

New Issue: **Westwood (Town of) MA**

**MOODY'S ASSIGNS Aa1 TO THE TOWN OF WESTWOOD'S (MA) \$3.5 MILLION G.O. SCHOOL BONDS;
OUTLOOK IS NEGATIVE**

**Aa1 RATING AND NEGATIVE OUTLOOK APPLY TO \$40.87 MILLION OF LONG-TERM DEBT,
INCLUDING CURRENT OFFERING**

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation School Bonds of 2009	Aa1
Sale Amount	\$3,500,000
Expected Sale Date	06/24/09
Rating Description	General Obligation

Opinion

NEW YORK, Jun 15, 2009 -- Moody's Investors Service has assigned a Aa1 rating with a negative outlook to the Town of Westwood's (MA) \$3.5 million General Obligation School Bonds of 2009. Concurrently, Moody's has affirmed the Aa1 rating and negative outlook assigned to the town's \$37.37 million of outstanding parity debt. The Aa1 rating incorporates the town's sizeable tax base with significant redevelopment potential, high wealth levels, and manageable debt position with limited immediate borrowing plans. 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 within the medium term. 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, and are issued to finance the installation of modular classrooms at the town's Thurston Middle School.

FINANCIAL POSITION BEGINNING TO STABILIZE BUT REVENUE GROWTH DECELERATES

Moody's expects the town's narrowed financial position to improve modestly in the near term, despite an environment of declining local revenue and state aid, due to careful expenditure management and a conservative budgeting approach. Following a successful \$2.77 million operating override for the school department, Westwood produced a \$1 million operating surplus and increased general fund balance to \$4.19 million, a still-slim 6.4% of general fund revenues and the first increase since fiscal 2004. Available reserves, including unreserved general fund and stabilization fund, rose modestly to \$4.18 million (6.4% of revenues). Favorable revenue and expenditure variances are anticipated for fiscal 2009 operations, however after replenishing a \$700,000 free cash appropriation, a modest available reserve increase is projected to roughly \$4.3 million however this represents a decline, relative to revenue growth, of 6.2% of revenues. The fiscal 2010 budget was approved at Westwood's annual town meeting and includes a \$746,000 overall reduction in expenditures, a 1.2% decline over the fiscal 2009 budget. Revenue assumptions remain conservative and no free cash, stabilization or other one-time sources of revenue were used to balance the budget, indicating a return to structural balance. While no service reductions or layoffs were necessary, most collective bargaining contracts have expired and salaries are budgeted at fiscal 2009 levels; negotiations are currently inactive but no provisions for additional funding exist within the fiscal 2010 budget. Reductions in staffing levels or other expenditure reductions could be necessary should salary increases be adopted mid-year. If agreements remain unsettled additional pressure for salary increases is likely to be shifted to future budgets.

Because the town's plan to grow reserves hinges on new revenues related to the stalled Westwood Station project, significant improvement in financial strength is unlikely in the near term. Available reserves are currently incompatible with the Aa1 rating category (national Aa1 General Fund balance median equal to 32.3% of revenues and for the Commonwealth 14% of revenues) and failure to improve levels in the medium 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 of financial flexibility with the expectation the town could adjust the program in tight budget years, somewhat mitigating the impact of narrow reserves. While Moody's recognizes that the erosion of fund balance is due to appropriations representing one-time expenditures, undesignated general fund balance had declined by 40% since 2004 to just \$1.28 million or a very narrow 2.1% of general fund revenues in fiscal

2008. Although stabilization fund balances have increased modestly each year, reflecting a nominal annual appropriation to that fund, its 2009 balance of \$1.3 million fails to mitigate the reduction in general fund reserves, causing available reserves to decline to \$3.4 million or a very limited 5.6% of (pro-forma) revenues.

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 related to tax base growth should be sufficient to meet this goal although timing remains unclear; achievement of this target, and meaningful progress in the interim, will factor into future rating reviews. Finally, Moody's recognizes that prolonged delays in major redevelopment projects, including Westwood Station, are likely to inhibit significant reserve growth as education, salary and health insurance costs continue to rise. Future rating actions will incorporate Westwood's ability at a minimum to produce positive operating results, comply with its financial policies and maintain adequate reserves.

FAVORABLY LOCATED BOSTON SUBURB WITH HIGH RESIDENT WEALTH LEVELS

Moody's believes that anticipated tax base growth will be delayed as progress in the town's major proposed redevelopment project, Westwood Station, appears to be stalled. 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. Westwood's \$3.9 billion tax base could see significant growth over the medium to long term should economic conditions more favorable to new development return. Equalized value growth in this wealthy, primarily residential town grew steadily, at an average annual pace of 5.7% from 2003 through 2009, but lagged regional trends. 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 leases for 85% of the space are reported to be under agreement, however ground-breaking has been delayed. Under the terms of an adopted developer agreement, 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. The town will receive up to \$11 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 property tax 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 potentially 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 \$278,812 equalized value per capita.

MODERATE DEBT BURDEN BOLSTERED BY VOTER SUPPORT

Moody's anticipates that the town's 1.6% 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 low 1.3% when 59% school building aid is included. While debt service represented a significant 9.5% of fiscal 2008 expenditures, roughly 78% of Westwood's outstanding debt has been excluded from Proposition 2 ½ by the town's voters, easing pressure on general fund operations. Future borrowing plans are limited to a potential \$12 million library project which is expected to be offset with \$4.6 million of private contributions and state grants; the project is not expected to proceed without a vote to exclude the project from Proposition 2 1/2. Amortization of existing principal is rapid with 75.4% retired within 10 years. The town has no variable rate debt or derivative product exposure.

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 and the expectation that Westwood's financial position will be remain pressured as tax base expansion and revenue growth remain constrained due to recessionary pressures.

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?

- Continued reductions in reserve levels relative to revenues
- Failure to make progress toward meeting the town's own adopted financial policies in the medium term
- Inability to engage in formal long-range planning processes

KEY STATISTICS

2007 Population: 14,010 (estimated -0.8% since 2000 census)

2009 Equalized valuation: \$3.9 billion

2009 Equalized valuation per capita: \$278,812

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: 1.6%

Adjusted overall debt burden: 1.3%

Payout of principal (10 years): 75.4%

FY08 General Fund balance: \$4.19 million (6.4% of general fund revenues)

FY08 Undesignated General Fund balance: \$1.98 million (3% of revenues)

FY08 Available Reserves: \$4.18 (6.4% of revenues)

Post-sale G.O debt outstanding: \$40.87 million

METHODOLOGY AND LAST RATING ACTION TAKEN

The principal methodology used in rating the current issue was "Local Government General Obligation and Related Ratings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was on July 29, 2008 when the Aa1 rating for Westwood, MA was affirmed and a negative outlook was assigned.

Analysts

Susan Kendall
Analyst
Public Finance Group
Moody's Investors Service

Conor McEachern
Backup Analyst
Public Finance Group
Moody's Investors Service

Patrick Mispagel
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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