MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to the Town of Shrewsbury's (MA) $4.29 million General Obligation Refunding Bonds

Global Credit Research - 02 Apr 2013

Affirmation of Aa2 rating affects $74.5 million in outstanding debt, including current issue

SHREWSBURY (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds		Aa2
Sale Amount	$4,290,000	
Expected Sale Date	04/04/13	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, April 02, 2013 --Moody's Investors Service has assigned a Aa2 rating to the Town of Shrewsbury's (MA) $4.29 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aa2 rating on $74.5 million of outstanding debt. A portion of the bonds are secured by the town's unlimited tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 ½. Bond proceeds will refund a portion of the town's outstanding bonds dated November 15, 2004 for estimated net present value savings of $390,000 or 7.6% of refunded principal with no extension of maturity.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the town's satisfactory financial position, which is expected to remain stable with improved reserves and despite annual appropriations of reserves. In addition, the rating incorporates the town's sizeable and affluent tax base, and modest debt profile with average principal amortization.

STRENGTHS

-- Sizeable, affluent tax base

-- Adequate reserve levels

CHALLENGES

-- Significant long-term liabilities for pension and OPEB

-- Town annually appropriates free cash to supplement budget

DETAILED CREDIT DISCUSSION

FINANCIAL POSITION EXPECTED TO REMAIN STABLE, DESPITE ANNUAL RESERVE APPROPRIATIONS

The Town of Shrewsbury is expected to maintain a satisfactory financial position despite budgeting annual reserve draws, given positive variances in actual results. Over the last several years, the town has annually appropriated reserves as a means to supplement the annual operating budget. Despite the appropriations, the town has produced three consecutive operating surpluses and improved its reserves. In fiscal 2012, the town appropriated

$3.4 million of free cash to reduce the tax levy. The audited financials reflect an operating surplus of $390,000 after the full replenishment of the appropriations through favorable budget to actual variance on excise tax and license, permits and fees revenues, as well as conservative budgeting of expenditures and departmental turn backs. The surplus increased the total General Fund balance to $16.7 million (17% of revenues) and the unassigned fund balance remain relatively level at $7.5 million (7.6% of revenues).

The fiscal 2013 budget increased by 5.8% and is balanced with a $3.6 million appropriation of free cash. The budgeted revenues and expenditures are trending positive with the exception of snow and ice which is over budget due to the harsh winter but should be mitigated by planned departmental turn backs. Management is forecasting a slight operating surplus attributed to the positive variance trend.

The town's primary revenue source is property taxes (53.4% of 2012 revenues) with a strong collection rate of 100.2% within the current fiscal year. The primary expenditures are education (47.9% of 2012 expenditures) and employee benefits (20.3%). The fiscal 2014 projected budget includes relatively flat expenditure growth for education and an increase to pension costs of approximately $950,000, due to changes to the recent valuation assumptions and an aggressive funding date of 2022. The town's ability to maintain a stable financial position and reserves while addressing rising costs of education and employee benefits will be an important factor in future rating reviews.

MODEST NEW GROWTH EXPECTED FOR SIZEABLE RESIDENTIAL TAX BASE

Shrewsbury is primarily a residential community, favorably 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. Continuing on that solid growth, Shrewsbury saw another 12.5% increase in population from 2000 to 2010, 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 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 0.1% annually, on average, since 2008. Regional and national real estate market declines contributed to an overall 7.6% decline in assessed valuation from 2007 to 2011, which primarily affected the residential sector of the tax base. Favorably, the town's values have begun to stabilize, with 2012 and 2013 assessed values showing a 1.7% and 0.2% increase, respectively. Wealth levels in Shrewsbury continue to trend above national medians with per capita income and median family income representing 146.2% and 155.2% of the nation, respectively. Also, the town's unemployment rate of 5.9% (January 2013) remains below the state (7.4%) and US (8.5%).

MAJORITY OF DEBT SUPPORTED BY VOTERS

We anticipate that Shrewsbury's average 1.5% overall debt burden will remain manageable, given satisfactory amortization of principal (79.6% within 10 years), self-supporting water and sewer system debt and significant state school building aid, as well as a favorable history of voter support for capital projects. Positively, approximately 87% of the town's outstanding debt is excluded from Proposition 2 ½. Related debt service is supported by property tax revenue that is limited by neither rate nor amount and does not encroach on 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 manageable 0.9% of equalized valuation. Future borrowing plans are limited, but include long-term financing of approximately $2.3 million in outstanding bond anticipation notes in summer of 2013 and a portion of the town's $18 million authorized unissued list. Debt service in fiscal 2012 represented 7.9% of expenditures and the debt portfolio consists entirely of fixed rate debt and is not subject to any derivative agreements.

The town maintains its own retirement plan for all employees, with the exception of teachers and certain school administrators. The plan is administered by the Shrewsbury Retirement Board (SRB), and as of January 1, 2011, it was 68.4% funded. The town is required by the state to fully fund its Annual Required Contribution (ARC), which was $3.2 million in 2012, representing 3.3% of expenditures. Currently, the plan assumes an 8% rate of return, with the SRB reporting that the plan will be fully funded by 2022, an aggressive but positive timeframe. In addition, the town currently contributes to its OPEB liability on a pay-as-you-go basis. The town contributed 28% of its Annual OPEB cost in fiscal 2012, representing $2.1 million. The total Unfunded Actuarially Accrued Liability (UAAL) for OPEB is $67.9 million, as of June 30, 2012. Positively, the town has established an OPEB trust with a fiscal 2012 balance of $1.2 million. The 2012 total fixed costs including pension, OPEB and debt service represented $13.1 million or 13.4% of expenditures.

WHAT COULD MAKE THE RATING GO UP:

-- Continued operating surpluses resulting in significant growth in reserves

-- Steady progress toward reducing unfunded liabilities for pension and OPEB

-- Significant tax base expansion and improvement of demographic profile

WHAT COULD MAKE THE RATING GO DOWN:

-- Decline in available reserves

-- Significant increase in debt burden without exclusions from Proposition 2 ½

-- Erosion of tax base through valuation declines

-- Lack of progress in funding long-term liabilities

KEY STATISTICS

2010 Population: 35,608 (+12.5% since 2000)

2013 Equalized Value: $5.07 billion

2013 Equalized Value per capita: $142,413

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)

Unemployment (January 2013): 5.9% (MA 7.4%, US 8.5%)

Average Annual Equalized Value Growth (2008-2013): 0.1%

FY 2012 Total General Fund Balance: $16.7 million (17% of General Fund revenues)

FY2012 Unassigned General Fund Balance: $7.4 million (7.6% of General Fund revenues)

Overall debt burden (unadjusted, includes overlapping debt): 1.5%

Amortization of principal (10 years): 79.6%

Long-term general obligation debt outstanding: $77 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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