

BOS  
1/27/03 - (3)

**SUMMARY OF ACTON, MASSACHUSETTS \$22,050,000 BOND SALE**

Sale Date: January 23, 2003  
 Bond Rating: Moody's AA2/Standard & Poor's AA+  
 MBIA Insured to Aaa Rating- premium paid by underwriter  
 Non-Qualified  
 Dated: February 1, 2003  
 Due: February 1, 2004-2023  
 Basis: Level Debt-School  
 Declining Debt-Software

Results: 6 Bidders

Each bid specifies an interest rate, a principal repayment schedule, and a bond purchase price as a percentage of par or 100. Below is a summary of bids expressed as a composite yield.

Winning Bid: Salomon Smith Barney, Inc. New York @ 4.2269%  
 Cover Bid: Merrill Lynch & Co. New York @4.2409%  
 Remaining Bids:  
     Fidelity Capital Markets, MA. @4.2448%  
     William R. Hough & Co., FL @4.2651%  
     Corby Capital Markets, MA @4.2778%  
     UBS PaineWebber, Inc. NY @4.3172%

Spread from winning bid to final bid was: 0.0903%  
 Declining Debt/Software

Yield Compared to Municipal Market Data Yield Curve:

| Maturity | Town of Acton | AAA Scale YC | Delta YC to Bid<br>Positive =<br>Favorable Variance |
|----------|---------------|--------------|---|
| 2004     | 1.00%         | 1.10%        | .10%  |
| 2005     | 1.30          | 1.41         | .11   |
| 2006     | 1.70          | 1.80         | .10   |
| 2007     | 2.12          | 2.22         | .10   |
| 2008     | 2.55          | 2.64         | .09   |
| 2009     | 2.92          | 3.01         | .09   |
| 2010     | 3.20          | 3.29         | .09   |
| 2011     | 3.45          | 3.53         | .08   |
| 2012     | 3.65          | 3.70         | .05   |
| 2013     | 3.80          | 3.82         | .02   |
| 2014     | 3.95          | 3.95         | 0   |
| 2015     | 4.05          | 4.07         | .02   |
| 2016     | 4.15          | 4.17         | .02   |

|      |      |      |     |
|------|------|------|-----|
| 2017 | 4.25 | 4.26 | .01 |
| 2018 | 4.35 | 4.34 | .01 |
| 2019 | 4.40 | 4.42 | .02 |
| 2020 | 4.50 | 4.50 | 0   |
| 2021 | 4.58 | 4.57 | .01 |
| 2022 | 4.65 | 4.65 | 0   |
| 2023 | 4.70 | 4.70 | 0   |

**Salomon Smith Barney, Inc.'s Reoffering Scale**

**Town of Acton-\$22,050,000 General Obligation Municipal  
Purpose Loan of 2003 Bonds**

| <b>Maturity Date</b> | <b>Amount (000)</b> | <b>Yield %</b> |
|----------------------|---------------------|----------------|
| 02/01/2004           | 855                 | 1.00           |
| 02/01/2005           | 885                 | 1.30           |
| 02/01/2006           | 915                 | 1.70           |
| 02/01/2007           | 945                 | 2.12           |
| 02/01/2008           | 980                 | 2.55           |
| 02/01/2009           | 875                 | 2.92           |
| 02/01/2010           | 905                 | 3.20           |
| 02/01/2011           | 945                 | 3.45           |
| 02/01/2012           | 980                 | 3.65           |
| 02/01/2013           | 1,020               | 3.80           |
| 02/01/2014           | 1,060               | 3.95           |
| 02/01/2015           | 1,105               | 4.05           |
| 02/01/2016           | 1,150               | 4.15           |
| 02/01/2017           | 1,195               | 4.25           |
| 02/01/2018           | 1,240               | 4.35           |
| 02/01/2019           | 1,290               | 4.40           |
| 02/01/2020           | 1,345               | 4.50           |
| 02/01/2021           | 1,395               | 4.58           |
| 02/01/2022           | 1,455               | 4.65           |
| 02/01/2023           | 1,510               | 4.70           |

**For Comparison Purposes noted below are the results of a Town of Bedford bond sale of eight days prior. Please note that Bedford has a higher Bond Rating, chose a declining debt schedule, which normally receives a lower interest rate than a level debt issue, and does not contain an imbedded charge for bond insurance.**

**SUMMARY OF BEDFORD, MASSACHUSETTS \$20,968,000 BOND SALE**

Sale Date: January 15, 2003  
 Bond Rating: Moody's AA1/Standard & Poor's AA+  
 Not Insured  
 Non-Qualified  
 Dated: February 1, 2003  
 Due: February 1, 2004-2023  
 Basis: Declining Debt/School & Various Purposes

Results: 9 Bidders  
 Winning Bid: Wachovia Bank, National Assoc. @ 4.0019%  
 Cover Bid: Roosevelt & Cross, New York @4.0395%  
 Remaining Bids:  
     Fidelity Capital Markets, MA. @4.0514%  
     Banc of America Sec. LLC @4.0539%  
     Corby Capital Markets, MA @4.0848%  
     Eastern Bank, MA @4.0933%  
     William R. Hough & Co., FL @4.1088%  
     Merrill Lynch & Co @4.1458%  
     ABN AMRO Financial Sec. @4.1468%

Spread from winning bid to final bid was: 0.1449%

Yield Compared to Municipal Market Data:

| 1/15/03<br>Maturity | 1/15/03<br>Town of Bedford | MMD AAA Scale |
|---------------------|----------------------------|---------------|
| 2004                | 1.15%                      | 1.18%         |
| 2005                | 1.38                       | 1.44          |
| 2006                | 1.77                       | 1.83          |
| 2007                | 2.19                       | 2.24          |
| 2008                | 2.61                       | 2.66          |
| 2009                | 2.98                       | 3.03          |
| 2010                | 3.26                       | 3.31          |
| 2011                | 3.49                       | 3.54          |
| 2012                | 3.66                       | 3.71          |
| 2013                | 3.80                       | 3.85          |
| 2014                | 3.95                       | 3.98          |

|      |      |      |
|------|------|------|
| 2015 | 4.09 | 4.10 |
| 2016 | 4.19 | 4.20 |
| 2017 | 4.29 | 4.30 |
| 2018 | 4.38 | 4.39 |
| 2019 | 4.47 | 4.48 |
| 2020 | 4.55 | 4.56 |
| 2021 | 4.63 | 4.64 |
| 2022 | 4.71 | 4.72 |
| 2023 | 4.75 | 4.77 |

**Financial Advisor's Commentary:**

**Market Conditions:**

If we ever needed proof that we are facing tough economic times in the Commonwealth of Massachusetts, we can look at the Town of Acton and the happenings with this community as it sought a deserved upgrade from Moody's, and the subsequent sale of its \$22,050,000 General Obligation bonds.

While the Town is on the Moody's watch list for a possible upgrade to AA1, the Town faces the future (and existing) vulnerability of a shaky State economy and likely cuts in local aid; both out of the Town's control. We have argued that the upgrade is deserved based on the Town's strong management and financial position which is comparable to other AA1 and AAA communities. However, the rating agencies are somewhat hesitant to move ratings upward in this economy.

If the rating agencies are hesitant, today's Bond sale showed how the investors are reacting to the crisis in Massachusetts, especially the likely cuts in the State's spending on school construction (see Boston Globe 1/23/03). Salomon Smith Barney was awarded the bonds at a TIC of 4.22% with yields trading at or below the AAA scale. While this is considered an attractive bid, the surprising aspect was the underwriter's decision to insure the entire issue. This is quite unusual for such a strong credit!

In discussions with various underwriters after the sale, it was clear that investors are demanding insurance on Massachusetts paper, a clear reflection on how the market views the economy. Fidelity Capital Markets commented that investor uncertainty has changed the markets and these changes are happening week-to-week, day-to-day. The underwriter at Salomon Smith Barney stated, "The first words out of the investor's mouth are "I want Mass. paper, and I want it insured". An underwriter representing Corby North Securities, a firm that purchases a heavy volume of MA. bonds, stated that his retail brokers want AAA paper, anything less than AAA has a limited amount of buyers.

The Town of Weston sold 10- year bonds today. An underwriter had called previous to the sale asking if the financial advisor had insured the deal – and this is a AAA community.

This is not good news for issuers in Massachusetts. The investors are indicating a blanket view of the Commonwealth's communities. There seems to be less weight on the Issuer's actual bond rating and more weight on insuring that security- a safety net should an issuer get downgraded.



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## Research:

### Summary: Acton Twn, MA; Tax Secured, General Obligation

Publication date: 15-Jan-2003  
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CC: BOS

### Credit Profile

\$22.05 mil GO bnds dtd 02/01/2003 due 02/01/2023 AA+  
Sale date: 23-JAN-2003

### Rationale

The 'AA+' rating on the town of Acton, Mass.' bonds reflects:

- A growing, primarily residential \$3 billion tax base;
- Above-average and rising wealth and housing values;
- Strong management with a focus on multiyear planning; and
- An affordable but increasing debt position.

Acton (population 20,331) is located 25 miles northwest of Boston in one of the wealthiest regions in the country. Acton is an affluent residential suburb, with 87% of the \$3.1 billion tax base residential. Wealth levels as indicated by median household effective buying income are high at 166% of the state and 208% of the nation. Proximity to Interstate 495, Route 128, Route 2, and good rail links to Boston have aided in tax development. The local economy is limited, with most residents commuting to work throughout the greater Boston economy. New residential housing sales range from \$600,000 to well over \$1 million. The home value appreciation is aided by a strong school system. Despite a population of more than 20,000, market value per capita is high at \$152,000. Acton's unemployment average has historically been below that of the state and the nation.

Strong management with a focus on long-range planning has yielded consistently favorable results. Unreserved general fund balances increased to \$7.8 million, or 16% of expenditures, in fiscal 2002, from 11% in fiscal 1999. In addition, Acton maintains a small stabilization fund currently at \$200,000, which provides some additional flexibility. The town has historically operated within Proposition 2 1/2 through the use of operating overrides, debt, and capital exclusions. Property taxes account for nearly 80% of general fund revenues and collection rates are strong, exceeding 98% on a current basis over the past four years. Through the first six months of fiscal 2003, the town expects to close on budget. The current financial plan for fiscals 2004 and 2005 takes into account a 15% cut in state aid, a 27% decrease in new growth taxes, and a 7.5% increase in student population. In order to fund a balanced budget through fiscals 2004 and 2005, the town is expecting to use \$4 million in free cash as well as asking the voters for two \$3 million Proposition 2 1/2 general operating overrides.

The town's debt position is strong and its debt burden is low, with overall net debt at 0.9% of valuation and \$1,335 per capita. Debt retirement is average, with 48% retired within 10 years, due to a 30-year amortization of \$24 million in sewer debt. The town has spent between \$1 million and \$2 million per year from fiscals 1998-2002. Future debt includes a new \$6.4 million police station and roughly \$70 in school improvements at Acton-Boxborough Regional School District.

### Outlook

The stable outlook anticipates balanced operations through fiscal 2005.



Management has developed various budget submissions in anticipation of state funding and override results, though only a modest increase in free cash appropriation is anticipated to balance operations. The town retains a high degree of financial flexibility outside the General Fund given the availability of over \$5 million in the Internal Service Fund and \$3.8 million in the Special Revenue Fund for waste disposal services. This solid waste reserve is sufficient to cover all potential obligations remaining on the waste disposal contract with the North East Solid Waste Committee (contract expires September 2005). The town's operation of a merchant transfer station provides a considerable level of financial offset to the obligations of the put-or-pay contract, and the town is exploring potentially favorable opportunities for the station at contract expiration.

#### WEALTHY, SUBURBAN BASE WITH STRONG GROWTH EXPERIENCE

Moody's expects the town's wealthy and primarily residential \$2.75 billion tax base will continue to experience growth given sustained value appreciation, strong housing demand, and opportunities for commercial development. The town's wealth indices are superior with median family income among the top 5% of Commonwealth towns (175.4% of state averages) and a strong full value per capita of \$135,296. The town is favorably located along Route 2 near I-495 and benefits from a commuter rail station to Boston (rated Aa2). As such, the town has experienced strong population growth (14% from the 1990 census) and consistent value appreciation in the residential sector (87% of the base). This has led to an 11% average annual A.V. increase since 1996. The development of high-end homes continues, as evidenced by strong building permit activity, which has led to median housing values at 179% of state averages. Though large scale residential development is not anticipated given concerted efforts at maintaining open space (town passed Community Preservation Act surcharge), opportunities for commercial growth remain. Nearing completion is a higher-end retail complex and a large country club, and the redevelopment of the 185 acre WR Grace brownfield site remains an important component in town efforts to boost the commercial sector (9% of assessments).

#### POSITIVE DEBT POSITION TO BE SUSTAINED GIVEN LIMITED BORROWING DEMANDS

Moody's expects the town's debt position, with a 1.0% overall adjusted debt burden, to remain favorable given limited future borrowing needs, continued state support for school construction funding, and the exclusion of the vast majority of tax levy supported debt from Proposition 2 1/2 limitations. The town benefits from SBAB grant funding for both locally issued school debt and debt issued by the Acton-Boxborough Regional School District for which the town is responsible for over 80% of debt service costs. With exclusion of all school debt service from levy limits, and state reimbursement in excess of 60% for the current issue and the regional school district's \$76 million of authorized debt (\$40 million outstanding in BANs), Moody's expects the town's debt burden will remain very positive. Debt service is currently a modest 3.5% of expenditures and is expected to remain manageable at approximately 7.0% before discounting SBAB support. The recent construction of a sewer system for a portion of the town, financed through the MWPAT, is maintained as an enterprise fund. The below-average amortization schedule (37.7% in ten years) incorporates the 30-year maturity of this debt which is supported by betterment assessments and benefits from state interest subsidies. The town has approximately \$8.2 million of authorized unissued debt, with the largest portion related to the \$6.4 million Public Safety Facility which has similarly been excluded from Proposition 2 1/2.

#### KEY STATISTICS

2000 population: 20,331

Population Growth (1990-2000): 14%

2000 per capita income: \$41,901 (161.5% of state)

2002 full valuation: \$2.75 billion

Full value per capita: \$135,296

Debt burden: 1.0%

Payout of principal (10 years): 44.3% (G.O. bonds only)

FY02 General Fund balance: \$10.7 million (20.8% of General Fund revenues)

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