Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 TO THE TOWN OF WESTWOOD'S (MA) $9.3MILLION G.O. LIBRARY BONDS; OUTLOOK IS NEGATIVE

Global Credit Research - 03 Mar 2011

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 Unlimited Tax Library Bonds	Aa1
Sale Amount $9,300,000	
Expected Sale Date 03/03/11	
Rating Description General Obligation	

Moody's Outlook Negative

Opinion

NEW YORK, Mar 3, 2011 -- Moody's Investors Service has assigned a Aa1 rating to the Town of Westwood's (MA) $9.3 million General Obligation Library Bonds of 2011. Concurrently, Moody's has affirmed the Aa1 rating and negative outlook assigned to the town's $40 million of outstanding parity debt.

RATINGS RATIONALE

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 unlikely compliance with stated financial policies within the medium term. The bonds carry the town's general obligation unlimited tax pledge, as voters have exempted debt service from the levy limitations of Proposition 2 ½, and are issued to finance construction of the Town's library.

STRENGTHS

-Sizable; stable tax base.

-Above average demographic profile

-Reasonable debt burden bolstered by voter support

CHALLENGES

- Declining reserve levels

- Limited financial flexibility

-Lack of adherence to town's adopted financial policies

DETAILED CREDIT DISCUSSION

FINANCIAL POSITION STRAINED AS REVENUE GROWTH DECELERATES

Moody's expects the town's narrowed financial position to continue to remain strained in the near term, given an environment of declining local revenue and state aid. Over the medium term, due to careful expenditure management and a conservative budgeting approach, Moody's expects modest improvement in the town's position. Fiscal 2009 available reserves, including unreserved general fund and stabilization fund, declined slightly to $5.5 million (6% of revenues). Fiscal 2010 available reserves decreased further to $3.5 million (5.2% of revenues).

The approved fiscal 2011 budget includes a $300,000 overall increase in expenditures, over the fiscal 2011 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. The town's 2012 budget includes a 5% fixed cost increase related primarily to wages and health insurance and a slight reduction in state aid. Expenditure increases in 2012 are mitigated by a 3% tax increase and a number of open staffing positions that will remain unfilled.

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 29.3% of revenues and for the commonwealth 10% of revenues) and failure to improve levels in the medium term may result in weakened credit strength. Westwood has typically maintained a relatively narrow, albeit stable, financial position reflecting an aggressive pay-as-you-go capital program, which Moody's views 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. Pay-go-capital projects accounted for approximately 2% of the town's budget in fiscal 2010.

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 that could weigh heavily on credit strength in the future. 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 ABOVE-AVERAGE 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 (G.O. rated Aaa/stable outlook) with access to Route 128 /Interstate 95 and commuter rail and Amtrak stations within town limits make Westwood attractive to commuting professionals. Westwood's $3.8 billion tax base could see significant growth over the medium to long term should economic conditions become more favorable to new development. Equalized value growth in this wealthy, primarily residential town grew steadily, at an average annual pace of 3.2% from 2007 through 2010, 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; however no activity has begun for the Westwood Station project. Resident wealth levels in Westwood are well above average and continue to grow in relation to state medians as reflected in the very high $270,985 equalized value per capita.

MODERATE DEBT BURDEN BOLSTERED BY VOTER SUPPORT

Moody's anticipates that the town's 1.8% 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 lower 1.5% when 59% school building aid is included. While debt service represented a significant 9.2% of fiscal 2010 expenditures, roughly 80% of Westwood's outstanding debt has been excluded from Proposition 2 ½ by the town's voters, easing pressure on general fund operations. Amortization of existing principal is rapid with 82.6% retired within 10 years. The town has no variable rate debt or derivative product exposure.

Outlook

The negative outlook reflects the town's strained financial condition with narrow reserve levels and unlikely compliance with stated financial policies within the medium term.

WHAT COULD MAKE THE RATING CHANGE - 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 MAKE THE RATING CHANGE - 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

-Continued slow progress in vital economic development initiatives

- Inability to engage in formal long-range planning processes

KEY STATISTICS

2008 Population: 14,189 (estimated 0.5% since 2000 census)

2011 Equalized valuation: $3.8 billion

2011 Equalized valuation per capita: $270,985

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: 1.8%

Adjusted overall debt burden: 1.5%

Payout of principal (10 years): 82.6%

FY10 General Fund balance: $4.2 million (6.2% of General Fund revenues)

FY10 Undesignated General Fund balance: $1.5 million (2.3% of revenues)

FY10 Available Reserves: $3.5 million (5.1% of revenues)

Post-sale G.O debt outstanding: $40.87 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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