MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO LONGMEADOW'S (MA) $17.7 MILLION G.O. BONDS, 2011

Global Credit Research - 07 Oct 2011

TOTAL OF $58.2 MILLION OF PARITY DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2011	Aa2

Sale Amount	$17,719,200
Expected Sale Date	10/13/11
Rating Description	General Obligation

Opinion

NEW YORK, Oct 7, 2011 -- Moody's Investors Service has assigned a Aa2 rating to the Town of Longmeadow's (MA) $17.72 million General Obligation Municipal Purpose Loan of 2011 Bonds. Concurrently, Moody's has also affirmed the Aa2 rating assigned to the town's $41 million in outstanding long-term general obligation debt, $34 million of which has been voted exempt from the levy limitations of Proposition 2 ½. This issue 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 fund the completion of a new high school.

SUMMARY RATINGS RATIONALE

The Aa2 rating reflects the town's stable tax base with strong wealth levels, sound financial position, and growing but manageable debt burden.

STRENGTHS

-Stable tax base

-Strong socioeconomic wealth measures

-Manageable debt burden

-Track record of successful votes to exceed Proposition 2 ½ limits

CHALLENGES

-Limited size of taxable base

-Limitations on property tax levy growth imposed by Proposition 2 ½

-Below-average rate of principal amortization

DETAILED CREDIT DISCUSSION

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. Fiscal 2010 results indicate a minimal $31,000 reduction to the town's available reserve position, bringing the total available reserve position (unreserved General Fund balance and Stabilization Fund) to $4.7 million or a still satisfactory level of roughly 8.6% of revenues. At this level, the town remains slightly below the 9.2% median for all Massachusetts municipalities.

The fiscal 2011 budget represented a 0.8% expenditure reduction, year over year, and was balanced with a $200,000 use of reserves for unemployment related expenses. The fiscal 2011 budget also included a manageable 2% increase in health insurance costs and minimal wage and salary growth. Management projects a $1.1 million operating surplus at year end, driven by expenditure savings in employee benefits and the school budget, as well as an unbudgeted $787,000 revenue in the General Fund as a result of an accounting adjustment on prior years' Chapter 90 highway grants, which are now accounted for in a Special Revenue Fund. At year end, available reserves are projected to have increased to $5.2 million or a healthy 9.6% of revenues. Notably, the town has a number of enterprises, which report under separate funds outside of the operating accounts. The solid waste fund includes the town's recycling function and requires an annual subsidy from the General Fund, $684,000 in fiscal 2011, an amount that is not expected to decrease over the near future. The remaining enterprise operations (water, sewer and ambulance) maintain healthy cash position, positive net assets and do not require annual subsidy from the General Fund operations.

The fiscal 2012 budget (ending 6/30/2012) represents a $3 million, or 6% expenditure increase year over year, primarily resulting from growth in debt service ($1 million) and education ($1 million), which resulted from the scheduled loss of ARRA funds for the schools, partially made up with an increased appropriation by the town. Although the state may credit the town an unbudgeted $80,000 for previous aid cuts, management currently expects to draw down total fund balance by an estimated $300,000 by year end due to post-budget fiscal 2012 payments to settle outstanding union and non-union employment contracts and wage settlements. Looking ahead, the town's ability to maintain a healthy 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 southwestern 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% through 2012, a slower pace than historical levels 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 and repairs 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 $142,664 (164% of the national median).

GROWING DEBT BURDEN REMAINS MANAGEABLE

Longmeadow's overall debt position will increase to a slightly above average 2.5% of equalized value. Further, the town's rate of debt retirement will slow with 42% of principal being paid down over 10 years, well below the 77.3% national median. Positively, $51 million or 88% 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 2.3% of expenditures in fiscal 2010 but is expected to increase to over 8% of estimated expenditures by fiscal 2013 but is not expected to crowd out levy growth due to the exempt status of the debt. Aside from ongoing capital projects, the town anticipates issuing an estimated $10 million of additional debt for capital projects at the DPW yard in the next 2-3 years, a borrowing which will likely require debt exclusions. The town's debt profile consists entirely of fixed rate borrowing.

WHAT COULD MAKE THE RATING GO UP

-- Improvement to the town's financial reserves

-- Strengthening of tax base and demographic profile

WHAT COULD MAKE THE RATING GO DOWN

-- Protracted structural budget imbalance

-- Depletion of General Fund balance

-- Substantial increase in debt burden

--Failure to pass overrides and exclusions of Proposition 2 ½

KEY STATISTICS:

2000 Census Population: 15,633

2010 Census Population: 15,784

2012 Equalized Value: $2.2 billion

2011 Equalized Value Per Capita: $142,664

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)

2010 General Fund Balance: $5.44 million (10% of General Fund revenues)

2010 Available Reserves: $4.68 million (8.6% of General Fund revenues)

Overall Debt Burden: 2.5% of Equalized Value

Amortization of principal (10 years): 41.9%

Post-Sale General Obligation Debt Outstanding: $58.2 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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