Moody's Investors Service

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO THE TOWN OF MIDDLETON'S (MA) $10 MILLION BANS

Global Credit Research - 30 Nov 2009

AFFIRMS Aa3 RATING ON APPROXIMATELY $8.5 MILLION OF OUTSTANDING LONG-TERM G.O. DEBT

Municipality
MA

Moody's Rating

ISSUE		RATING
General Obligation School Bond Anticipation Notes Unlimited Tax		MIG 1
Sale Amount	$10,000,000	
Expected Sale Date	12/01/09	
Rating Description	Bond Anticipation Notes	

Opinion

NEW YORK, Nov 30, 2009 -- Moody's Investors Service has assigned a MIG 1 rating to the Town of Middleton's (MA) $10 million General Obligation School Bond Anticipation Notes, dated December 9, 2009 and payable December 9, 2010. At this time, Moody's has affirmed the town's Aa3 long-term general obligation rating, affecting approximately $8.5 million of outstanding GO debt. The notes are general obligations of the town and are secured by an unlimited property tax pledge, as debt service has been voted exempt from the levy limitations of Proposition 2 ½. Assignment of the MIG 1 rating reflects the town's demonstrated access to the capital markets and strong credit quality. Affirmation of the Aa3 rating reflects the town's healthy financial position, relatively modest tax base with favorable wealth indicators, and manageable debt position.

DEMONSTRATED MARKET ACCESS

The town has demonstrated a satisfactory history of access to the capital markets, having received nine bids on their last bond issue, held in April 2008, and five bids on their most recent note sale dated December 7, 2007. The town's previous note sale, dated May 18, 2007, received six bids. All bids were received from major regional and national financial institutions. Given this demonstrated bid history and the town's strong underlying credit characteristics Moody's anticipates Middleton will continue to enjoy access to capital markets.

FINANCIAL POSITION REMAINS SOUND

Moody's anticipates Middleton's financial position to remain healthy over the near term supported by prudent fiscal management and the careful use of reserves. Supported by a track record of positive operating results the town is relatively well positioned to manage ongoing revenue weakness. At fiscal year-end 2008 the town's available reserve balance (combined Unreserved General Fund balance and Stabilization Fund) totaled a strong $4.2 million or 18.3% of revenues, in excess of state and national medians for similarly rated municipalities. Fiscal 2008 ended with a modest $215,000 operating surplus, as the town replenished its $200,000 free cash appropriation, through a combination of excess revenues and lower than budgeted expenditures.

Preliminary fiscal 2009 results indicate a modest General Fund balance reduction of approximately $400,000 (1.7% of revenues), including a $100,000 transfer to the town's Stabilization Fund, as operations were pressured by a mid-year state aid reduction as well as lower than budgeted investment income and building permit. Positively, the town appropriated approximately $800,000 for pay-as-you-go capital improvements indicating structural balance. Due to adjustments in General Fund balance reservation the undesignated portion of fund balance and the town's state certified free cash balance are expected to increase by approximately $300,000 and $415,000, respectively. Also, as of June 30, 2009, the town Stabilization Fund increased by $209,000 to $1.5 million (6.5% of 2008 revenues), a figure that has increased consecutively since 2004. Further, the town has been incrementally accumulating resources in an Other Post Employment Benefits (OPEB) Stabilization Fund to assist in offsetting the cost of its estimated $10.4 million unfunded liability. The current balance of the fund is a modest $314,000 compared to the town's $1.5 million annually required contribution (ARC). The town does not anticipate contributing to this fund in fiscal 2010.

The adopted fiscal 2010 budget is balanced with additional levy growth and a $350,000 free cash appropriation, an increase from prior years. The budget also assumes a 9.5% reduction in local receipts and an 8.3% decline in state aid. The town will be convening a special town meeting to amend the budget down by an estimated $200,000 to adjust for lower than anticipated revenues and restore a modest level of excess tax levy capacity. Also looking ahead, increasing pension assessments are a growing concern given the recent market losses of the Essex County Retirement System, of which Middleton is a member. The town anticipates a pension assessment increase between 10% and 15% in fiscal 2011. The town's ability to effectively manage its ongoing expenditure demands in an environment of slower revenue growth, while maintaining structural balance, will be important considerations in future rating reviews.

ASSESSED VALUE DECLINES REFLECT REGIONAL REAL ESTATE TRENDS; TAX BASE POSITIONED FOR FUTURE GROWTH

Moody's expects new growth activity and value appreciation in Middleton to continue to slow over the near term reflecting regional real estate trends and recessionary economic conditions. However, given the town's location along Rt. 95, 20 miles from Boston (rated Aa1/stable outlook) and 22 miles from southern New Hampshire (rated Aa2/stable outlook) employment centers, the community is well positioned for future growth. The result of new residential development and, to a lesser degree, commercial/industrial expansion, the town's equalized value has grown at an 11% annual average rate since 2005, faster than both the state and national medians. Accompanying the increased residential development has been notable population growth with 2008 census estimates indicating a 24.4% increase in population, growing to 9,634 from 7,744 in 2000. The town is currently experiencing the effects of a softening housing market as the pace of construction slows markedly and assessed values decline, including a 4.6% reduction in fiscal 2009 (values as of 1/1/2008). Preliminary fiscal 2010 values (as of 1/1/2009) indicate an additional assessed value decline of approximately 6%, primarily reflecting reductions in single family homes and condominiums. Overall property tax growth is expected to stay stable as the town remains significantly below its levy ceiling. However, revenue derived from new growth applied to the levy from new construction and improvements to existing structures is expected to remain sluggish over the near term. In 2009 new growth revenue reached its lowest point since 2001 at $327,000, below the $700,000 average of the previous four years and is expected to drop further in fiscal 2010 to $250,000. The community's wealth indicators remain favorable with per capita (PCI) and median family income (MFI) both above the state median, at 111% and 142% of the state respectively. Of note, the town's PCI includes the reduced income levels of the inmate population at the Essex County jail. Equalized value per capita is a healthy $197,245, greater than the Massachusetts median for similarly-rated credits.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that Middleton's 0.7% direct debt burden will remain manageable given expected state school building assistance, voter approved debt exclusions, and rapid repayment of principal. The town's amortization of outstanding principal (77% within 10 years) remains favorable and is in line with the state median. While debt service payments comprised a low 4% of expenditures in 2008, well below the state median, this number is expected to increase modestly in future years with the planned $32.5 million reconstruction of a local elementary school. The Massachusetts School Building Authority (rated Aa2/stable outlook) is expected to assume an estimated 51% of eligible project costs bringing the town's share to approximately $16 million. Notably, following a successful debt exclusion vote, the project will be funded outside of the levy limitations of Proposition 2 ½, similar to the vast majority of the town's outstanding debt. The town expects to borrow additional funds for the project in December 2010. Further, the town's electric light department is considering the construction of a peak power plant. Under current plans the town would own a portion of the plant with the remaining ownership stakes assumed by other municipalities through power purchase agreements. The project is expected to be funded with light department revenues with no impact on the tax levy. The town's current general obligation debt profile is composed entirely of fixed-rate borrowing.

KEY STATISTICS

2008 population: 9,634 (+24.4% since 2008)

2009-2010 Equalized Valuation: $1.9 billion

2010 Equalized Value per capita: $197,245

1999 Per Capita Income: $29,031 (111.9% of Commonwealth, 134.5% of the U.S.)

1999 Median Family Income: $87,605 (142.1% of Commonwealth, 175.0% of the U.S.)

Overall debt burden: 1.3%

Amortization of principal, 10 years: 77%

FY08 General Fund balance: $5.5 million (23.9% of revenues)

FY08 Unreserved General Fund balance: $2.7 million (11.9% of revenues)

FY08 Available Reserves: $4.2 million (18.3% of revenues)

Long-Term Debt Outstanding: $8.5 million

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the current issue was "Bond Anticipation Notes and Other Short-Term Capital Financings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the Town of Middleton (MA) was on July 15, 2009 when its Aa3 rating was affirmed.

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