

Westwood, Massachusetts

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Credit Profile

US\$9.3 mil GO lib const bnds of 2011 unfld tax due 03/01/2031

Long Term Rating	AA+/Negative	New
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Westwood GO

Long Term Rating	AA+/Negative	Downgraded
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Westwood GO sch bnds ser 2009

Long Term Rating	AA+/Negative	Downgraded
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Westwood GO		
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Unenhanced Rating	AA+(SPUR)/Negative	Downgraded
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services lowered its long-term rating on Westwood, Mass., to 'AA+' from 'AAA'. At the same time, Standard & Poor's assigned its 'AA+' rating to the town's \$9.3 million general obligation (GO) library construction bonds, series 2011. The downgrade reflects our view of the potential reduction in the town's general fund financial position arising from the lack of tax payment by the town's largest taxpayer, and a lack of identified contingencies to mitigate that potential. The outlook is negative, indicating that if the tax nonpayment continues, and the town's liquidity or fund balance is significantly reduced, we could further lower the rating.

The 'AA+' rating reflects our opinion of the town's:

- Strong economy aided by its proximity to the deep and diverse Boston metropolitan statistical area (MSA);

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- Sizable and primarily residential property tax base, with very strong wealth and income levels;
- Sound financial performance and position; and
- Low debt burden with manageable capital needs.

The town's full faith and credit secures its GO debt. Proceeds of the 2011 bonds will finance a library construction project.

Westwood is an affluent residential community about 13 miles southwest of Boston. The town has about 13,800 residents and encompasses 11 square miles. The local economy is stable and centers on services. The headquarters of NStar, an electric and gas utility, is within the town; the company is Westwood's leading employer with 1,115 employees. Other large employers include State Street Bank (700) and Meditech Inc., a provider of medical information (435). Residents also have excellent access to the diverse Boston MSA via a good transportation network that includes commuter rail, Amtrak trains, and Interstate 95 and Route 128. Town unemployment increased to 5.7% in November 2010, but continues to be well below state and national levels.

While Westwood is largely built out, preliminary construction has been done on a 100-acre site that is expected to be developed into a mixed-use retail and residential project. However, due to the current economic slowdown, the developer did not proceed with construction, and has stopped paying property taxes and servicing the loan for the property. The tax base fell by 6.7% over the past two years, to \$3.48 billion, although the per capita market value remains extremely strong, in our view, at \$222,000. We also consider income levels to be very strong, with median household effective buying income equal to 191% of the national level. The unused levy capacity in fiscal 2012 is \$228,000, about 0.3% of general fund revenue.

While Westwood's financial position remains sound, in our view, officials project that tax payment delays from the town's largest taxpayer could reduce the financial position in fiscal 2011. However, officials expect any reduction to be temporary, with full payment received upon transfer of the property, which is a roughly 100-acre parcel that is expected to be developed into a mixed-use development called Westwood Station. The unreserved general fund balance at the end of fiscal 2010 declined by about \$500,000 due to nonpayment of \$600,000 of property taxes. That owner has also stopped making debt service payments on the loan used to acquire the property; the town has begun a foreclosure action on the owner and the lender has begun a separate action to force the owner to sell the property. At the end of fiscal 2010, the combined unreserved general fund and stabilization fund balance was \$3.6 million, or 5.2% of expenditures, which we consider good. The general fund cash balance was \$7.7 million, or 41 days' expenditures.

However, management projects that the unreserved fund balance could be reduced by an additional \$2.0 million in fiscal 2011, due to nonpayment by the same owner of a full year's taxes, which would reduce the combined unreserved general fund and stabilization balance to about \$1.6 million, or 2.3% of expenditures. Management indicates that upon sale of the property, the unpaid tax lien would be paid and the fund balance would increase to previous levels. The time frame for the property transfer is undetermined, but officials project that it would happen by mid-fiscal 2012. Management has

indicated that if the delinquent taxes are not received by the beginning of fiscal 2012, it would consider eliminating the \$700,000 of pay-as-you-go capital expenditures that are typically budgeted annually. We consider Westwood's management practices "good" under Standard & Poor's Financial Management Assessment, indicating that financial practices exist in most areas, although governance officials might not formalize or monitor all practices regularly.

The town's other post employment benefit (OPEB) liability was \$49.3 million as of July 1, 2009, and the annual OPEB cost in fiscal 2010 was \$4.3 million, of which the town contributed 25%.

Net of self-supporting sewer debt and state grants for school construction, Westwood's overall net debt is 0.9% of market value, which we consider low, and \$2,070 per capita, which we consider moderate. In our opinion, the town's debt amortizes rapidly, with more than 70% retired over 10 years. We also view carrying charges as moderate, at 8% of overall expenditures. The town has no plans to issue additional debt in the next 12 months.

Outlook

The negative outlook reflects Standard & Poor's view of the potential reduction in general fund financial position arising from continued nonpayment of property taxes by Westwood's largest taxpayer. If this continues, and the town's liquidity or fund balance is significantly reduced, we could further lower the rating. However, officials project that the town will receive full payment of delinquent taxes once property ownership is transferred, and if that were to occur and the finances were solidified, we could revise the outlook to stable.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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