

MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO THE CITY OF WOBURN'S (MA) \$2.5 MILLION G.O. BOND ANTICIPATION NOTES

Global Credit Research - 20 Jun 2011

Aa2 LONG-TERM RATING APPLIES TO \$62.5 MILLION IN LONG-TERM G.O. DEBT

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bond Anticipation Notes	MIG 1
Sale Amount	\$2,000,000
Expected Sale Date	06/21/11
Rating Description	General obligation

Opinion

NEW YORK, Jun 20, 2011 -- Moody's Investors Service has assigned a MIG 1 rating to the City of Woburn's (MA) \$2.5 million General Obligation Municipal Bond Anticipation Notes (BANS), dated June 29, 2011 maturing October 28, 2011. Concurrently, Moody's has affirmed the Aa2 rating on approximately \$62.5 million of 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 provide temporary financing for water system improvements and a school roof.

RATINGS RATIONALE

The MIG 1 short-term rating incorporates the city's above-average 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 a manageable debt burden.

STRENGTHS

- Sizeable and diverse tax base
- Strong financial position with healthy reserves

CHALLENGES

- Reductions in state aid
- Significant pension and OPEB liabilities

DETAILED CREDIT DISCUSSION

DEMONSTRATED HISTORY OF MARKET ACCESS

The city has demonstrated satisfactory market access, receiving seven bids on the most recent note sale dated March 31, 2011 and seven bids on the city's December 15, 2010 note sale. All bids were received from major regional and national financial institutions. Given the city's demonstrated market access and underlying credit characteristic, the city should see sufficient access to capital markets at the notes' October 28, 2011 maturity.

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 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 fiscal 2009 with a \$15.2 million undesignated balance, equal to a solid 12.6% of revenues.

Fiscal 2010 audited results indicate a \$753,638 operating deficit and as a result the total General Fund balance declined by 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. Implementation of these measures and use of available levy capacity allowed the city to end fiscal 2010 with only 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.

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 \$620,000 reduction in state aid will be offset by increased 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. Current revenue projections show \$1 million in positive revenue variance which will be added to the general fund balance at the end of the year. 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 was approved on June 13 and assumes 2.5% in budgetary growth over the fiscal 2011 adopted budget. Management assumes a small reduction in state aid and was able to balance the budget without the appropriation of reserves.

The January 1, 2011 actuarial study of Woburn's retirement system indicated a 68% funding level but like many communities, market losses in 2008 drove a decline from its highest funding level of 85.6% in January 2000. The city's OPEB liability was valued at \$138 million as of June 30, 2009. Recent legislation passed by the Massachusetts General Assembly allows municipalities to now establish trusts for the purpose of prefunding the liability. Woburn has approximately \$960,000 in reserve for this liability funded with annual Medicare reimbursements however this represents a fraction of the \$13.2 million OPEB ARC payment in fiscal 2010. Given limited flexibility to alter benefits, Moody's believes Woburn, like most Massachusetts communities, will be challenged to fully meet OPEB ARC payments without raising additional revenue or significant budget cuts.

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 petitioned the state for six new liquor licenses to encourage new commercial developments. The city's resident income levels approximate commonwealth medians, and the \$168,825 equalized value per capita is significantly higher than the commonwealth and national medians, reflecting the large commercial and industrial presence. Unemployment levels at 6.1% as of April 2011 remain below state and national measures of 7.4% and 8.7%, 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 (68.3% within 10 years) however the direct debt burden is expected to increase but remain manageable. The city has \$88.5 million of authorized but unissued long-term debt which will be used primarily for a new school project (\$26.5 million) which the city anticipates will receive 53% of its funding through state grants. Of the remaining \$62 million of authorized, unissued debt \$28.4 million will be used to fund general

infrastructure projects and \$33.5 million will fund self supporting water and sewer projects. The proceeds from this note sale will be used to temporarily fund water system improvements and school roof replacement. The city's overall debt burden rises to a slightly above average 3.1% 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. Debt service expenditures in fiscal 2010 comprised an affordable 6.7% of total expenditures. 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 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: \$168,825

Overall Debt Burden: 3.1%

Amortization of Principal (10 years): 68.3%

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)

Long-Term General Obligation Debt Outstanding: \$66.6 million

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

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