rated Aa1/stable outlook), and Middlesex County. Debt service expenditures in fiscal 2010 comprised an affordable 6.7% of total expenditures. The city has no variable-rate debt or exposure to swap agreements.

WHAT COULD CHANGE THE RATING (UP):

- Significant growth in taxable assessed valuation due to new development

-Improved demographic profile

-Maintenance or growth of current reserve levels relative to budgetary expansion

WHAT COULD CHANGE THE RATING (DOWN):

- Material multi-year declines in fund balances and liquidity

- Significant growth in the city's direct debt burden

KEY STATISTICS

2010 Estimated Population: 38,480

2011 Equalized Valuation: $6.2 billion

2011 Equalized Value Per Capita: $163,293

Overall Debt Burden: 2.6%

Amortization of Principal (10 years): 61.6%

FY10 General Fund balance: $14.6 million (12.1% of General Fund revenues)

FY10 Undesignated General Fund balance: $9.7 million (8% of General Fund revenues)

FY10 Available Reserves (Unreserved General and Stabilization Funds): $16.9 million (14% of general fund revenues)

1999 Per capita income: $26,207 (101% of commonwealth, 121.4% of nation)

1999 Median family income: $66,364 (107.6% of commonwealth, 132.6% of nation)

Post-Sale Long-Term General Obligation Debt Outstanding: $72.5 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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