

**New Issue: MOODY'S ASSIGNS Aa2 LONG-TERM RATING TO SHREWSBURY'S \$20.68 MILLION G.O. BONDS AND MIG 1 SHORT-TERM RATING TO \$3.6 MILLION G.O. BANS**

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Global Credit Research - 30 Jun 2011

**LONG-TERM Aa2 RATING APPLIES TO \$78.3 MILLION IN OUTSTANDING LONG-TERM DEBT, INCLUDING CURRENT SALE**

Municipality  
MA

**Moody's Rating**

<b>ISSUE</b>		<b>RATING</b>
General Obligation Bond Anticipation Notes		MIG 1
<b>Sale Amount</b>	\$3,625,000	
<b>Expected Sale Date</b>	07/06/11	
<b>Rating Description</b>	Bond Anticipation Notes	

General Obligation Municipal Purpose Loan of 2011 Bonds Aa2

<b>Sale Amount</b>	\$20,680,000
<b>Expected Sale Date</b>	07/06/11
<b>Rating Description</b>	General Obligation

**Opinion**

NEW YORK, Jun 30, 2011 – Moody's Investors Service has assigned a Aa2 rating to the Town of Shrewsbury's \$20.68 million General Obligation Municipal Purpose Loan of 2011 Bonds and a MIG 1 rating to \$3.625 million General Obligation Bond Anticipation Notes (dated July 15, 2011 and payable July 13, 2012). Concurrently, Moody's has affirmed the Aa2 rating assigned to the town's \$57.6 million outstanding long-term general obligation bonds.

**SUMMARY RATINGS RATIONALE**

The bonds and notes are general obligations of the town. Shrewsbury's voters have excluded debt service from the property tax levy limitations of Proposition 2 ½ for the Sherwood Middle School project, affecting \$20 million of the bonds and \$2.9 million of the notes, which are secured by the town's unlimited tax pledge. The remainder of the bonds and notes are secured by Shrewsbury's limited tax pledge and are issued for land acquisition and school renovations, respectively. The Aa2 rating incorporates the town's sound financial position, despite anticipated near-term use of reserves, a sizeable, diverse and wealthy tax base reflective of Shrewsbury's location adjacent to Worcester (G.O. rated A1) and a manageable debt burden with a solid history of voter support for Proposition 2½ debt exclusions. The MIG 1 rating reflects the town's satisfactory history of market access as well as the town's favorable long-term credit profile.

**STRENGTHS**

- Favorably located tax base with economic diversity and institutional presence
- Conservative approach to estimating revenues and expenditures
- Strong history of voter-approved Proposition 2 ½ debt exclusions
- Solid financial position with sound available reserves
- Healthy enterprise operations

**CHALLENGES**

- Reliance on free cash appropriations to balance operating budgets
- High long-term liabilities for pension and OPEB

**DETAILED CREDIT DISCUSSION**

**DEMONSTRATED HISTORY OF MARKET ACCESS**

The town received seven bids on each of its most recent note sales, dated November 19, 2010 and July 15, 2010, ten bids on its bond

sale dated April 15, 2010 and ten bids on its note sale dated November 20, 2009. All bids were received from major regional and national financial institutions. Based on this history, Moody's expects that Shrewsbury will maintain sufficient access to capital markets and will be able to renew the notes, if necessary, at their July, 2012 maturity.

#### CAREFULLY MANAGED FINANCIAL POSITION WITH BALANCED OPERATIONS

Despite significant pressure from recent state aid reductions, Shrewsbury's financial position has remained relatively stable. The town's operating budget continues to face pressure from state aid declines, unanticipated weather-related expenses, rising salary and pension and health insurance costs, which together challenge the town's ability to maintain structural balance and adequate reserves under Proposition 2 1/2. Although the town continues to appropriate free cash and has depleted its stabilization fund, careful expenditure management and conservative revenue forecasting have boosted undesignated fund balance to \$7.4 million in fiscal 2010, a satisfactory 7.8% of general fund revenues. The town remains comfortably in excess of its policy to maintain combined undesignated general fund and stabilization fund balances at 4% of operating expenditures. Operations in fiscal 2010 were stressed by additional cuts in state aid and a \$1.3 million free cash appropriation. However, Shrewsbury added \$1.3 million to unreserved general fund balance, due largely to aggressive expenditure management. The town expended \$496,000 to purchase fire department equipment, nearly draining its stabilization fund. Overall, available reserves (unreserved general fund and stabilization fund) have risen to \$9.8 million, a satisfactory 10.3% of revenues. Property taxes represented 51.3% of fiscal 2010 general fund revenues, and despite recessionary pressure current-year collections have held relatively steady averaging 98.9% since fiscal 2006 and rose to 99.7% in fiscal 2010.

Nearing the June 30 end of fiscal year 2011, revenues and expenditures are tracking close to budget in fiscal 2011, however Shrewsbury will remain challenged to fully replenish the \$3.5 million free cash appropriation after covering a snow and ice removal deficit with transfers from other departments. The town projects a small decline of roughly \$800,000 in undesignated general fund balance and free cash at year-end, although the town remains structurally balanced as \$1.5 million of the free cash appropriated was for one-time purposes. Expenditures have risen only minimally as the town maintains reductions in staffing of roughly 30 full-time equivalent positions, which were imposed in fiscal 2010 to control costs. The adopted fiscal 2012 budget includes a state aid reduction of \$500,000 and a \$2 million appropriation of free cash.

Notably, the town's pension contribution rose 19% due to unfavorable investment performance in 2008, however the town remains committed to fully funding its pension liability by 2022, 18 years ahead of the state-mandated full funding deadline of 2040. Shrewsbury's retirement system was 71% funded as of January 1, 2010 and the town budgets the full annually required contribution (ARC). The town has voted to establish an OPEB trust and its enterprise funds plan to fully fund their UAALs by 2022 and are contributing at least 100% of their respective ARCs. However the general government OPEB liability is paid on a pay-as-you-go basis with roughly \$1.7 million of the \$3.8 million ARC budgeted in fiscal 2011. Progress toward funding the general government portion of the \$43 million UAAL will be delayed until the pension system is fully funded.

Although voters may be asked to approve debt exclusion votes for capital projects, no operating override of Proposition 2 1/2 is expected to be proposed until general economic conditions improve. The town operates self-supporting sewer, electric light and cable enterprises, all with healthy liquidity and sound unrestricted net asset positions. Moody's expects that Shrewsbury is currently favorably positioned to withstand near-term operating pressure during the economic downturn, however in the medium term Shrewsbury will continue to be challenged to maintain adequate financial flexibility to address unanticipated financial pressures. Maintenance of structural balance and the town's ability to grow available reserves, at a minimum in step with budgetary growth, will remain important factors in maintaining long-term credit strength.

#### DIVERSE AND STABLE TAX BASE

Located in Worcester County on state Route 9 and near the Interstate 495 corridor, Shrewsbury experienced a period of high growth in the 1990's, with population growth exceeding 31% from 1990 to 2000. Population growth has been projected at 5.7% since 2000, contrary to regional population decline trends in the Northeast. Although the town's equalized valuation roughly doubled to over \$5 billion since 2001, tax base growth in this primarily residential community is expected to be limited to redevelopment in the long term as the supply of developable land consists of smaller parcels that lack transportation access or infrastructure. Moderate contraction in assessed and equalized valuations has eroded some of the strong growth in the previous decade. Equalized valuation expansion has slowed to 3% annually, on average, since 2005. Regional and national real estate market declines contributed to an overall 7.6% decline in assessed valuation since 2007, which primarily affected the residential sector of the tax base. In line with regional and national trends, a modest decline, based on values as of January 1, 2011, is likely in fiscal 2012, despite ongoing new development activity. However, long-term redevelopment potential, particularly along commercial zones on Route 9, is expected to sustain modest but steady growth indefinitely. Although new single-family housing development has slowed, multi-family residential development continues and contributed to fiscal 2011 new growth revenue of \$516,000, although this is lower than the \$997,304 in revenue recorded in fiscal 2007 and the prior five-year average of \$609,000. Future residential growth is expected to be driven by age-restricted developments and retail-oriented commercial developments, however growth could be limited as the town is beginning to reach water and wastewater system capacity. The town has reserved 75% of its remaining wastewater treatment capacity for future commercial development, including its proposed industrial park. The town's socioeconomic indices are strong with income levels exceeding state medians and a solid \$151,466 equalized value per capita, on par with similarly-rated Massachusetts cities and towns. Worcester County's unemployment remains slightly elevated at 8.1% relative to the state rate of 7.4% in April, 2011, property tax collections remain very strong at nearly 100% and foreclosed properties continue to be successfully remarketed.

#### SOLID VOTER SUPPORT EASES DEBT BURDEN

Moody's anticipates that Shrewsbury's average 1.7% overall debt burden will remain manageable, given satisfactory amortization of

principal (78% within 10 years), self-supporting water and sewer system debt and significant state school building aid (64% of previously-issued school bonds), as well as a favorable history of voter support for capital projects. Nearly 94% of outstanding debt is excluded from Proposition 2 ½. Related debt service is supported by property tax revenue which is added to Shrewsbury's limited property tax levy for operations, significantly reducing strain on the annual budget. After adjusting for commonwealth reimbursement, the town's debt burden drops to a reasonable 1.3% of equalized valuation. With substantial school projects largely behind them and the Sherwood Middle School replacement proceeding on time and under budget, town officials expect more moderate debt issuance going forward. Proposed future projects include ongoing sewer system improvements, which are expected to be self-supporting through sewer fees and several smaller school renovations, which may qualify for state grants. A proposal for a new library is also being evaluated and may qualify for partial funding through a state grant, however scope and timing have not yet been determined. The library project is not expected to move forward without a successful debt exclusion vote and approval from the commonwealth for assistance. Officials report strong public support for the project and roughly \$750,000 committed from community fund raising.

The town expects to renew the outstanding \$6.1 million in land acquisition notes at maturity in November 2011; the notes were originally issued in 2003 to acquire a 60-acre parcel of commercially-zoned land, the former Allen Farm. The state has extended the period of time in which the notes may remain outstanding to 10 years to allow the town to identify an appropriate developer. The town intends to renew the land acquisition notes until the land is sold and proceeds are available for repayment. However, these notes are secured by the town's unlimited general obligation pledge and could be refinanced with long-term debt in the event the sale is delayed beyond the extended renewal period. Roughly 95% of the project's master planning has been completed and the town is seeking federal grants to develop roadways and pads on the site. The town has appropriated \$750,000 to extend sewer lines to the site and has contracted with the Worcester Development Corporation to facilitate development. Shrewsbury has no exposure to variable or auction rate debt or swap agreements.

#### WHAT COULD MAKE THE RATING GO UP:

"Significant increase in available reserves

"Strong tax base growth and improved demographic profile

#### WHAT COULD MAKE THE RATING GO DOWN:

"Deterioration of tax base and local economic conditions

"Decline in available reserves

"Increased debt burden without exclusions from Proposition 2 ½

#### KEY STATISTICS

2008 Population (est, US Census): 33,345 (+5.7% since 2000)

2011 Equalized Valuation: \$5 billion

2011 Equalized Value per capita: \$151,466

Average Annual Growth, Assessed Valuation (2005-2011): 3%

Overall debt burden: 1.7% of equalized valuation

Adjusted debt burden: 1.3% of equalized valuation

Amortization of principal (10 years): 83%

1999 Per Capita Income: \$31,570 (121.6% of MA, 146.2% of US)

1999 Median Family Income: \$77,675 (126.0% of MA, 155.2% of US)

Fiscal 2010 General Fund balance: \$14.2 million (15% of General Fund revenues)

Fiscal 2010 Available Reserve balance: \$9.8 million (10.3% of revenues)

Post-Sale Long-Term Debt Outstanding: \$78.8 million

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