

New Issue: Stonington (Town of) CT

MOODY'S UPGRADES STONINGTON'S (CT) G.O. RATING TO Aa2 FROM Aa3

Aa2 RATING ASSIGNED TO \$7.5M G.O. REFUNDING BONDS, 2009

Municipality
CT

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Issue of 2009	Aa2
Sale Amount	\$7,525,000
Expected Sale Date	02/17/09
Rating Description	General Obligation

Opinion

NEW YORK, Feb 12, 2009 -- Moody's Investors Service has assigned a Aa2 rating to the Town of Stonington's (CT) \$7.5 million General Obligation Refunding Bonds, Issue of 2009. At this time, Moody's has also upgraded the rating on the town's \$32.3 outstanding parity debt to Aa2 from Aa3. The bonds are general obligations of the town and are secured by the town's unlimited property tax pledge. The rating upgrade reflects the town's well-managed financial position supported by a history of positive operating results and healthy reserve levels. The Aa2 rating also incorporates the town's stable tax base with above average wealth characteristics and manageable debt position. Proceeds from the sale will refund bonds originally issued in 1999. The refunding is expected to generate a net present value savings of approximately 9.0% of refunded principal, without extending the maturity of the debt.

STRONG FINANCIAL POSITION; RESERVE LEVELS EXPECTED TO REMAIN SOUND

Stonington's practice of conservative budgeting, careful management of reserves, and tight fiscal control has contributed to consecutive operating surpluses and a reserve position that exceeds that of similarly-rated Connecticut municipalities. The town has added to General Fund balance each of the last eight fiscal years, including a strong \$7.0 million (230%) increase to Unreserved General Fund balance since 2003, up to a strong \$9.9 million (17.5% of revenues) in 2008 from \$3.0 million (7.0% of revenues). At this level the town's reserve position exceeds its informal 15% target and the 14% state median for similarly rated communities. Fiscal 2008 ended with a healthy \$1.5 million addition to fund balance, as the town was able to fully replenish its budgeted \$431,000 fund balance appropriation, through a combination of conservative revenue estimates and expenditure savings. Notably, the town has historically maintained a practice of appropriating fund balance at a level equal to the property tax revenue surplus as recorded in the last audited fiscal year, which Moody's believes to be a conservative approach, by linking appropriated fund balance to the historical performance of the town's primary revenue source.

Similar to prior years, the fiscal 2009 budget is funded primarily with property taxes (82.5% of revenues) and state aid (9.5% of revenues) with the majority of these funds supporting the town's school system (57.3% of expenditures). The town's operating budget must be ratified by voters annually and officials report that the fiscal 2009 budget was subject to five referenda, in contrast to fiscal 2008, which saw the budget pass on its first reading. Several months into fiscal 2009 the town reports signs of revenue weakness with building permit, real estate conveyance tax and interest income receipts trending below budget. Despite tight expenditure controls it is expected that the community will be challenged to fully replenish its \$265,000 General Fund balance appropriation. Fiscal pressures, resulting from declining revenues, are expected to continue into fiscal 2010. Positively the town's overall financial flexibility is strengthened by its annual capital outlay appropriation (\$1.3 million in fiscal 2008), conservative property tax collection estimates, and a \$1.9 million Debt Service Fund, which could be applied to offset debt service expenses. Additionally, as of July 1, 2008, the town's pension system maintained a relatively healthy 82% funded ratio.

SIZEABLE AND DIVERSE TAX BASE EXPECTED TO REMAIN STABLE

Located in southeastern Connecticut (G.O. rated Aa3/stable outlook) along the Rhode Island (G.O. rated Aa3/negative outlook) border Moody's anticipates growth in Stonington's local economy to slow over the near

term reflecting ongoing weakness in the regional real estate market and recessionary economic conditions. However, given the town's favorable location, supported by its extensive waterfront access and proximity to regional employment centers, the town is well positioned for future growth. Since 2003, the town's tax base has grown by a healthy average of 12.6% annually, including a 44.5% increase following a property revaluation, effective in fiscal 2009, and the town's sizeable equalized net grand list (ENGL) reached \$4.8 billion as of fiscal 2008, a 5.6% increase from the prior year. The town's favorable seaside location contributes to a prevalent tourism-based economy and strong home values, as evidenced by its substantial \$262,388 full value per capita. The town's local economy also includes a diverse profile of businesses in the advanced manufacturing, health care, and education/research sectors. The town's below average unemployment rate (at 5.7% in December 2008) also is supported by its proximity to gaming (Foxwoods Casino, Mohegan Sun Casino) and health science (Pfizer, sr. unsecured rating Aa1/negative outlook) employment opportunities. Town officials report that retirees and empty nesters are contributing to population and residential growth, anchored by the new StoneRidge Retirement Community, a 30-acre project that will include more than 300 residential units and a 60-bed nursing facility at build-out, expected in the spring of 2009. The town's per capita and median family incomes at 137% and 126% of the nation, respectively, are above average, however trail the Aa2 national median.

MANAGEABLE DEBT BURDEN

Moody's believes Stonington's moderate debt position will remain manageable given the town's favorable amortization of principal, limited future borrowing plans and ongoing pay-go financing to support capital projects. Including this issue, the town's overall debt position is moderate at 0.7 % of equalized net grand list, below the 1.0% state and national median. Additionally, principal amortization remains favorable with 67.6% retired in 10 years and debt service is expected to remain above average over the near term (9.2% of 2008 expenditures), following the construction of a new high school.

KEY STATISTICS:

2000 Census Population: 17,906

2007 Estimated Population: 18,343

2008 Equalized net grand list: \$4.8 Billion

2008 Equalized net grand list per capita: \$262,388

1999 Per Capita Income: \$29,653 (103.1% of the state, 134.4% of the U.S.)

1999 Median Family Income: \$63,431 (96.8% of the state, 126.7% of the U.S.)

2008 General Fund Balance: \$10.2 million (18.0% of General Fund revenues)

2008 Unreserved General Fund Balance: \$9.6 million (17.0% of General Fund revenues)

Direct Debt Ratio: 0.7% of Equalized Net Grand List

Payout of Principal in 10 Years: 67.6%

Post-Sale Parity Debt Outstanding: \$32.3 million

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating the current issue was "Local Government General Obligation and Related Ratings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the Town of Stonington (CT) was on June 27, 2007 when its Aa3 rating was affirmed.

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