New Issue: Newton (City of) MA

MOODY'S ASSIGNS MIG 1 RATING TO CITY OF NEWTON'S (MA) $12.06 MILLION BOND ANTICIPATION NOTES AND Aaa TO $13.8 MILLION GENERAL OBLIGATION BONDS

Aaa RATING APPLIES TO $48.9 MILLION OF LONG-TERM, G.O. DEBT, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE		RATING
General Obligation Bonds		Aaa
Sale Amount	$13,835,000	
Expected Sale Date	02/07/06	
Rating Description	General Obligation Bonds	

Opinion

NEW YORK, Feb 3, 2006 -- Moody's Investors Service has assigned a Aaa rating to the City of Newton's $13.8 million General Obligation Bonds and a MIG 1 rating to $12.06 million General Obligation Bond Anticipation Notes (dated February 15, 2006 and payable February 15, 2007). Concurrently, Moody's has affirmed the Aaa rating on $35.1 million of outstanding, long-term, G.O. debt. The bonds and notes are general obligations of the city, and are secured by the city's limited tax pledge as debt service has not been excluded from Proposition 2 ½. The bonds permanently finance $10 million of maturing notes originally issued to finance a portion of the city's high school renovation project while the remainder of the bonds provide new money financing for $3.8 million in departmental equipment purchases and facility maintenance projects. The notes retire maturing BANs issued to finance an additional share of the high school renovation and are expected to be retired by a state grant after the project is completed and audited by the Massachusetts School Building Authority (MSBA, rated Aa2/stable outlook). The MIG 1 rating incorporates the city's demonstrated market access and its highest-quality credit characteristics. The Aaa rating incorporates the city's impressive, wealthy and growing tax base, its manageable debt position, and the city's historically sound financial position despite recent transfers from operating reserves to funds dedicated to future capital needs.

DEMONSTRATED MARKET ACCESS

Moody's expects the city to continue to enjoy favorable access to capital markets given a history of competitive bids on previous borrowings. The city received nine bids on its most recent note sale dated August 15, 2005 and six bids on each of its note sales, dated February 25, 2005 and August 27. All bids were received from major regional and national financial institutions. This history and the city's highest quality credit characteristics indicate an ability to refund these notes at their February 2007 maturity date.

NARROWED FINANCIAL FLEXIBILITY DESPITE HEALTHY CAPITAL STABILIZATION FUND

Moody's expects the city's fiscal profile to remain sound, notwithstanding thin general fund reserve levels and a satisfactory stabilization fund earmarked for future debt service. Operations in fiscal 2004 and 2005 produced operating deficits on a GAAP basis, with unreserved general fund balance declining to a narrow $8.9 million (3.4% of general fund revenues) in fiscal 2005 from a satisfactory $13.1 million in fiscal 2003. The decline is largely due to sizeable transfers to the city's stabilization fund and to a large unanticipated snow and ice removal deficit in fiscal 2005. Available reserves, including the city's unreserved general fund and stabilization fund balances, total $16.99 million in fiscal 2005, representing 6.6% of general fund revenues, which is thin for the highest rating category. In fiscal 2001 the city began a plan of contributing general fund resources to the capital stabilization fund to pay for future debt for the city's high school improvements; the fund is projected to grow through annual operating fund transfers to approximately $19 million in fiscal 2010 and then to steadily decline to zero in fiscal 2019. While the city has clearly earmarked the funds to support future capital needs, the fund remains legally available for any purpose and is an important cushion against future unexpected operational needs, particularly in light of the city's slim general fund reserve position.

The approved fiscal 2006 budget incorporates a 1.4% increase in expenditures incorporating rising health insurance, pension and education costs offset by city-wide expenditure reductions including the layoff of eight city employees and several departmental consolidations. The city has budgeted a $2.2 million appropriation from free cash to balance the budget but also plans to transfer a similar amount into its Capital Stabilization Fund which was made in the first half of fiscal 2006. Through conservative revenue estimates and tight expenditure management, the city expects to replenish the fund balance appropriated to operations and the stabilization fund, producing free cash levels not less than those in fiscal 2005 and yielding a modest increase of approximately $2 million in available reserves due to the augmentation of the stabilization fund. City officials plan to reduce future free cash appropriations by $500,000 annually to enhance the city's ability to maintain balanced operations and to relieve pressure on the general fund. Moody's recognizes the prudent planning that the city has employed by earmarking reserves for future debt service. While the city's available funds are currently satisfactory, we note a demonstrable shift of reserves to the stabilization fund from undesignated unreserved General Fund balance and expect the city to maintain adequate reserves going forward despite the planned use of stabilization monies to pay debt service in the future. Property taxes comprised over 74% of the city's fiscal 2005 revenues, and collections remain very strong with a five-year average above 99%.

FAVORABLE DEBT PROFILE SUPPORTED BY ENTERPRISE REVENUES

Moody's anticipates that the city's moderate 1.6% overall debt burden will remain affordable given above-average amortization of principal (77.4% in 10 years), significant but manageable future borrowing plans, and continued tax base growth. The city's 5-year Capital Improvement Plan includes $192 million in capital expenditures, with $123 million to be financed by long-term debt in the next five years. The city's $61 million South High School renovation is substantially complete. Financing plans for renovation of North High School are being re-evaluated as state construction grants may not cover as large a share of the final project cost as originally expected. City officials expect to proceed with this project, a comprehensive twelve-elementary school renovation and upgrades to the city's six fire houses while complying with the city's policy to hold debt service at three percent or less of operating expenditures. The city plans to borrow approximately $13 million through the Massachusetts Water Resources Authority (MWRA rated Aa2/stable outlook) for water and sewer system improvements, with debt service expected to be fully supported by water and sewer revenues.

SIZEABLE AND GROWING TAX BASE WITH FAVORABLE LOCATION

Moody's believes that Newton's sizeable $19.9 billion tax base will continue to experience steady growth due to its favorable location, strong history of new growth and property value appreciation and ample opportunities for redevelopment. The city benefits from its prime location, bordering Boston (rated Aa1/stable outlook), with excellent access to public transportation and major regional roadways. Wealth and income levels, as indicated by the city's very strong $228,296 full value per capita and $45,708 per capita income, exceed commonwealth and national medians, and the city's average single-family home is valued at a healthy $787,736 in fiscal 2006. Newton's mature tax base, with a 91.7% residential component in fiscal 2006, has several new residential and commercial developments underway that are expected to contribute to healthy new growth through at least the medium term.

KEY STATISTICS

2004 Population: 83,802

2006 Assessed Valuation: $19.9 billion

2006 Assessed Value per capita: $228,296

Average Annual Growth Assessed Value (2000-2006): 10.0%

Direct Debt burden: 0.3%

Overall Debt Burden: 1.6%

Amortization of Principal (10 years): 77.4%

Fiscal 2004 General Fund balance: $17.3 million (6.9% of General Fund revenues)

Fiscal 2005 General Fund balance: $13.8 million (5.3% of General Fund revenues)

Fiscal 2004 Available Reserves: $17.6 million (7.1% of General Fund revenues)

Fiscal 2005 Available Reserves: $17.0 million (6.6% of General Fund revenues)

1999 Median Family Income: $105,289 (170.7% of the commonwealth)

1999 Per Capita Income: $45,708 (176.1% of the commonwealth)

Long-term G.O. Debt Outstanding: $48.9 million

Analysts

Susan Freiner
Analyst
Public Finance Group
Moody's Investors Service

Sarrah Angelos
Backup Analyst
Public Finance Group
Moody's Investors Service

Edith Behr
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653
