



Moody's Investors Service

Global Credit Research

New Issue

11 JAN 2007

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New Issue: [Lexington \(Town of\) MA](#)**MOODY'S ASSIGNS Aaa RATING TO THE TOWN OF LEXINGTON'S (MA) \$7.2 MILLION GENERAL OBLIGATION BONDS AND MIG 1 RATING TO THE \$3.7 MILLION BOND ANTICIPATION NOTES**

TOTAL OF \$63.2 MILLION IN RATED DEBT OUTSTANDING; INCLUDING CURRENT OFFERING

Municipality
MA**Moody's Rating**

ISSUE	RATING
Bond Anticipation Note Sale Unlimited Tax	MIG 1
Sale Amount \$3,715,000	
Expected Sale Date 01/17/07	
Rating Description Bond Anticipation Notes	

General Obligation Bonds	Aaa
Sale Amount \$7,203,000	
Expected Sale Date 01/17/07	
Rating Description General Obligation	

Opinion

NEW YORK, Jan 11, 2007 -- Moody's Investors Service has assigned a Aaa rating to the Town of Lexington's (MA) \$7.2 million General Obligation Bonds and MIG 1 rating to the \$3.7 million Bond Anticipation Notes (BANs) (dated 02/01/2007, due 07/27/2007). Concurrently Moody's has affirmed the Aaa rating on the town's \$56 million in outstanding general obligation long-term debt. Approximately \$1.9 million of the bonds and the BANs will retire like amounts of outstanding short-term debt originally issued for school improvement projects and various municipal needs. The long-term new money proceeds will finance various capital purchases. A \$582,000 portion of the bonds and the BANs are secured by the town's general obligation unlimited tax pledge as debt service has been voted exempt from the levy limitations of Proposition 2 ½. The remaining \$6.6 million of long-term debt falls within the limits of Proposition 2 ½. The assignment of Moody's highest rating reflects the town's sizeable and moderately expanding tax base, wealth indicators that greatly exceed Commonwealth medians, and a manageable debt position. The rating also considers the town's cyclical financial position which continues to experience reserve increases, followed by declines in subsequent years. The MIG 1 rating reflects the town's demonstrated market access and its underlying credit strength.

DEMONSTRATED MARKET ACCESS

The town remains a frequent issuer of long-term bonds and short-term bond anticipation notes. It received four bids on its June 22, 2006 public BAN sale (dated 06/29/2006, due 02/01/2007) demonstrating the town's expected ability to maintain market access. All bids were received from major regional and national financial institutions.

SIZEABLE AND MODESTLY EXPANDING TAX BASE; STRONG SOCIODEMOGRAPHIC PROFILE

Moody's believes Lexington's sizeable \$8.2 billion equalized value will continue to demonstrate positive growth trends, albeit at a modest level. Located in Middlesex County, Lexington is a wealthy suburb of Boston (Aa1/stable outlook). The town's tax base, which is 89% residential, expanded at an average annual rate of 9.2% over the last six years. The growth is attributed to continued improvement in residential

properties, which are valued among the highest in the Commonwealth (2007 average single family home \$729,000). Lexington also benefits from a significant amount of commercial properties (8% of assessed valuation); among the town's principal taxpayers and major employers are several research and development facilities. Of note, long-time taxpayer Raytheon (senior unsecured rated Baa3/stable outlook) relocated operations. The property has since been acquired and redevelopment is underway. The former Metropolitan State Hospital Site is another significant redevelopment project. The property is being converted into 297 rental units. Finally, future economic activity includes the redevelopment of Battle Green Inn into a 30 unit mixed use project in the central business district. Condominium values are in excess of \$550,000 and top \$1.0 million. Lexington exhibits above-average wealth levels demonstrated in the \$46,119 (214% of the nation) per capita and \$111,899 (224% of nation) median family incomes. Reflective of the high property values, the equalized value per capita of \$272,013 is substantially above the Commonwealth's (\$121,572, based on fiscal 2006 values) median value.

IMPROVED FINANCIAL POSITION RESULTING FROM REDUCED EXPENDITURES AND VOTER-APPROVED TAX INCREASE

Moody's believes Lexington's financial position has the potential to experience fiscal strain from rising fixed costs. However, we believe management's ability and demonstrated willingness to reduce expenditures, if needed, coupled with the town's plans to establish operating goals and policies, will enable Lexington to maintain balanced financial operations. Following reserve declines in the prior three years, Lexington maintained its financial flexibility in fiscal 2005. Despite education and public works expenditures being greater than budget, the town's fiscal 2005 unreserved general fund balance and stabilization funds were augmented to \$7.1 million (5.9% of general fund revenues) and \$1.6 million, respectively. This created a stable, but still narrow available reserve (which includes the unreserved general fund balance and stabilization fund) of \$8.7 million (4.8% of general fund revenues). The reserve position reflects the passage of a \$4.2 million operating override, coupled with positive budget variances in the motor vehicle and excise taxes, as well as increased license and permit revenues.

The fiscal 2006 budget, including the use of \$962,465 in free cash to supplement revenues, was 3.9% greater than the prior year. The significant expenditure increases were in general government, public safety, and education. These expenditures were more than offset by favorable local tax revenues, the receipt of North East Solid Waste Consortium one-time revenues (\$1.5 million), and greater than budgeted motor vehicle taxes and interest income. Due to two transfers into the stabilization fund totaling \$2.7 million, the unaudited fiscal 2006 unreserved general fund balance declines to \$6.2 million (4.9% of general fund revenues). However, the stabilization fund is augmented to \$4.3 million, creating an adequate \$10.5 million (8.2% of general fund revenues) available reserve.

The fiscal 2007 budget is balanced with the use of \$2.0 million of free cash, and additional property tax revenues generated by a \$1.9 million voter approved operating override. The town also asked the voters for \$3.2 million for educational operations, but the voters did not approve this amount. Despite the failed referendum, the town has not experienced any extraordinary budgetary pressures because management (including the school committee) appropriately prepared a contingency budget in the event voters did not approve the override. School administrators managed expenditures by reducing 36 positions through attrition and layoffs while not offering additional programs. Typical of many communities, Lexington faces budget pressures associated with health insurance and fuel costs. Several months into the fiscal year, building permit and new growth revenues are in excess of budgeted amounts. The fiscal 2008 budget is still in the very preliminary stages, but the town does plan to appropriate \$1.9 million for non-recurring expenses and \$1.7 million for operations.

Positively, voters recently approved the adoption of the Community Preservation Act allowing the town to levy an additional 3% to finance capital projects for historic and open space preservation as well as affordable housing projects. Additionally, the town is in the process of establishing operating goals and policies for capital improvement projects, reserve positions, and debt service expenditures. Future rating reviews will incorporate the town's ability to at least maintain operations as well as formulate and follow operating guidelines.

MANAGEABLE DEBT BURDEN; AVERAGE PRINCIPAL AMORTIZATION

Moody's expects Lexington's debt position will remain favorable considering a slightly above average principal amortization rate, and minimal near-term borrowing plans. Including this issue, the town's adjusted debt burden is moderate at 2.3%. Principal amortization of 78.4% in 10 years slightly exceeds the median retirement rate of Commonwealth communities. The town may potentially issue \$1.6 million for the design and construction of a public works facility. This project is still subject to voter approval. Considering the retirement of existing debt as well as the growth in the tax base, this additional debt is anticipated to be manageable.

KEY STATISTICS:

2000 Census Population: 30,355

2004 Population: 30,419

2007-2008 Projected Equalized Value: \$8.2 billion

2000 Census Per Capita Income: \$46,119 (178% of the Commonwealth; 214% of the U.S.)

2000 Median Family Income: \$111,899 (182% of the Commonwealth, 224% of the U.S.)

2006 Equalized Value Per Capita: \$272,013

2006 General Fund Balance: \$11 million (6.1% of general fund revenues)

2006 Unreserved General Fund Balance: \$6.2 million (4.9% of general fund revenues)

2006 Stabilization Fund: \$4.3 million

2006 Available Reserve: \$10.5 million (7.2% of general fund revenues)

Overall Debt Burden: 2.3%

Amortization of Principal in 10 Years: 78.4%

Long-Term Debt Outstanding: \$63.2 million

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