Moody's Investors Service

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New Issue: Haverhill (City of) MA

MOODY'S ASSIGNS ENHANCED Aa3 RATING AND STABLE OUTLOOK TO THE CITY OF HAVERHILL'S (MA) $16.3 MILLION GENERAL OBLIGATION STATE QUALIFIED MUNICIPAL PURPOSE LOAN OF 2006 BONDS AND ASSIGNS MIG 1 RATING TO $8.7 MILLION STATE QUALIFIED BOND ANTICIPATION NOTES

UPGRADE OF UNDERLYING LONG-TERM RATING TO Baa1 FROM Baa2 AFFECTS $66.1 MILLION IN OUTSTANDING RATED DEBT, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE		UNDERLYING RATING	RATING
General Obligation Bonds		Baa1	Aa3
Sale Amount	$16,285,000		
Expected Sale Date	11/02/06		
Rating Description	General Obligation Limited Tax		
Bond Anticipation Notes		NA	MIG 1
Sale Amount	$8,727,155		
Expected Sale Date	11/03/06		
Rating Description	Bond Anticipation Notes		

Opinion

NEW YORK, Oct 31, 2006 -- Moody's Investors Service has assigned an enhanced Aa3 rating with a stable outlook and an underlying Baa1 rating to the City of Haverhill's $16.3 million General Obligation State Qualified Municipal Purpose Loan of 2006 Bonds and a MIG 1 rating to $8.7 million State Qualified Bond Anticipation Notes (dated 11/10/2006 and due 11/09/2007). Concurrently, Moody's has upgraded the city's long-term underlying rating to Baa1 from Baa2 affecting $49.8 million in outstanding debt. Approximately $15 million of the bonds will be used to retire a like amount of previously issued long term debt for an expected net present value savings of $432,505, or 2.9% of refunded principal; the balance of the long term debt will primarily finance school and parking projects. Of note, $400,000 of long-term debt has yet to receive state qualified status. If approval is not granted prior to the sale, the total issuance will be reduced by a like amount. The BANs will refund a like amount of maturing notes originally issued for school remodeling projects. Both the bonds and notes are general obligations of the city secured by a limited tax pledge, as debt service has not been excluded from the levy limitations of Proposition 2 ½. Additionally, $49.8 million of the city's outstanding long-term debt carries the Qualified Bond Program's enhanced rating of Aa3/stable outlook.

The upgrade reflects the city's significantly improved reserve position in fiscal 2006-a $3.2 million (or 19 times) increase in free cash since fiscal 2004, sizeable tax base which is expected to expand with several new projects either planned or underway, and settlement of the some long outstanding union contracts. The rating also incorporates income levels that remain below Commonwealth medians as well as a moderate debt position. The highest short-term rating reflects the fact that these notes are provided the enhanced security of the state qualified bond program.

STATE QUALIFIED BOND PROGRAM PROVIDES ENHANCED SECURITY

The Aa3 rating with a stable outlook on the Commonwealth of Massachusetts' Qualified Bond Program reflects the inherent strength of the direct-pay arrangement authorized by state statute in which the State Treasurer makes debt service payments on qualified bonds and notes directly to a state-approved paying agent. The State Treasurer then withholds an amount equivalent to the debt service payment from the local unit's quarterly state aid payments. Moody's believes that the program's sound mechanics and the city's ample 11.5 times coverage levels in fiscal 2007 provide sufficient funds for timely debt service payments. The qualified bond rating is linked to the Commonwealth of Massachusetts' strong credit rating of Aa2 with a stable outlook.

ENHANCED RESERVES AND IMPROVED OPERATING RESULTS

Moody's expects the city's financial position will continue to improve given management's demonstrated commitment to expanding its fund balance position. Haverhill increased its fiscal 2005 unreserved general fund balance a substantial 260% since its negative $3.7 million (-2.5% of general fund revenues) position in fiscal 2002. The sale of the city's Haverhill (Hale) Municipal Hospital to a private for-profit organization in 2002 concluded a turbulent financial period for the city. Through favorable revenue variances, some mid-year expenditure and hiring freezes, closely monitored expenses, and sharply curtailed encumbrances for subsequent fiscal years, the city increased its reserve position throughout the last several years. Fiscal 2005 ended with a $5.9 million (4.2% of general fund revenues) unreserved general fund balance and $297,809 stabilization fund. This creates a moderate available reserve, which includes the unreserved fund balance and stabilization fund, of $6.2 million (4.4% of general fund revenues).

Unaudited fiscal 2006 figures indicate the unreserved general fund balance will increase to $8.2 million (proforma 5.5% of general fund revenues) while the stabilization fund will decline slightly to $192,493 creating an available reserve of $8.8 million (proforma 5.6% of general fund revenues). The certified free cash figure increased by $2.4 million to a healthy $3.3 million in fiscal 2006. Management indicates the augmented unreserved general fund balance position is the result of positive variances in building permit receipts and real estate taxes coupled with debt service savings associated with a refunding, reduced health insurance costs, and various unspent appropriations from achieved greater efficiencies. Of note, the city's self-funded health insurance fund carries a healthy $5.0 million balance. The reduction in the stabilization fund is due to the recently settled police contracts. The general fund reports the sewer fund balances in the general fund balance. In fiscal 2006 $2.7 million of the general fund balance (proforma 1.8% of general fund revenues) is attributed to this revenue generating system. For internal purposes, these funds are tracked separately. The wastewater treatment facility has excess capacity which the city could sell to surrounding municipalities creating an additional revenue stream if necessary.

The fiscal 2007 budget is 5.8% greater than the previous year with the main expenditure drivers being fuel and energy health insurance and educational costs. The city expects to offset the rising expenditures with additional property tax, local and commonwealth aid receipts, and a minimal $300,000 fund balance appropriation. However, the budget incorporates a $750,000 payment from a developer that has yet to be received; the city expects receipt of revenue by the end of the calendar year. The budget called for a $1.0 million appropriation of property tax revenues to the stabilization fund of which $624,000 is designated to offset the recently settled and long outstanding police contracts; $376,000 is to remain unencumbered. The city received a one-time payment in fiscal 2007 ($2.6 million) related to the Hale Hospital. To absorb this non-recurring revenue in fiscal 2008, the city plans to designate a one-time receipt of $3.0 million associated with the sale of some city owned land. Finally, the city settled some long outstanding contracts with minimal impact on financial operations. However, as of June 30, 2006 the firefighter's contracts have again expired. Moody's believes that management has made progress towards improving the city's financial flexibility as demonstrated in the three years of annual surpluses, a substantial certified free cash increase, and by settling the employee contracts with manageable reserve draws.

STABLE TAX BASE SHOWS STEADY APPRECIATION

Moody's anticipates that Haverhill's primarily residential tax base (87%) will continue to show steady growth due to regional appreciation and modest new development. The city is located on the New Hampshire (Aa2/stable outlook) border, 33 miles north of Boston (Aa1/stable outlook) with favorable access to the Boston and Route 128 employment centers via commuter rail and Interstate 495. Over the last six years, the city's $6.2 billion equalized value increased at a 13.9% average annual rate. Inclusive of a revaluation, which captured property value appreciation, drivers of the increase include residential property growth, as well as revitalization of some former industrial areas. The city is currently undergoing healthy new development, and construction is underway on a Target retail store, Lowe's home goods store, and BJ's wholesale club. Residential expansion is concentrated on transit-oriented development. Currently several former manufacturing buildings are being refurbished creating nearly 500 residential units. Speaking to longer term initiatives, the city has already secured a federal grant for construction of a downtown river walk along the Merrimack River. Income levels approximate state medians and equalized value per capita is moderate at $102,315.

MANAGEABLE DEBT POSITION; SIGNIFICANT USE OF SHORT-TERM DEFICIT FINANCING NOTES

Moody's believes the city's debt burden will remain affordable given its moderate debt levels, average amortization of existing long-term debt, and significant school construction aid. After adjusting for 68-73% state school building aid the adjusted debt burden is a manageable 1.5%. Principal retirement approximates the commonwealth with 71% retired in 10 years. The city's hospital deficit notes are expected to be renewed and paid down annually over 20 years (concluding in fiscal 2023), although the city retains the ability to refund maturing notes with bonds authorized under the Qualified Bond Program. Future debt plans include additional borrowing of up to $9 million for a high school renovation authorization and potentially an additional $1.0 million for fleet replacement and various infrastructure projects. The city has developed a $22 million five-year capital improvement plan and expects to fund the projects on a pay-as-you-go basis; no new bond authorizations are expected in the near-term.

KEY STATISTICS

2000 population: 58,969

2007-2008 Equalized Valuation (proposed): $6.2 billion

2007 Equalized Value per capita: $102,315

1999 Census Per Capita Income: $23,280 (89.7% of Commonwealth, 107.8% of the U.S.)

1999 Median Family Income: $59,772 (96.9% of Commonwealth, 119.4% of the U.S.)

Overall debt burden: 2.0%

Overall adjusted debt burden: 1.5%

Amortization of principal, ten years (includes deficit financing notes): 71%

FY05 General Fund balance: $10.2 million (7.2% of General Fund revenues)

FY05 Unreserved Fund balance: $5.9 million (4.2% of General Fund revenues)

FY05 Available Funds (including Unreserved General Fund and Stabilization Fund): $6.2 million (4.4% of revenues)

Post-Sale Long-Term Debt Outstanding: $66.1 million

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