



Moody's Investors Service

Global Credit Research

New Issue

9 JAN 2008

New Issue: Ashland (Town of) MA

MOODY'S ASSIGNS A1 TO TOWN OF ASHLAND'S (MA) \$2.8 MILLION GO BONDS

A1 AFFECTS \$58.4 MILLION OF RATED PARITY DEBT, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bonds	A1
Sale Amount \$2,800,000	
Expected Sale Date 01/10/08	
Rating Description General Obligation Limited Tax	

Opinion

NEW YORK, Jan 9, 2008 -- Moody's Investors Service has assigned an A1 rating to the Town of Ashland's (MA) \$2.8 million General Obligation Bonds. Concurrently, Moody's has affirmed the A1 rating on approximately \$55.6 million of outstanding parity debt. Assignment of the A1 rating incorporates the town's moderately-sized and wealthy residential tax base, manageable debt burden with over half of outstanding debt exempt from property tax limitations, and narrowed financial position. The town's general obligation limited tax pledge secures the current issue, as voters have not exempted debt service from the levy limitations of Proposition 2 ½. Proceeds will complete the purchase of land acquired through eminent domain, following a court settlement with the previous owner over the purchase price.

CONTINUED BUT SLOWED GROWTH EXPECTED IN MODERATELY SIZED RESIDENTIAL TAX BASE

Ashland has begun to exhibit the effects of a slowing regional housing market and Moody's expects this trend to continue at least through 2008. Located equidistant from Boston (GO rated Aa1/stable outlook) and Worcester (GO rated A3) and adjacent to Framingham (GO rated A1) just south of the Massachusetts Turnpike, town residents benefit from convenient access to regional employment centers. Equalized values have grown at a healthy 13.4% annual rate since 2002, reflecting housing market appreciation and modest residential development. Indicative of the softening market, assessed value growth decelerated to 0.3% in fiscal 2008 from 4.2% in the prior year. While Moody's expects that the town's favorable location and ample supply of developable land will continue to support growth, current market trends could temper growth over the medium term. Positively, town officials report several residential projects under development and in the planning process. Most notably, construction continues on a 400-unit condominium project with market values approaching \$400,000 while a 500-rental unit complex is in the permitting process and groundbreaking is expected within the calendar year. The town recently expanded its sewer lines to the south side of town, which management expects to spur commercial development in the medium to long term. Wealth indicators are above commonwealth and national levels, as demonstrated in the strong \$160,138 equalized value per capita, and per capita income of 121.9% of the commonwealth.

CHALLENGES TO ACHIEVING STRUCTURAL BALANCE; NEW FINANCIAL POLICIES ADOPTED

Despite newly adopted policies intended to restore structural balance and augment stabilization funds, Moody's anticipates Ashland's financial position will remain narrow absent revenue augmentation or meaningful expenditure reductions. The town regularly appropriates stabilization funds to balance operating budgets and endeavors to replenish these appropriations from certified free cash balances. However, in recent years, failure to fully replenish appropriations has reduced available reserves (comprised of unreserved general fund balance and stabilization funds) to very narrow margins. In fiscal 2006, Ashland transferred nearly \$1.1 million to the stabilization fund from general fund balance, representing a significant

portion of the \$1.95 million general fund reduction in that year. Net of this appropriation and approximately \$600,000 of pay-as-you go capital appropriations, the town recorded a modest structural deficit of \$286,000, roughly equal to the \$298,000 of free cash utilized to reduce that year's tax rate. While total fund balance declined \$1.95 million to \$2.6 million (a narrowed 6.1% of revenues) available reserves (computed as unreserved fund balance plus stabilization funds) were reduced only by the amount of capital appropriations to \$3.1 million (a lower but satisfactory 7.2% of revenues).

Unaudited fiscal 2007 statements indicate a larger reduction to available reserves to a narrow \$2.37 million or 5.4% of revenues. In keeping with its practice of appropriating stabilization funds to balance the original budget, the town appropriated approximately \$800,000 from this fund. Following certification of its free cash later in the fiscal year Ashland replaced approximately \$739,000 of this appropriation and utilized the remaining \$458,000 free cash for various budgetary and capital items. In total, management reports \$912,000 of expenditures for capital items in 2007, which effectively decreases the anticipated structural deficit to approximately \$587,000 from the nearly \$1.5 million as reported in the draft financial statements. While Moody's generally views use of reserves for one-time capital appropriations more favorably than use for ongoing expenditures, Ashland's financial position has narrowed to a point where further reductions, regardless of purpose, may negatively impact the rating.

Reflecting an effort to reduce reliance on stabilization funds, the town appropriated a lesser \$350,000 to balance the 2008 budget, and has subsequently replaced \$203,000 from fiscal 2007 certified free cash which had declined from to \$619,000 from \$1.17 million in fiscal 2006. Year-to-date, management reports no unanticipated expenditures and minor variations from budgeted revenues. At only six months into the fiscal year and given that 5% of the town's revenues are derived motor vehicle excise taxes, not collected until late spring, management is currently unable to predict ending reserve levels. However, recent statewide data indicate a declining trend in excise revenue which presents the possibility of a third consecutive reserve reduction. In December 2007, the town adopted new financial policies including a target stabilization fund of 5% of the municipal budget and discontinuation of use of stabilization fund or free cash for operating expenditures. However, with rising budgetary pressures from employee salary and benefit costs, a flattening of state revenue, particularly lottery receipts which is expected to impact local aid beginning in fiscal 2009, and slowing new growth revenues, management expects continued, though reduced, reliance on reserves in the short-term. On a positive note, the town expects to comply with new GASB 45 reporting requirements has taken steps to mitigate growth in its OPEB liability by adopting Chapter 32, Section 18 of Massachusetts General Laws requiring retirees to enroll in Medicare. Going forward, Moody's believes conservative budgeting and adherence to adopted policies are critical factors in Ashland's maintaining its current rating and future rating reviews will heavily factor the town's ability to comply with policies and regain structural balance in the near-term. Additional reserve reductions beyond those anticipated in fiscal 2007 may result in negative rating pressure.

DEBT BURDEN MITIGATED BY SELF-SUPPORTING WATER AND SEWER DEBT AND STATE AID

Moody's expects the town's debt position to remain manageable going forward given self-supporting water and sewer debt, and an anticipated significant level of state aid for school construction. The overall debt burden is a moderate 1.5% which falls to a more average 1.3% after adjusting for commonwealth school building assistance. Principal is amortized at a slightly below-average rate of 69.4% in 10 years, reflecting the significant proportion of the town's debt representing water and sewer projects. The town has \$1.2 million of outstanding bond anticipation notes which it expects to retire with grant proceeds from the Massachusetts School Building Authority (revenue bonds rated Aa2/stable outlook). Future borrowing is limited to approximately \$5 million of planned water and sewer projects, expected to be supported with enterprise revenues and a modest \$970,000 for remaining school construction costs although the latter remains dependent on the final school construction grant payment.

KEY STATISTICS

Population (2000 Census): 14,674

2007/2008 Equalized Valuation: \$2.51 billion

2007/2008 Equalized Valuation Per Capita: \$160,138

Median family income: \$77,611 (126% of MA; 155% of U.S.)

Per capita income: \$31,641 (122% of the MA; 147% of U.S.)

Overall Debt Burden: 1.5%

Adjusted Debt burden: 1.3%

Amortization of Principal (10 years): 69.4%

FY06 Total General Fund balance: \$2.66 million (6.1% of revenues)

FY06 Unreserved Undesignated General Fund balance: \$2.17 million (5.0% of revenues)

FY06 Available reserves: \$3.15 million (7.2% of revenues)

FY07 Unreserved Undesignated General Fund balance (unaudited): \$1.4 million (3.2% of revenues)

FY07 Available reserves (unaudited): \$2.37 million (5.4% of revenues)

Post-Sale Long-term General Obligation debt outstanding: \$58.4 million

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