

New Issue: [Westwood \(Town of\) MA](#)

MOODY'S ASSIGNS Aa1 AND NEGATIVE OUTLOOK TO THE TOWN OF WESTWOOD'S (MA) \$3.83 MILLION G.O. BONDS

TOTAL OF \$42.3 MILLION OF PARITY DEBT AFFECTED, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2008 Bonds	Aa1
Sale Amount	\$3,830,000
Expected Sale Date	07/31/08
Rating Description	General Obligation

Moody's Outlook Negative

Opinion

NEW YORK, Jul 29, 2008 -- Moody's Investors Service has assigned a Aa1 rating with a negative outlook to the Town of Westwood's (MA) \$3.83 million General Obligation Municipal Purpose Loan of 2008 Bonds. Concurrently, Moody's has affirmed the town's Aa1 rating and assigned a negative outlook affecting approximately \$38.48 million of outstanding parity debt. The negative outlook reflects the town's strained financial condition with narrow reserve levels and lack of a formal plan to rebuild reserves to comply with stated financial policies. The Aa1 rating further incorporates the town's sizable tax base, which is expected to benefit from a large-scale development project, high wealth levels, and manageable debt position with limited immediate borrowing plans. The bonds carry the town's general obligation limited tax pledge as voters have not exempted debt service from the levy limitations of Proposition 2 ½. Proceeds of the current issue along with \$35,000 of town revenue funds will permanently finance a like amount of bond anticipation notes maturing August 14, 2008, originally issued for high school projects, road reconstruction and land acquisition.

SIZABLE AND STEADILY GROWING BOSTON SUBURB WITH HIGH RESIDENT WEALTH LEVELS

Moody's believes that a pending development project will significantly augment Westwood's \$3.9 billion tax base over the medium term. The town's location 12 miles from Boston (rated Aa1/stable outlook) with access to Route 128 /Interstate 95 and a commuter rail station within town limits make Westwood attractive to commuting professionals. Equalized value growth in this wealthy, primarily residential town grew steadily from 2002 through 2008 but lagged regional trends, as market appreciation and limited new development drove an average 9.5% annual growth rate. Although preliminary equalized valuation numbers based on January 1, 2008 assessments indicate growth slowed over calendar year 2007, Westwood should see considerable growth in the near term due to its new Westwood Station project scheduled to break ground this fall.

With an eye towards diversifying its tax base, town officials recognized a significant redevelopment opportunity around its existing rail station and revised zoning ordinances at its office park to allow for higher density mixed-use development and capitalize on its commuter-friendly location. A private developer subsequently purchased the 135-acre site and proposed a large project consisting of 4.5 million square feet of office, retail and residential space. The town recently granted permits for the first phase consisting of 2.2 million square feet of retail and residential development and the developer is currently targeting a fall 2009 opening of retail components in time for next year's holiday season. Under the terms of a developer agreement adopted in April, the town will receive guaranteed annual payments during the construction phases to mitigate the impacts of the development and compensate the town for temporarily reduced taxes related to demolition of some existing property. In fiscal 2009 the town will receive \$1.75 million under the agreement with future payments partially determined by various construction milestones and completed taxable property. In addition to the developer agreement, the town has negotiated a TIF, however any abatements are dependent upon the developer meeting agreed-upon revenue targets. Given the magnitude of the project and the growing interest in proximity to mass transit, Moody's views the project as a very

favorable addition to an already stable and wealthy tax base. Resident wealth levels in Westwood are well above average and continue to grow in relation to state medians as reflected in the very high \$282,400 equalized value per capita.

NARROW FINANCIAL POSITION; OPPORTUNITIES TO IMPROVE RESERVES KEY TO RATING AFFIRMATION

Moody's expects the town's narrowed financial position to stabilize given new revenues related to the Westwood Station project, a key factor in the affirmation of the Aa1, but notes that current levels are incompatible with the Aa1 rating category (national Aa1 General Fund balance median equals 32.3% of revenues and for the Commonwealth 14% of revenues) and failure to improve levels in the near term may result in negative rating action. Westwood has typically maintained a relatively narrow, albeit stable, financial position reflecting an aggressive pay-as-you-go capital program, which we have viewed as a source financial flexibility and had the expectation the town could adjust the program in tight budget years, mitigating the impact of narrow reserves. Over the last three years however, rising fixed costs, a failed operating override for the fiscal 2006 year and tight budgeting have precluded the replenishment of free cash appropriations which has in turn eroded general fund balance. While Moody's recognizes that the majority of appropriations represent one-time expenditures, undesignated general fund balance has declined by 40% since 2004 to just \$1.28 million or a very narrow 2.1% of general fund revenues. Although stabilization fund balances have increased modestly each year, reflecting a nominal annual appropriation to that fund, its 2007 balance of \$969,000 failed to mitigate the reduction in general fund reserves, causing available reserves to decline to \$3.4 million or a very limited 5.6% of revenues.

The fiscal 2008 operating budget increased 8.7% over 2007 and included a property tax levy increase after a successful \$2.77 million operating override for the school department. With the addition of these revenues and an unused \$75,000 in its newly-established energy reserve, management expects undesignated fund balance to increase modestly. However, the town appropriated \$1.1 million of free cash during the year, with \$700,000 used for pay-as-you-go capital expenditures, leading Moody's to believe that total general fund balances may yet decline if these sums are not fully replenished through favorable budgetary variances. The stabilization fund is projected to increase minimally to approximately \$1.04 million, reflecting a \$100,000 appropriation effective July 1, 2008. Additional reductions to available reserves could result in negative rating pressure.

The Westwood Station project is expected to generate significant tax revenues beginning in fiscal 2009 and management reports plans to dedicate a portion of these taxes to rebuilding reserves and reducing reliance on free cash for capital expenditures. Of the \$1.75 million anticipated in 2009 under the terms of the developer agreement, management has earmarked only \$150,000 to be added to reserves, with \$1.05 million applied to general operations, \$450,000 for school and municipal capital projects, and \$100,000 to increase the town's snow and ice budget. Although the town is set to receive \$11.5 million over the the first eighteen months of agreement once construction begins, presenting an opportunity to revive its financial position and reduce reliance on free cash for capital appropriations, management has not made a formal commitment to do so, representing a key factor in the assignment of the negative outlook. Also, with the majority of the first developer payment used for 2009 operations and continuation of the town's practice of utilizing \$700,000 of free cash to augment capital funding, which Moody's believes may hinder the town's progress in rebuilding reserves. Of note, the town has not been in compliance with its formally adopted reserve policy of maintaining combined stabilization funds and general fund balance at 8% of general fund revenues less debt service, a practice we do not see as consistent with the high quality rating. Management expects that new revenues should be sufficient to meet this goal in 2010; achievement of this target, and meaningful progress in the interim, will factor into future rating reviews. Finally, Moody's recognizes that should anticipated tax base growth not meet projections, Westwood will be challenged to build reserves as education, salary and health insurance costs continue to rise. Future rating actions will incorporate Westwood's ability to comply with its financial policies and maintain adequate reserves.

DEBT BURDEN EXPECTED TO REMAIN MINIMAL

Moody's anticipates that the town's 1.7% overall debt burden will remain affordable given limited future borrowing plans and significant commonwealth school building aid. The town's adjusted debt burden falls to a very low 1.1% when 59% school building aid is included. Future borrowing plans are limited to \$4.5 million for a middle school project in 2010 and a potential \$10 million library project which is expected to be offset with \$4.6 million of private contributions and state grants. Amortization of existing principal is rapid with 75.7% retired in 10 years. The town has no variable rate debt or derivative product exposure.

Outlook

OUTLOOK

The negative outlook reflects the town's narrowed financial positions to levels inconsistent with the Aa1 rating category and the town's financial policies which target a combined 8% undersigned general fund and stabilization fund balance. The outlook additionally incorporates the lack of a specific and measurable plan to rebuild reserves to more appropriate levels despite the expectation of significant new revenues from the Westwood Station development.

WHAT COULD MOVE THE RATING - UP (REMOVE THE NEGATIVE OUTLOOK)?

- Achievement of target reserve levels over the medium-term
- Meaningful progress toward reserve levels more consistent with Aa1 medians
- Development of and adherence to a long-range fiscal plan

WHAT COULD MOVE THE RATING - DOWN?

- Audited fiscal 2008 results which evidence a continued materially negative financial trend
- Failure to make progress toward meeting the town's own adopted financial policies in 2009 or failure to comply with those policies in 2010.
- Inability to engage in formal long-range planning processes
- Significant increase in debt levels

KEY STATISTICS

2006 Population: 13,822 (estimated -2.0% since 2000 census)

2007-8 Equalized valuation: \$3.8 billion

2009 Proposed equalized valuation: \$3.9 billion

2007-8 Equalized valuation per capita: \$277,184

2009 Proposed equalized valuation per capita: \$282,400

Median family income: \$103,242 (167.4% of the commonwealth; 192.5% of the U.S.)

Per capita income: \$41,553 (160.1% of the commonwealth; 206.3% of the U.S.)

Overall debt burden: 1.7%

Adjusted overall debt burden: 1.1%

Payout of principal (10 years): 75.7%

FY07 General Fund balance: \$3.18 million (5.3% of general fund revenues)

FY07 Undesignated General Fund balance: \$1.28 million (2.1% of revenues)

FY07 Stabilization Fund: \$959,000 (1.6% of revenues)

Post-sale G.O debt outstanding: \$42.3 million

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