MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO THE CITY OF WOBURN'S (MA) $14.4 MILLION G.O. BOND ANTICIPATION NOTES

Global Credit Research - 13 Dec 2010

AFFIRMS Aa2 LONG-TERM RATING AFFECTING $48.1 MILLION IN LONG-TERM G.O. DEBT

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bond Anticipation Notes	MIG 1

Sale Amount	$14,421,000
Expected Sale Date	12/14/10
Rating Description	Bond Anticipation Note

Opinion

NEW YORK, Dec 13, 2010 -- RATINGS

Moody's Investors Service has assigned a MIG 1 rating to the City of Woburn's (MA) $14.4 million General Obligation Municipal Bond Anticipation Notes (BANS), dated December 21, 2010 maturing September 23, 2011. Concurrently, Moody's has affirmed the Aa2 rating on approximately $48.1 million of post-refunding general obligation debt.]

RATINGS RATIONALE

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 provide temporary financing for the construction of a new elementary school. The MIG 1 short-term rating incorporates the city's long-term credit characteristics as well as demonstrated market access to the capital markets. The Aa2 rating reflects the city's strong financial position reinforced by healthy stabilization fund reserves, a sizeable and diverse tax base, and an average debt burden with moderate future borrowing plans.

DEMONSTRATED HISTORY OF MARKET ACCESS

The city has demonstrated satisfactory market access, receiving six bids three bids on the most recent note sales dated June 24, 2010 and six bids on the city's July 7, 2008 note sale. All bids were received from major regional and national financial institutions. This history indicates the city's ability to refund these notes, if necessary, at their September 23, 2011 maturity.

FAVORABLE FINANCIAL POSITION WITH HEALTHY RESERVE LEVELS

Moody's expects Woburn 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 recorded a particularly large $9 million surplus in 2007, benefiting from $6.9 million of one-time sources including better-than anticipated reimbursement from the Massachusetts School Building Authority (MSBA rated Aa1/stable outlook) and a $1.7 million reduction in accrued interest expenses through the refinancing of a Massachusetts Water Pollution Abatement Trust (MWPAT rated Aaa/stable outlook) loan. As a result of these windfalls and continued conservative budgeting, the General Fund closed the year with a $15.2 million undesignated balance, equal to a strong 12.6% of revenues. Available funds (consisting of Unreserved General Fund balances and Stabilization Funds) increased by a lesser but still substantial $3.6 million to $23.6 million, or a solid 19.5% of revenues, due to the city's use of $2.5 million of Stabilization Funds for high school-related capital projects. Despite the use of $4.6 million in fiscal 2008, including a $2 million increase in capital outlay, available reserves remained level over the previous year at a strong 19.5% of revenues, given stabilization fund investment earnings.

In fiscal 2009 reserves experienced declines to still strong levels driven by both changes in accounting treatments and a modest operating deficit. Available fund balance declined significantly to 11.9% as a result of the creation of a General Fund reserve for future debt service related to the large MSBA reimbursement received in fiscal 2007 which reduced undesignated funds balance to $6.4 million or 5.4% of revenues. Fiscal 2009 operations resulted in a deficit of $1.67 million, given mid-year state aid reductions of $726,000 and weak performance of motor vehicle excise revenues, despite favorable collections in hotel/motel taxes. While no free cash was used to balance the initial budget, the city appropriated $474,000 of free cash during the fiscal year to finance some small capital projects, personnel overtime, and wage increases for non-instructional school department employees.

Fiscal 2010 unaudited results indicate a surplus of $3.7 million, exclusive of the planned utilization of the city's debt service reserve to call school debt from reserve funds. As a result total General Fund balance (unaudited) declined by just $724,000 rather than the $4.5 million (the amount of the reserve) initially projected. Available funds as a percentage of revenues improved to 14.1% as undesignated revenues increased as a result of the operating surplus. 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. Implementation of these measures and use of available levy capacity allowed the city to end fiscal 2010 without the use of free cash or stabilization funds and contributed to the significant surplus as state aid was reduced by $620,000 ($2.2 million less than what was projected).

Additional flexibility is provided by a reserve held outside the General Fund of $4.5 million that was originally generated by levying a property tax debt exclusion in excess of annual debt service requirements related to the high school and White school projects; these funds are restricted to paying debt service on those projects and will be depleted over the life of the bonds. Management restrained expenditure growth again in 2011 with level education assessments and increased health care co-pays, preventing the use of free cash to balance the budget or significant use of levy capacity. Going forward, continued conservative budgeting practices and a commitment to maintaining adequate financial cushion should continue to support a solid financial position.

A January 1, 2011 actuarial study of Woburn's retirement system indicated a 68% funding level but like many communities, recent market losses drove declines from its highest funding level of 85.6% in January 2000. The city's OPEB liability was recently valued at $138 million. Recent legislation passed by the Massachusetts General Assembly allows municipalities to now establish trusts for the purpose of prefunding the liability. Woburn has not yet established a trust but has begun to internally designate its annual Medicare reimbursements for this purpose. Planned contributions of $200,000 to $400,000 annually represent a fraction of the $7.77 million pay-as-you-go outlay. Given the constraints under Proposition 2 ½ and limited flexibility to alter benefits, Moody's believes Woburn, like most Massachusetts communities, will be challenged to fully meet OPEB ARC payments.

FAVORABLE LOCATION AND COMMERCIAL PRESENCE LENDS STABILITY

Moody's expects that Woburn's sizeable $6.3 billion tax base may continue to exhibit modest contraction given cooling of regional real estate markets, but believes the city's favorable location and notable commercial presence should insulate the city from large declines. 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. Following several years of strong industrial and commercial growth as well as appreciation of existing homes, which drove average annual equalized growth of 10.2% from 2002 to 2008, fiscal 2009 and 2010 assessments (based on January 1 prior year values) declined by a modest 2.1%and 3.1%, respectively. Management reports development throughout the city has slowed and calculates fiscal 2011 new growth revenues significantly lower than amounts received in recent years. The city's resident income levels approximate commonwealth medians, and the $172,052 equalized value per capita is significantly higher than the commonwealth median, reflecting the large commercial and industrial presence. Unemployment levels at 8.9% as of September 2010 remain below state and national measures of 9.3% and 10.2%, respectively.

DEBT POSITION TO REMAIN MANAGEABLE

Moody's anticipates that the city's average 1.1% direct debt burden will remain manageable given an average rate of principal retirement (68.3% within 10 years) and moderate future borrowing plans. The debt service claim on expenditures in fiscal 2010 comprised an affordable 6.7% of total expenditures. The city's overall debt burden rises to a slightly above average 2.7% after including overlapping obligations of the Massachusetts Water Resource Authority (senior lien revenue bonds rated Aa1/negative outlook), MWPAT (revenue bonds rated Aaa/stable outlook), Massachusetts Bay Transportation Authority (revenue bonds rated Aa1/stable outlook), and Middlesex County. Woburn has authorized $33 million for water projects and plans to leverage state revolving loan funds and low-interest Massachusetts Water Resource Authority loans for $26.5 million. The city also is planning a school project, partly funded with the proceeds from this sale, for approximately $20 million with approximately 53% funded with state grants. Though these projects represent a substantial addition to the city's debt, management expects related debt service to be supported by water rates. The city exclusively issues fixed rate debt and is not party to any derivative agreements.

WHAT COULD CHANGE THE RATING (UP):

- Growth in taxable assessed valuation

-Improved demographic profile

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

- Accelerated payout of debt burden

WHAT COULD CHANGE THE RATING (DOWN):

- Material multi-year declines in fund balances and liquidity

- Significant growth in the town's direct debt burden

KEY STATISTICS

2008 Estimated Population: 36,871 (-1% since 2000 census)

2010 Equalized Valuation: $6.3 billion

2010 Equalized Value Per Capita: $168,825

Overall Debt Burden: 2.7%

Amortization of Principal (10 years): 68.3%

FY09 General Fund balance: $15.4 million (13.4% of General Fund revenues)

FY09 Available Reserves (Unreserved General and Stabilization Funds): $16.4 million (14.3% of general fund revenues)

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

FY10 Available Reserves (Unaudited Unreserved General and Stabilization Funds): $17 million (14.1% 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-refunding General Obligation Bonds Outstanding: $48.1 million

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

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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