MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO BROOKLINE'S (MA) $11M G.O. BONDS

Global Credit Research - 01 Feb 2011

AFFIRMATION OF Aaa AFFECTS $84.7 MILLION IN OUTSTANDING RATED DEBT, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2011 Bonds	Aaa

Sale Amount	$10,375,000
Expected Sale Date	02/11/11
Rating Description	General Obligation Limited Tax

Opinion

NEW YORK, Feb 1, 2011 -- Moody's Investors Service has assigned a Aaa rating to the Town of Brookline's $11 million General Obligation Municipal Purpose Loan of 2011 Bonds. Concurrently, Moody's has affirmed the Aaa rating assigned to approximately $74.7 million in outstanding long-term parity debt.

SUMMARY RATING RATIONALE

This issue is secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from the provisions of Proposition 2 ½. Proceeds from the sale will be used to fund capital projects related to a school renovation, wastewater system improvements, and a small portion related to a golf course. The Aaa rating incorporates the town's currently sound financial position, sizable and affluent tax base, and affordable debt position.

STRENGTHS

- Affluent and primarily residential tax base

- Proactive budgeting strategies

CHALLENGES

- Limited available reserves

- Limited revenue raising flexibility

DETAILED CREDIT DISCUSSION

FINANCIAL POSITION REMAINS SOUND

While Moody's expects near term fiscal operations will remain pressured by the potential for additional state aid reduction, weak local receipts growth and ongoing expenditure demands, Moody's expects Brookline's well managed financial position to remain healthy given the town's proactive budgeting strategies. The General Fund experienced the third consecutive operating surplus ($4.7 million), driven primarily by expenditure savings in general government ($1.8 million), employee benefits ($1.7 million), and debt service interest ($1.2 million). Due to a transfer of the town's encumbrances and continuing appropriations to the Capital Article Fund, the total General Fund declined by $16.4 million. At year-end the Capital Article Fund maintained a balance of $9.8 million which is intended to help finance ongoing capital needs. The town defeased $31.6 million of outstanding debt associated with a school project and was able to pay down $18.3 million due to a lump sum payment from the Massachusetts School Building Authority reflecting their portion of related debt. Due to the one-time lump-sum payment, the town's annual revenues are inflated. At year-end, available reserve levels (Unreserved General Fund balance and Stabilization Fund) declined by $3.1 million to $21.9 million or 10.5% of revenues. While still healthy, this represents the town's lowest available reserve balance as a percent of revenues since at least 2003.

The town's fiscal 2011 budget represents a -0.6% ($1.2 million) reduction from the prior year. With the exception of property taxes (3.5% growth), all revenue sources have been budgeted below fiscal 2010 levels. Growth of operating expenditures is driven largely by the school department with a budgeted increase of 4.5% ($3.1 million). Further, as in prior years, the budget includes the town's entire certified free cash balance ($4.5 million) and conservatively assumes a 5.4% ($892,000) reduction in state aid. The budget does not include any extraordinary adjustments given that the town was able to reduce fiscal 2011 health insurance expenditures by approximately $4.5 million as the town joined the Commonwealth's Group Insurance Commission on July 1, 2010. Management reports that, year to date, revenues are running close to budget and municipal expenditures are generally favorable. Given the town's practice of appropriating its entire certified free cash balance, typically for capital, as well as ongoing expenditure demands and slow revenue growth, the town's ability to maintain a stable reserve position may be challenged at year-end. Looking ahead, the town's ability to maintain structurally balance operations and maintain reserves levels in step with budget growth will be an important consideration in future rating reviews.

Indicative of the town's focus on long term financial planning and stability, management maintains additional resources outside of the general fund, including a $1.7 million liability reserve to mitigate the effects of unanticipated legal claims. Additionally, the town maintains an Other Post-Employment Benefits (OPEB) Trust Fund created to address the town's actuarial accrued OPEB liability of $323 million, all of which was unfunded. The fund had a $6.1 million balance at the end of fiscal 2010 and the town's fiscal 2011 budget calls for a $1 million appropriation towards the liability. This represents a $750,000 increase from the town's typical $250,000 annual OPEB funding increase. Further, the fiscal 2011 budget also increases the town's pension contribution by dedicating its new local option meals and rooms tax revenues to offset a potentially sharp increase in pension funding in fiscal 2012. The town intends to partially offset the increase with additional $1 million appropriations in fiscal 2010 and 2011 from the local options taxes, which were adopted during fiscal 2010.

SIZABLE AND AFFLUENT TAX BASE REMAINS STABLE

Moody's anticipates growth of Brookline's sizable $16 million tax base to remain modest over the near term given continued weakness in the regional real estate market and recessionary economic conditions. Favorably located adjacent to the City of Boston, (G.O. rated Aaa/stable outlook) and within easy access to the region's largest economic center via public transportation, equalized value has increased at an average annual rate of 4.1% annually over the past five years. Following a slight (0.7%) assessed value reduction in fiscal 2008, the town experienced a 3.4% increase in 2009, following a town wide property revaluation, and a 0.9% and 0.6% increase in 2010 and 2011, respectively. The town has experienced modest residential (90% of assessed value), commercial (8.3% of assessed value) and industrial value growth in each of the last three fiscal years. Notably, the town's fiscal 2010 new growth levy of $1.7 million represented the town's lowest amount in at least eight years and was below the $2.2 million average since 2004. The new growth levy increased slightly in $1.8 million in 2011. While the pace of large scale development has slowed, the town expects future tax base growth to be supported by several development projects in planning or underway, including an estimated $100 million commercial development at 2 Brookline Place. Wealth indices in Brookline well exceed commonwealth and national medians, as reflected in the high equalized value per capita of $283,510 (322% of the nation, 198% of the state) and per capita income of $44,327 or 170.8% of the state median.

FAVORABLE DEBT PROFILE WITH MANAGEABLE FUTURE BORROWING; ACTIVE PAY-AS-YOU-GO CAPITAL PROGRAM

Moody's expects Brookline's below average 0.4% (of equalized value) net direct debt burden to remain affordable due to the town's conservative debt policies, above-average rate of amortization (86.5% within 10 years), anticipated state school construction assistance, ongoing pay-as-you-go capital spending, and steady but manageable future borrowing plans. The town's direct debt burden increases to 1.9% when incorporating Brookline's share of overlapping Norfolk County (rated Aa3/positive outlook), Massachusetts Water Resources Authority (senior lien debt rated Aa2/stable outlook), and Massachusetts Bay Transportation Authority (assessment bonds Aa1/negative outlook) obligations. After adjusting for commonwealth school construction assistance, the debt burden falls to an affordable 1.8% of equalized value. Further, debt service claimed a manageable 4.8% of general fund expenditures in fiscal 2010 however approximately 60% of Brookline's bonded debt is excluded from Proposition 2 ½ or supported by user fees, reducing pressure on the General Fund.

Brookline's borrowing practices are guided by an annually-updated capital improvement plan coupled with a debt management policy limiting net capital budget allocations, typically 5.5% of the town's prior-year operating revenues. In an effort to provide fiscal 2010 budget relief, the town reduced its net capital budget allocation to 5% with the goal of increasing its appropriation back to the 5.5% level by 2012. The updated six-year capital improvement plan calls for $153 million in capital expenditures through fiscal 2017, with proposed general fund borrowing of $71.6 million (45.8% of plan) and cash funding of $19.4 million (12.4% of plan). Given the town's comprehensive and prudent approach to capital financing Moody's expects Brookline's debt profile to remain affordable.

WHAT COULD CHANGE THE RATING - DOWN

- Multi-year General Fund deficits, limiting the city's financial flexibility

- Significant further deterioration in taxable values or demographic profile

KEY STATISTICS:

2008 Population estimate: 54,896 (-3.9% since 2000)

2010 Equalized value: $16 Billion

2010 Equalized value per capita: $291,194

Average annual equalized value growth (2006-2011): 4.1%

2000 Per capita income: $44,327 (170.8% of commonwealth median, 205.3% of nation)

2000 Median family income: $92,993 (150.8% of commonwealth median, 185.8% of nation)

Overall debt burden: 1.9%

Adjusted overall debt burden: 1.8%

Amortization of principal (10 years): 86.5%

FY 2010 General fund balance: $17.9 million (7.5% of General Fund revenues)

FY 2010 Available reserves: $21.9 million (9.2% of General Fund revenues)

Post-sale long-term G.O. bonds outstanding: $84.7 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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