

New Issue: MOODY'S ASSIGNS Aa2 RATING TO LONGMEADOW'S (MA) \$29.6 MILLION G.O. BONDS

Global Credit Research - 30 Nov 2010

TOTAL OF \$42 MILLION OF PARITY DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2010 Bonds	Aa2
Sale Amount	\$29,662,940
Expected Sale Date	12/02/10
Rating Description	General Obligation

Opinion

NEW YORK, Nov 30, 2010 -- Moody's Investors Service has assigned a Aa2 rating to the Town of Longmeadow's (MA) \$29.6 million General Obligation Municipal Purpose Loan of 2010. As this time, Moody's has also affirmed the Aa2 rating assigned to the town's \$12.4 million in outstanding long-term general obligation debt, \$8.3 million of which has been voted exempt from the levy limitations of Proposition 2 ½. The vast majority of this issue, \$27 million, is secured by the town's unlimited tax pledge, as debt service has been voted exempt from the levy limitations of Proposition 2 ½. Bond proceeds will primarily fund a new high school (\$27 million) with the remaining amount financing water and sewer system improvements.

RATINGS RATIONALE

The Aa2 rating reflects the town's stable tax base with wealth levels exceeding state and national medians, sound financial position, and manageable debt burden.

FINANCIAL POSITION REMAINS SOUND

Longmeadow's financial position remains sound supported by careful fiscal planning and voter support for Proposition 2 ½ operating overrides that have allowed the town to maintain a healthy level of financial flexibility. At the end of fiscal 2009, the town's available reserve position (unreserved General Fund balance and Stabilization Fund) totaled \$5.07 million or a sound 10.9% of revenues. At this level, the town remains slightly above the 9.4% median for similarly-rated Massachusetts municipalities. The town's available reserve balance was down \$284,000 from the prior year as operations were pressured, in part, by a mid-year reduction in state aid and the planned use of reserves following a successful \$2.15 million Proposition 2 ½ override in fiscal 2008.

Unaudited fiscal 2010 results indicate an additional reduction to the town's available reserve position, as anticipated. The town budgeted to use \$1.4 million of reserves and preliminary figures indicate a reduction of approximately \$1.1 million to a still satisfactory level of roughly 8% of revenues. The fiscal 2011 budget represents a 0.8% reduction from the fiscal 2011 budget. The budget is balanced and includes a manageable 2% increase in health insurance costs, minimal wage and salary growth, and a lower \$200,000 use of reserves for unemployment related expenses.

Looking ahead, the town's ability to maintain a financial position consistent with similarly rated municipalities will be an important consideration in future rating reviews.

RESIDENTIAL TAX BASE WITH ABOVE AVERAGE WEALTH LEVELS

Longmeadow's \$2.2 billion tax base is expected to remain stable. The town, in the western portion of the state, is favorably located along the corridor between Springfield (G.O. rated A2/stable outlook) and Hartford (G.O. rated A1/stable outlook) and benefits from the regional presence of large health and higher education institutions. Equalized value, comprised primarily of residential properties (95%), has experienced a five-year average annual growth of 3.8%, slower than historical levels, which have been in excess of 7%, given economic conditions. Although there is minimal land available for new development, town officials anticipate ongoing tax base growth through the redevelopment of existing residential properties. Wealth levels exceed those of the state and the nation with per capita and median family incomes of \$38,949 (150% of the state, 180% of the nation) and \$87,742 (142% of the state, 175% of the nation), respectively. Additionally, equalized value per capita is healthy at \$146,899 (164% of the national median).

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Longmeadow's overall debt position will increase to a slightly above average 1.7% of equalized value from a lower 0.7% following this issue. Further, the town's rate of debt retirement will slow with 44% of principal being paid down over 10 years, below the 77% national median. Positively, \$35 million or 83% of the town's currently outstanding debt has been voted exempt from the levy limitation of Proposition 2 ½, indicative of the town's strong voter support for capital projects. Debt service was a low 3.3% expenditures in fiscal 2009 and represents only 3% of the fiscal 2011 operating budget. The town anticipates issuing additional debt for its \$44.4 million share of the high school project. Further, additional debt exclusions will likely be needed for a new DPW facility and additional school construction projects over the next several fiscal years. The town's debt profile consists entirely of fixed rate borrowing.

What could make the rating change - UP

- Improvement to the town's financial position
- Strengthening of tax base and demographic profile to levels more consistent with higher rating categories

What could make the rating change - DOWN

- Protracted structural budget imbalance
- Depletion of General Fund balance

KEY STATISTICS:

2000 Census Population: 15,633
2011 Equalized Value: \$2.2 billion
2011 Equalized Value Per Capita: \$146,899
1999 Median Family Income: \$87,742 (142.3% of the Commonwealth, 175.3% of nation)
1999 Per Capita Income: \$38,949 (150.1% of the Commonwealth, 180.4% of nation)
2009 General Fund Balance: \$5.4 million (11.7% of General Fund revenues)
2009 Available Reserves: \$5.07 million (10.9% of General Fund revenues)
Overall Debt Burden: 1.7% of Equalized Value
Amortization of principal (10 years): 44.8%
Post-Sale General Obligation Debt Outstanding: \$42 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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