

Tax Supported
New Issue

City of Worcester, Massachusetts

Ratings

New Issue
General Obligation Municipal
Purpose Loan of 2009 Bonds A

Outstanding Debt
General Obligation Bonds A

Rating Outlook

Stable

Analysts

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New Issue Details

Sale Information: \$38,075,000 General Obligation Municipal Purpose Loan of 2009 Bonds competitively Oct. 27.
Security: General obligations of the city, payable from taxes levied on all taxable property in the city, subject to statutory levy limitations.
Purpose: Retire currently outstanding BANs issued to fund various general government projects and pay capitalized interest costs on the CitySquare financing for fiscal years 2010 and 2011.
Final Maturity: Serially Nov. 1, 2010–2037.

Related Research

- [Worcester, Massachusetts, Sept. 12, 2008](#)
- [Local Government General Obligation Rating Guidelines, March 22, 2007](#)

Rating Rationale

- Historically strong financial management is evidenced by prompt action to address imbalances.
- Ample property tax levy capacity under Massachusetts Proposition 2½ somewhat offsets thin reserve levels.
- The stable presence of several higher education and healthcare institutions anchors the local economy and partially mitigates below-average economic indicators.
- Debt ratios are moderate when including the city's 1998 pension obligation bonds.

Key Rating Drivers

- Maintenance of currently adequate levels of financial flexibility, which may be complicated by the city's high fixed-cost burden, volatile state aid, and recent weakness in economically sensitive revenues.

Credit Summary

The 'A' rating reflects Worcester's prudent financial management, which is evidenced by officials' prompt action to address budgetary imbalances; modest reserve levels; and a stable employment base anchored by higher education and healthcare institutions. Considerable excess tax levy capacity under the commonwealth's Proposition 2½ somewhat offsets thin general fund reserves, but its practical application may be limited in the current economic environment. The rating further incorporates the city's below-average economic indicators and weak financial results in fiscal 2009. A key rating driver is the maintenance of currently adequate levels of overall financial flexibility despite a high fixed-cost burden and the potential for further declines in state aid and other economically sensitive revenues.

Midyear state aid cuts, weakness in economically sensitive revenues, and continued snow removal cost overruns contributed to a \$5.8 million operating deficit in fiscal 2009 (unaudited), which brought the city's unreserved general fund balance to \$6.1 million, or a slim 1.1% of spending. Officials limited the extent of the deficit with revenue enhancements and by reducing the size of Worcester's work force, thereby positioning the city well to contend with a \$31.4 million budget gap going into fiscal 2010. Worcester successfully obtained important labor concessions, including 0% wage increases in fiscal 2010 and higher cost-sharing arrangements for healthcare payments, which should benefit its financial position in future fiscal years. The city's \$491 million budget prudently includes a \$1 million reserve for possible midyear cuts to state aid. While the city continues to make contributions to three stabilization funds in accordance with its Five Point Plan and intends to bring general fund balances to 5% of spending over time, its overall financial flexibility weakened in fiscal 2009.

Worcester's location in central Massachusetts and its improving transportation network bode well for the city's ambitious economic revitalization effort in spite of challenging local economic conditions. Over \$2 billion of public and private projects are reportedly planned or under way, approximately half of which are taxable. The city's \$563 million CitySquare project is moving forward, and demolition of the existing facilities is

Rating History

Rating	Action	Outlook/ Watch	Date
A	Affirmed	Stable	10/21/09
A	Assigned	Stable	8/26/05

expected to begin within six months. The August 2009 unemployment rate (10.8%) was above that of the commonwealth and nation and highlights ongoing employment base contraction. However, the presence of 10 higher education institutions and several healthcare institutions adds a degree of stability to the local economy. The city's fiscal 2009 TAV figure declined by a considerable 4.6%, which underscores the ongoing housing market correction; sizable commercial and residential investments had contributed to healthy 11% average annual TAV growth in fiscal years 2003–2008.

Direct debt ratios equal a moderate \$2,385 per capita, or 3.4% of TAV. Fitch expects debt levels to rise as the city continues to invest in its infrastructure but remain manageable given a cap on annual general fund-supported debt service — reduced to \$15 million in fiscal 2010 — and an above-average amortization rate. The city's pension funded ratio fell to 68% as of Jan. 1, 2009 after suffering a large decrease in asset values during calendar 2008. Officials have proposed extending the amortization schedule to provide funding relief; the city intends to continue funding 100% of the annual required contribution. Several changes to healthcare benefits contributed to a significant decline in the city's liability for other post-employment benefits, but a significant \$1.1 billion liability remains.

Debt Statistics

(\$000)

This Issue	38,075
Outstanding Debt	379,387
Direct Debt	417,462
Overlapping Debt	0
Total Overall Debt	417,462
Debt Ratios	
Direct Debt Per Capita (\$) ^a	2,385
As % of TAV ^b	3.4
Overall Debt Per Capita (\$) ^a	2,385
As % of TAV ^b	3.4

^aPopulation: 175,011 (2008 estimate).

^bTAV: \$12,137,259,000 (fiscal 2009).

Note: Numbers may not add due to rounding.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2004	2005	2006	2007	2008
Property Taxes	156,942	163,706	171,484	177,781	189,419
Motor Vehicle Excise Taxes	13,205	13,101	12,189	12,545	12,677
Intergovernmental	220,482	227,106	274,093	295,983	311,475
Other	17,906	19,756	20,373	21,336	21,815
Total Revenues	408,535	423,669	478,139	507,646	535,386
Expenditures	402,889	422,004	482,862	505,750	527,354
Net Transfers and Other Sources/(Uses)	(4,699)	2,808	(2,462)	(1,162)	(6,150)
Net Surplus/(Deficit)	947	4,473	(7,185)	734	1,881
Total Fund Balance	12,002	16,475	9,290	10,025	11,906
As % of Expenditures, Transfers Out, and Other Uses					
Total Fund Balance	2.9	3.8	1.9	2.0	2.2
Unreserved Fund Balance	2.5	3.5	1.9	2.0	2.2
Unreserved, Undesignated Fund Balance	2.5	3.5	1.9	2.0	2.2

Note: Numbers may not add due to rounding.

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