

Global Credit Research - 07 Jan 2011

Aa2 RATING APPLIES TO APPROXIMATELY \$10.9 MILLION OUTSTANDING G.O. DEBT, INCLUDING CURRENT ISSUE

Topsfield (Town of) MA
Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2011 Bonds	Aa2
Sale Amount	\$4,145,000
Expected Sale Date	01/11/11
Rating Description	General Obligation

Opinion

NEW YORK, Jan 7, 2011 -- Moody's Investors Service has affirmed the Aa2 rating assigned to the Town of Topsfield's General Obligation Municipal Purpose Loan of 2011 Bonds. Concurrently, Moody's has affirmed the town's Aa2 general obligation bond rating affecting approximately \$9.2 million of outstanding debt. The bonds are partially secured by the town's unlimited general obligation pledge, as voters have excluded \$2.8 million of the bonds from the levy limitations of Proposition 2 ½. The remainder, including \$1.1 million in self supporting water enterprise debt and \$250,000, is secured by the town's limited general obligation pledge. Proceeds of the bonds will refund series 2001 bonds for an expected NPV savings of 7.6% (\$185,850) of refunded principal and retire outstanding Bond Anticipation Notes for various capital improvement projects.

RATING RATIONALE

The Aa2 rating reflects the town's consistent financial performance with sound reserve levels expected to stabilize in the near term despite recent draws on reserves. It also incorporates Topsfield's solid history of voter support for property tax increases, wealthy residential tax base, and modest debt position.

ADEQUATE FINANCIAL POSITION DESPITE RECENT DRAWS

Topsfield is expected to maintain a stable financial position with moderate financial flexibility and healthy available reserves, despite recent fund balance draws. Prior to fiscal 2008, operations remained positive over three years with growth in available reserves (aggregate unreserved general fund and stabilization fund) sustaining a healthy range slightly above 16% (approximately \$3.2 million) of General Fund revenues. Fiscal 2008 operating results posted a deficit of approximately \$105,000. Available funds fell to 15.6% (3.1 million) of general fund revenues and free cash declined by \$200,000 to \$1.19 million certified for fiscal 2009. Fiscal 2009 results (June 30) ended with additional draws of \$424,444,000 reducing available funds to \$2.9 million from \$3.2 million, or an adequate 13.9% of revenue, and \$1.02 million in free cash certified for fiscal 2010. The fall in free cash is largely driven by increasing non-replenished free cash appropriations over the last several budget years in order to fund capital expenditures and reduce the tax rate. The free cash appropriation grew to \$638,197 in 2009 and \$887,238 in 2008 from \$526,000 in 2005 and \$541,000 in 2004. Similar to past years, management partially replenished the fiscal 2009 appropriation, despite mid-year state aid cuts of \$190,000, with revenues higher than anticipated and departmental expenditure savings. At the close of fiscal 2010, the town ended structurally balanced with a \$68,000 operating surplus driven by conservative budgeting of expenditures across the board. General Fund balance increased to \$2.3 million, however available reserves decreased to \$2.08 million (9.6% of revenues) as a result of approximately \$200,000 appropriated from the stabilization fund for a voter-approved fire truck purchase.

The adopted 2011 budget includes a modest 1.75% expenditure increase from fiscal 2010 driven mostly by employee benefits. The budget is balanced with salary freezes, \$424,444 free cash appropriations, of which \$221,329 was used to reduce the tax levy. Management is projecting to end structurally balanced and fully replenish stabilization fund appropriations given fees and charges for services coming in greater than budgeted. Property taxes remain the primary source of Topsfield's revenue at 75.9% of General Fund revenues in fiscal 2010 and were collected at a high rate of 99%.

WEALTHY TAX BASE WITH POTENTIAL FOR REDEVELOPMENT

Moody's anticipates that Topsfield will continue to enjoy solid wealth levels, but limited new growth activity and more modest property value appreciation. Since 2002 the town's tax base expanded 98% to \$1.27 billion from \$705 million, reflecting both new residential development as well as regional market value appreciation. Similar to statewide declines in assessed valuations, Topsfield posted a 4.2% reduction in assessed value in fiscal 2010, a sharp difference from the town's five-year average growth of 2%, reflecting a softening real estate market. Located 25 miles north of Boston (GO rated Aaa/stable outlook), the town is 93% residential with limited developable land. Proposed medium-term developments include several age-restricted communities comprising a total of 76 units, with expected condominium market values of up to \$800,000, and a subdivision of 24 lots zoned for single-family homes with anticipated market values in the range of 700,000 to 1 million plus. The town exhibits socioeconomic indicators that strongly exceed the state and national norms, with a robust equalized value per capita of \$210,802.

FAVORABLE DEBT POSITION

The town's debt position is expected to remain affordable given solid voter support for capital projects, relatively rapid amortization of principal

(90% within 10 years) and limited future borrowing plans. The town's direct debt burden is modest at 0.8% of equalized value, when incorporating the town's share (28%) of Masconomet Regional School District (G.O. rated Aa2) debt, Topsfield's overall debt burden rises to a still manageable 1.2%. All of the town's debt is fixed rate and the town is not party to any derivative agreements.

What could make the rating change - UP

- Sustained improvement in financial flexibility
- Strengthening of tax base and demographic profile

What could make the rating change - DOWN

- Protracted structural budget imbalance
- Depletion of available reserves
- Deterioration of the town's tax base and demographic profile

KEY STATISTICS

2008 Population Estimate: 6,051 (1.5% decline since 2000)

2011 Equalized Valuation: \$1.27 billion

2011 Equalized Valuation per capita: \$210,802

1999 Per Capita Income: \$37,770 (145% of commonwealth, 175% of nation)

1999 Median Family Income: \$104,475 (169% of commonwealth, 209% of nation)

FY09 Available Reserves: \$2.89 million (13.9% of General Fund revenues)

FY10 Available Reserves: \$2.83 million (13.1% of General Fund revenues)

Overall debt burden: 1.2%

Amortization of principal (10 years): 90%

Post Sale Long-term Debt outstanding: \$10.9 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

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