Moody's Investors Service

Global Credit Research
New Issue
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New Issue: Brookline (Town of) MA

MOODY'S ASSIGNS Aaa TO BROOKLINE'S (MA) $13.1M G.O. BONDS AND MIG 1 TO $6.9M BOND ANTICIPATION NOTES

AFFIRMATION OF Aaa AFFECTS $106.2 MILLION IN OUTSTANDING RATED DEBT, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE		RATING
General Obligation Municipal Purpose Loan of 2008 Bonds		Aaa
Sale Amount	$13,150,000	
Expected Sale Date	02/28/08	
Rating Description	General Obligation	
Bond Anticipation Notes, Series 2008		MIG 1
Sale Amount	$6,900,000	
Expected Sale Date	02/28/08	
Rating Description	Bond Anticipation Notes	

Opinion

NEW YORK, Feb 22, 2008 -- Moody's Investors Service has assigned a Aaa rating to the Town of Brookline's $13.1 million General Obligation Bonds and a MIG 1 rating to the town's $6.9 million Bond Anticipation Notes (BANs) (dated 3/12/2008, due 3/12/2009). Concurrently, Moody's has affirmed the Aaa rating assigned to approximately $93.1 million in outstanding long-term parity debt. 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 refund bonds originally issued in 1998 and provide $8.9 million in new money to finance town hall remodeling efforts as well as golf course, landfill and sewer system improvements. The refunding is expected to generate a net present value savings of approximately 6.0% of refunded principal, without extending the maturity of the debt. The Aaa rating reflects the town's currently sound financial position, sizable and affluent tax base and affordable debt position.

DEMONSTRATED MARKET ACCESS

The town remains a frequent issuer of long-term bonds and short-term bond anticipation notes. It received two bids on its July 2006 note sale (dated 07/27/2006, due 05/17/2007), three bids on its April 2006 note sale (dated 4/13/2006, due 7/27/2006) and six bids on its April 2005 note sale (dated 4/15/2005, due 08/15/2005) demonstrating the town's ability to refund these notes, if necessary, upon their March 2009 maturity. All bids were received from major financial institutions.

SOUND FINANCIAL POSITION; RESERVES LEVELS CONTINUE TO BE CHALLENGED BY ONGOING SERVICE NEEDS

Moody's expects Brookline's financial position to remain satisfactory in the near-term. However, the town's healthy level of pay-as-you-go capital spending and ongoing personnel-related cost pressures are expected to continue to place demands on current revenue sources and challenge the town's ability to maintain overall reserve levels. Although budgetary forecasting has remained conservative, and the town's current financial position is sound, available reserve levels (unreserved fund balance and stabilization fund) have declined as a percent of general fund revenues to $22.6 million (12.2% of revenues) in fiscal 2007 from a recent high of $27.0 million (16.1% of revenues) in fiscal 2003. Notably, while much of the recent trend reflects the planned use of free cash for non-recurring pay-as-you-go capital projects, current budget projections indicate structural challenges as recurring expenditure increases outpace revenue growth.

Fiscal 2007 reflected the town's fourth consecutive general fund balance reduction. Despite positive budget to actual variances of $7.9 million total general fund balance ended down $2.6 million to $31.3 million (16.8%

of revenues) from $33.9 million (19.1% of revenues) in 2006 due to continuing appropriations related to ongoing capital expenses. The modest increase of $153,000 in the total unreserved portion of fund balance was due primarily to a reduction in encumbrances from the prior year. Positively, indicative of the town's focus on long term financial planning and stability, management maintains additional resources outside of the general fund including a $1.26 million liability reserve to mitigate the effects of unanticipated legal claims and a $4.7 million other post-employment benefits (OPEB) trust fund created to address the town's unfunded actuarial accrued OPEB liability of $207 million (pre-funded).

Several months into the 2008 fiscal year, budget projections indicate stable operations. However, the town's ability to fully replenish reserves and add to fund balance may be challenged by lower than anticipated interest income, hotel/motel excise and signs of weakness in building permit revenue. Brookline's $178 million 2009 operating budget incorporates the slowdown in local receipts. The 2.9% budget increase is funded with an additional $5.2 million in property tax, $2.1 million in free cash and $633,818 in state aid. Reductions were necessary to achieve balance including the elimination of 9.1 FTE's and cuts to public safety and capital spending. In response to mounting fiscal pressure and budget projections showing persistent structural imbalances the town is considering a Proposition 2 ½ override for fiscal 2009. While still in preliminary discussions the override could restore cuts necessary to balance the fiscal 2009 budget and provide additional resources for schools and capital improvements. The town's last operating override occurred in 1994 and was successful in adding $2.9 million in ongoing revenue.

Additional fiscal pressure may result from unsettled collective bargaining agreements with the town's public safety unions dating back to fiscal year-end 2006 and an unresolved settlement with property owners regarding land surrounding the site of the town's former landfill. While there is uncertainty regarding the fiscal impact of these settlements the town is well positioned to manage the anticipated fiscal impact within its comprehensive five-year financial plan financial plan and six-year capital improvement program.

TAX BASE POSITIONED FOR FUTURE GROWTH

Moody's believes Brookline is well positioned for future tax base growth following a modest downward adjustment in fiscal 2008 assessed values (as a 1/1/2007). Favorably located adjacent to the City of Boston (rated Aa1/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 12.3% annually over the past six years.

While total assessed value saw a slight -0.7% reduction, reflective of state and national real estate trends, revenue from growth associated with the value new construction has remained steady averaging $2.3 million over the past five years. The town's substantial $14.8 billion tax base is expected to experience positive growth over the next several years given several large development projects in planning or underway in its highly affluent residential base and thriving commercial districts. Additionally, management anticipates that recent zoning updates to height requirements will continue to encourage new commercial growth, particularly along the Route 9 and Beacon Street corridors. Wealth indices in Brookline well exceed commonwealth and national medians, as reflected in the high equalized value per capita of $266,716 and per capita income of $44,327 or 170.8% of the commonwealth median.

FAVORABLE DEBT PROFILE WITH MANAGEABLE FUTURE BORROWING

Moody's expects Brookline's moderate 1.3% adjusted debt burden to remain affordable due to conservative debt policies, above-average rate of amortization (83.5% within 10 years), significant school construction assistance, and steady but manageable future borrowing plans. The town's direct debt burden is a minimal 0.5% of equalized value, but increases to 1.5% when incorporating Brookline's share of overlapping obligations from Norfolk County (rated A2/positive outlook), Massachusetts Water Resources Authority (senior lien debt rated Aa2/stable outlook), and Massachusetts Bay Transportation Authority (senior debt rated Aa2/stable outlook). After adjusting for commonwealth school construction assistance, this debt burden falls to an affordable 1.3% of equalized value; debt service claimed a manageable 6.1% of general fund expenditures in fiscal 2007, however roughly 55% 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 to 5.5% of the town's prior-year operating revenues. The updated capital improvement plan calls for $142 million in capital expenditures through fiscal 2014, with proposed general fund borrowing of $54.9 million; of the remaining capital plan $29.8 million is expected to be supported by tax revenue on a pay-as-you-go basis with the balance funded by various grants. Given the town's comprehensive and prudent approach to capital financing Moody's expects Brookline's debt position to remain affordable.

KEY STATISTICS:

2000 Population: 57,107

2008 Equalized value: $14.8 billion

2008 Equalized value per capita: $268,401

Average annual equalized value growth (2003-2008): 12.3%

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: 1.5%

Adjusted overall debt burden: 1.3%

Amortization of principal (10 years): 83.6%

FY 2007 General fund balance: $31.3 million (16.8% of general fund revenues)

FY 2007 Available reserves: $22.26 million (12.2% of general fund revenues)

Post-sale G.O. bonds outstanding: $106.2 million

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