

February 19, 2008

**Summary:**

## Lynnfield, Massachusetts; General Obligation; Note

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### Credit Profile

US\$7.65 mil GO BANs dtd 02/28/2008 due 02/27/2009

*Short Term Rating*

SP-1+

New

Lynnfield GO

*Long Term Rating*

AA/Stable

Affirmed

Lynnfield GO (FSA)

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Lynnfield, Mass.' GO bond anticipation notes (BANs). In addition, Standard & Poor's affirmed its 'AA' standard long-term rating, with a stable outlook, on the town's existing GO debt based on the town's strong credit characteristics.

The ratings reflect the town's:

- Participation in the greater Boston, Mass. economy;
- High income levels with median household effective buying income at 172% of the national average;
- Predominantly residential property tax base with a very high market value of \$216,700 per capita;
- Moderate debt burden, coupled with limited additional capital needs; and
- Significant nongeneral fund reserves, which somewhat mitigate the recent declines in the town's unreserved general fund position.

The town's full faith and credit pledge secures the notes and bonds.

Lynnfield, with a population of 11,540, is an affluent, primarily residential community about 12 miles north of Boston. Lynnfield benefits from its location near the deep and diverse Boston MSA; its unemployment rate has historically been low while its income and property wealth levels have been high. The town's 2006 unemployment rate was 4.0%, well below the commonwealth's 4.9% rate and the nation's 4.6% rate. The town's 2006 median household effective buying income (EBI) equals 154% and 172% of commonwealth and national levels, respectively, and per capita EBI equals 154% and 180% of commonwealth and national levels, respectively.

The 10-square-mile town is largely built out, and the tax base is more than 93% residential. While a decline in residential assessed value (AV) brought total fiscal 2008 AV down by about 1% to \$2.50 billion, per capita AV remains very high at \$216,700. The tax base has little concentration, with the 10 largest taxpayers accounting for only 3% of total AV. Town officials recently rezoned the land on the commercial area along Route 1, which it expects will increase development in this area. In addition, the development of a large mixed-use project, with 500,000 square feet of commercial space and 180 apartments, is expected to result in a significant levy increase

beginning in fiscal 2010. United Parcel Service of America Inc. and PFPC Inc., an investment firm, each with 300 employees, are the leading employers located in the town.

The town's unreserved general fund position declined to a low \$70,000 in fiscal 2005, but increased in fiscal 2006 to \$689,000, or 1.9% of expenditures, and is projected to increase again in the unaudited fiscal 2007 statements to \$963,000, or 2.6% of expenditures. The audited 2007 financial statements are expected to be completed by the end of February 2008, and management attributes the delay to a slow turn-around at the auditing firm.

Concern over the relatively thin general fund position is mitigated by the strong \$6.6 million in four nongeneral fund reserves at unaudited fiscal year ended 2007:

- \$4.2 million in a debt service reserve (12% of general fund expenditures);
- \$1.1 million in a sale of real estate fund (3%);
- \$401,000 in a stabilization fund (2%); and
- \$176,000 in a capital facilities maintenance fund (2%).

Town officials can use stabilization and capital facilities funds for any lawful general purpose; together, they account for an additional 3.5% of general fund expenditures, and the total of the four reserve funds equals 18% of general fund expenditures. Management created the debt service reserve fund to lessen the effect of the tax rate from the school and senior center projects on the town, and management intended to deplete the fund over the next few years. Lynnfield's financial management practices are considered standard under Standard & Poor's Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

The town is currently issuing \$7.7 million of BANs to renew BANs that were used to finance the acquisition of a golf course. After this issuance and the retirement of some previous BANs with reserve funds, the town's overall net debt burden is an average \$2,480 per capita and 1.1% of market value. Amortization of GO debt is average with 61% being retired over 10 years and 100% being retired over 20 years. Management has not identified any significant additional debt needs in the town's capital plans.

## Outlook

The stable outlook on the long-term rating reflects Standard & Poor's expectation that town officials will follow their plan to take measures to stabilize and improve the general fund position, aided by the town's high property wealth and a history of successful tax override votes in previous years. In addition, due to a lack of significant additional debt plans, we expect town management to maintain its manageable debt burden.

## Finances

The fiscal 2008 budget uses some fund balance for pay-as-you-go capital, but conservative budgeting is expected to result in break-even actual operations. The 2008 budget includes a transfer of \$500,000 into the stabilization fund. The electorate approved a \$2.8 million Proposition 2 1/2 levy-limit operating override for fiscal 2007, but management did not seek one for fiscal 2008 and doesn't expect an override for fiscal 2009. The mixed-use development in the town is projected to result in \$1.5 million of additional annual tax levy beginning in fiscal 2010, along with developer payments of \$500,000 in fiscal 2008 and \$1.0 million in fiscal 2009. The town has a draft of

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its other postretirement employee benefits valuation, and expects the final report to be completed by spring 2008.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.