



Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aa3 RATING TO TOWN OF NORTHBOROUGH'S (MA) \$1.55 MILLION G.O. LAND ACQUISITION BONDS OF 2009

Global Credit Research - 13 Oct 2009

Aa3 RATING APPLIES TO APPROXIMATELY \$21.8 MILLION OUTSTANDING G.O. DEBT, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Land Acquisition Bonds of 2009	Aa3
Sale Amount	\$1,550,000
Expected Sale Date	10/14/09
Rating Description	General Obligation Limited Tax

Opinion

NEW YORK, Oct 13, 2009 -- Moody's Investors Service has assigned a Aa3 rating to the Town of Northborough's \$1.55 million General Obligation Land Acquisition Bonds of 2009. Concurrently, Moody's has affirmed the town's Aa3 G.O. bond rating affecting approximately \$20.3 million of outstanding debt. In conjunction with \$133,000 of town revenue funds, the bonds will retire bond anticipation notes maturing on October 23, 2009 issued originally for land acquisition purposes. The bonds carry the town's limited general obligation pledge, as voters have not exempted debt service from the levy limitations of Proposition 2 ½, and are expected to be paid from sewer enterprise funds. The long term Aa3 rating incorporates the town's satisfactory financial position, moderately sized tax base, above-average socioeconomic profile and manageable debt position.

SATISFACTORY FINANCIAL POSITION WITH SATISFACTORY RESERVES

Moody's expects the town's practice of conservative revenue budgeting should partly insulate the town's reserves from unexpected shortfalls or increased expenditures. Available Reserves, which include the unreserved General Fund balance and Stabilization Fund, have averaged nearly \$4.4 million or a sound 11.3% of average revenues over the past six years and are expected to remain stable given judicious management practices. In fiscal 2008, the town recorded a \$181,000 reduction to General Fund reserves, \$100,000 of which was transferred to the town's Stabilization Fund. Consequently, although total General Fund balance declined to \$2.6 million or a satisfactory 5.8% of revenues, this transfer coupled with investment earnings on the Stabilization Fund balance and lesser reservation of General Fund balance improved available reserves to \$4.9 million or a healthy 10.9% of revenues.

For fiscal 2009 management's unaudited numbers show General Fund balance will be maintained at \$2.6 million or a satisfactory 5.7% of revenues; the unreserved, undesignated portion is expected to decline to approximately \$1.3 million from \$1.6 million, stemming from the effects of a severe winter and a larger appropriation of free cash to help balance the current year. While total Available Reserves demonstrate a decline to an expected \$4.7 million, they remain healthy at approximately 10.3% of revenues and provide the town reasonable budgetary cushion in the near-term. Similarly to most communities in the commonwealth, the town is facing state aid cuts that may further reduce town's available reserves in the medium term, but town officials are actively formulating a plan to manage operations and/or reduce expenditures. The fiscal 2010 budget increased by less than 1% (or \$447,000) and includes the town's expectation of additional state aid reductions. Given slower revenue growth and rising expenditures related to employee benefits, the town has proactively worked with its labor unions to maximize its financial flexibility and generate future savings related to health insurance costs. Future rating reviews will factor the town's ability to maintain a satisfactory financial position with adequate available reserves.

STABILIZING REAL ESTATE MARKET; FUTURE GROWTH LINKED TO NEW WASTEWATER TREATMENT

After recording a modest 1.1% decline in 2008 assessed values showed signs of stabilizing with 1.4% growth in 2009. Located at the nexus of Route 9 and Route 20 with access to Interstates 290 and 495, Northborough's equalized value increases have averaged 8.8% growth annually since 2003, including deceleration of growth rates in recent years as market values have softened. Northborough, which is 78% residential, also has a sizable commercial/industrial sector accounting for 18% of assessed value. In contrast to the softening residential market which has experienced moderate price declines, the commercial sector is expected to see medium-term growth. The town's fourth-largest private employer, Saint Gobain (senior unsecured debt rated Baa2/stable outlook) plans to double employment at its Northborough location over the next 15 years, with the first phase of plant expansion recently completed. Additionally, site work continues on a 600,000 square foot retail development, which is expected to include a Wegman's supermarket, and Kohl's department store (senior unsecured Baa1/stable), among other retailers. Sewer

treatment is provided by neighboring Marlborough (G.O. rated Aa3), and while currently sufficient for planned development, management is proactively working with Marlborough to plan facility upgrades to ensure sufficient future capacity. Officials report this increased capacity, currently projected to be online by 2011, will open up vacant parcels for future development. Town wealth levels are above average, indicated by median family income of nearly one and one-half times commonwealth averages and a healthy equalized value per capita of \$180,891.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

Moody's expects the town's 1.2% of equalized value, overall debt burden will remain manageable given its affordable levels, average rate of principal amortization (68.3% in 10 years), and modest plans for additional debt. The town's six year capital improvement plan is comprised of \$43 million for general government projects and \$29 million of potential school projects. The impact of potential school projects remains dependent upon assistance from the Massachusetts School Building Authority (MSBA revenue bonds rated Aa2/stable outlook), which is currently unknown given that these projects remaining in the early planning phases. In the near-term the town plans to proceed with approximately \$4 million to construct a water well, increasing the debt burden to a still manageable 1.4% of equalized value. Debt service accounted for a modest 3.1% of General Fund expenditures in fiscal 2008, well under the town's maximum of 15% as included in its approved debt policy from 2000. The town's outstanding debt consists exclusively of fixed-rate obligations and the town has no exposure to derivative instruments.

KEY STATISTICS

2008 Estimated population: 14,646 (+4.5% since 2000 census)

2000 Per Capita Income: \$32,889 (126.7% of MA; 152.4% of U.S.)

2000 Median Family Income: \$90,480 (146.7% of MA; 180.8% of U.S.)

2009 Equalized Valuation: \$2.6 billion

2009 Equalized Valuation per capita: \$180,891

Average Annual Growth Equalized Valuation (2003-2009): 8.8%

Overall Debt Burden: 1.2%

Payout of principal (10 years): 68.3%

FY08 General Fund balance: \$2.6 million (5.8% of General Fund revenues)

FY09 General Fund balance (Draft): \$2.6 million (5.7% of General Fund revenues)

FY08 Available Reserves: \$4.9 million (10.9% of General Fund revenues)

FY09 Available Reserves (Draft): \$4.7 million (10.3% of General Fund revenues)

Long-Term G.O. Debt outstanding: \$21.8 million

METHODOLOGY AND LAST RATING ACTION TAKEN

The principal methodology used in rating the Town of Northborough was Moody's Local Government General Obligation and Related Ratings, published in December 2008 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the Town of Northborough was published April 7, 2009 when the town's long-term Aa3 rating was affirmed.

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