

**STANDARD
& POOR'S**

225 Franklin Street, 15th Floor
Boston, MA 02110-2804
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reference no.: 40156092

April 13, 2010

Town of Essex
30 Martin Street
Essex, MA 01929
Attention: Ms. Virginia Boutchie, Town Treasurer

Re: *Town of Essex, Massachusetts, General Obligation Bonds (SPUR)*

Dear Ms. Boutchie:

Standard & Poor's has reviewed the Standard & Poor's underlying rating (SPUR) on the above-referenced obligations. After such review, we have changed the rating to "AA" from "A+" while affirming the stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Ms. Virginia Boutchie

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Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business

A handwritten signature in cursive script that reads "Standard & Poor's / RT".

ea
enclosure

Essex Town, Massachusetts

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Credit Profile

Essex Twn GO bnds
Unenhanced Rating AA(SPUR)/Stable Upgraded
Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating on Essex, Mass.' general obligation bonds two notches to 'AA' from 'A+', reflecting the town's continued sound economy and financial profile. The outlook is stable.

The rating also reflects the town's:

- Primarily residential coastal community tied into the Boston labor market, with above-average income levels and high per capita market value;
- Sound financial performance and position; and
- Low debt burden, due to debt self-support of water and sewer enterprise funds.

Essex is located about 30 miles north of Boston in Essex County. Essex encompasses 14.16 square miles, and its 2008 population is an estimated 3,333. The town is an affluent, largely residential coastal community. While the town's tax base is somewhat small, at \$830 million for fiscal 2010, the per capita market value is an extremely strong \$264,389. The tax base concentration is low at 7.4%. The town has a limited local economy; however, residents have access to employment opportunities throughout the Boston metropolitan statistical area via routes I-93 and I-95. The town's January 2010 unemployment rate was near the commonwealth and national average at 10.2%.

Essex's financial position has been stable through 2009. In fiscal 2009, a \$131,000 general fund surplus brought the unreserved fund balance to \$1.2 million, or 11.2% of expenditures. A separate stabilization fund provides additional operating flexibility. The stabilization fund had a \$487,000 balance. Both the stabilization fund and the unreserved fund balance

combined for a balance of \$1.7 million, or what we consider a strong 16% of general fund expenditures.

For fiscal 2010, the town, reacting to lower local receipts and state aid, managed to reduce spending and is projecting to close the fiscal year in a similar financial position inline with previous years. The property tax levy accounts for 84% of general fund revenues, while intergovernmental revenues account for 5%. Property tax collections remain stable on a current-year basis at an over 98% collection record despite the higher unemployment rate. The town will continue to operate within Proposition 2 1/2 constraints, with no immediate plans for an operational override.

The town's financial policies and practices are considered standard under Standard & Poor's Financial Management Assessment, indicating that the finance department maintains adequate policies in some, but not all, key areas. The town has a sound policy to provide quarterly budget monitoring reports to the board of selectmen and the town administrator. However, the town lacks formal policies for long-term financial planning, debt management, and reserve levels.

Officials expect that the fiscal 2011 budget will be balanced even if state aid is reduced which is the projection contained in the commonwealth legislature's fiscal 2011 budget figures. The total fiscal 2011 budget is \$15.1 million, \$5.5 million of which is general town operations before self-supporting enterprises and school district expenses. The \$5.5 million is an increase of 5% over the fiscal 2010 budget.

Town management estimates sewer revenues fund approximately 72% of sewer-related debt. After giving credit for self-supporting sewer debt, the town's debt burden is below average, at 1% of the town's market value, but moderate on a per capita basis, at \$2,372. Management has identified some other potential capital needs, such as a public safety building and a town hall, but management does not expect to move forward on these projects in the near-term. Net debt levels would likely increase from current levels if these projects were undertaken, but debt levels are expected to remain manageable.

Outlook

The stable outlook reflects our expectation that the town's property tax base will remain a sound source of general fund revenue, which will allow the town to maintain its sound financial position. The town is also expected to maintain a manageable debt.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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