



Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa RATING TO BELMONT'S (MA) \$26.7 MILLION G.O. BONDS

Global Credit Research - 08 Feb 2010

TOTAL OF \$62 MILLION G.O. DEBT AFFECTED, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

| ISSUE | RATING |
|---|--------------------|
| General Obligation School Bonds Unlimited Tax | Aaa |
| Sale Amount | \$26,700,000 |
| Expected Sale Date | 02/27/10 |
| Rating Description | General Obligation |

Opinion

NEW YORK, Feb 8, 2010 -- Moody's Investors Service has assigned a Aaa rating to the Town of Belmont's (MA) \$26.7 million General Obligation School Bonds Unlimited Tax. Concurrently, Moody's has affirmed the town's Aaa rating affecting approximately \$35.1 million of outstanding general obligation debt. The current issue is secured by an unlimited tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 1/2. Bond proceeds will fund the reconstruction of the Wellington Elementary School. Moody's highest long-term rating reflects the town's adequate financial operations guided by internal financial policies; wealthy residential tax base located just outside of the City of Boston; and manageable debt burden.

SATISFACTORY FINANCIAL POSITION; STRUCTURAL BALANCE EXPECTED TO REMAIN PRESSURED GIVEN ONGOING EXPENDITURE DEMANDS

Similar to many Massachusetts (G.O. rated Aa2/stable outlook) communities Moody's anticipates Belmont will continue to face budgetary challenges over the near term given lesser state assistance and slower local receipts growth. Fiscal 2009 operations ended with a \$2.18 million

General Fund balance reduction as the town was unable to fully replenish its \$3.5 million fund balance appropriation due, in part, to a \$270,000 mid-year reduction in state aid and large snow and ice removal expenditures due to a particularly harsh winter. While year-end free cash level remained relatively stable at \$6.3 million the town's available reserve balance dropped to \$11.3 million or a still adequate 13.5% of revenues. At this level the town's reserve balance remains in line with the median for similarly rated Massachusetts municipalities and continues to exceed its policy of maintaining a minimum combined balance of 10% of operations. Of note, while this represents the town's second consecutive available reserve reduction the fiscal 2008 drawdown was largely attributable to \$4.3 million of one-time capital expenditures.

Available reserves include the town's Capital Endowment Fund and the unreserved portion of General Fund balance. The net income generated from the Capital Endowment Fund may be used for capital purposes and, with a two-thirds vote at town meeting, the principal of the fund may be used for capital improvements, providing additional financial flexibility. Additionally, the town holds approximately \$4 million in a Special Revenue Fund created in fiscal 2007 to address a \$4.16 million estimated landfill closure liability. Management is currently exploring the possibility to fund this liability with private money and does not currently anticipate using these funds in the near term. The presence of this reserve relieves pressure on other funds from these mandated costs.

The fiscal 2010 budget represents a 1.1% reduction from the fiscal 2009 budget. The budget incorporates an additional \$650,000 state aid cut, a \$1.5 million free cash appropriation, and \$1.9 million of federal stimulus funds, providing short term education funding relief. Additionally, the town has adopted a 0.75% local option meals tax that is projected to augment revenues by a modest \$100,000 annually. Looking ahead, management anticipates budget pressures to persist into fiscal 2011 given ongoing expenditure pressures and continuing revenue weakness. The town's ability to maintain satisfactory levels of available reserves, consistent with internal financial policies and in line with the median for similarly rated municipalities will be an important credit factor in future rating reviews.

SIZABLE, AFFLUENT RESIDENTIAL SUBURB OF BOSTON

Moody's anticipates that Belmont's sizable and mature \$5.7 billion tax base may contract slightly due to economic conditions, but that the town's proximity to the City of Boston (G.O. rated Aa1/stable outlook) and affluent population represent stabilizing forces. Located just eight miles from Boston, the town is a wealthy, residential (94% of assessed

valuation) suburb which had experienced healthy growth driven by market appreciation and redevelopment efforts with equalized values increasing at an average 10.4% from 2002-2008. Given that nearly two-thirds of the housing stock was built before 1939 (based on 2000 census data) and the town is largely built out, much of the new growth arose from significant redevelopment and renovation projects. With a slowing residential market the town experienced modest contraction in assessments in both 2008 and 2009 (based on January 1 values). This trend was reserved in fiscal 2010 with a modest 0.6% increase over the prior year. Positively, management reports minimal foreclosure activity and some new residential developments continue. The first phase of the Woodlands, a 121-unit townhouse development, is complete, with 52 of 59 units sold at an average price of \$1.2 million, and construction has commenced on the second phase of the project which will consist of approximately 62 units. Town residents also benefit from the availability of mass transportation to Boston, providing an easy commute to the Boston employment area. Income levels are significantly stronger than state medians and nearly two times national medians, and equalized value per capita is a robust \$245,451, reflective of high residential property values.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE DESPITE FUTURE BORROWING PLANS

Moody's anticipates that Belmont's average 1.0% (of equalized value) direct debt burden will remain manageable despite future borrowing plans given the town's rapid retirement of principal and demonstrated voter support for capital projects. Debt service claimed a modest 4.9% of 2009 expenditures reflecting the town's propensity to undertake smaller projects on a pay-as-you-go basis. This issue follows voter approval of a \$37 million debt exclusion to fund renovations at the Wellington Elementary School and represents the town's portion of the project. The balance of project costs are expected to be funded with Massachusetts School Building Authority funds (rated Aa2/stable outlook).

Other capital projects under consideration include a \$22 million remodeling of the high school, a new police station, library renovations, hockey rink improvements and \$11.6 million of sewer projects. Management reports the town would seek debt exclusions for larger projects and that utility projects are expected to remain self-supporting with user fees. Belmont's outstanding debt consists entirely of fixed rate obligations and the town is not party to any derivative agreements.

KEY STATISTICS

2007 Estimated population: 23,356 (-3.5% since 2000 census)

2009 Equalized valuation: \$5.7 billion

Equalized value per capita: \$245,451

1999 Per capita income (as % of MA and US): \$42,485 (164% and 197%)

1999 Median family income (as % of MA and US): \$95,057 (154% and 190%)

FY08 General Fund balance: \$11.0 million (13.2% of General Fund revenues)

FY08 Available Reserves: \$10.6 million (12.7% of General Fund revenues)

Direct debt burden: 0.6%

Overall debt burden: 0.7%

Payout of principal (10 years): 76.9%

Post-closing parity debt outstanding: \$35.1 million

METHODOLOGY AND LAST RATING ACTION TAKEN

The principal methodology used in rating Belmont's General Obligation bonds was "General Obligation Bonds Issued by U.S. Local Governments," published in October 2009, 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 September 11, 2009 when a Aaa rating was assigned to Belmont's refunding bonds and the town's outstanding Aaa ratings were affirmed.

Analysts

Conor McEachern
Analyst
Public Finance Group
Moody's Investors Service

Erin Daugherty

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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